

***CITY OF INDEPENDENCE, OREGON
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010***

CITY OF INDEPENDENCE
CITY OFFICIALS
JUNE 30, 2010

MAYOR

John McArdle
675 Monmouth Street
Independence, Oregon 97351

CITY COUNCIL MEMBERS

Jim Kirkendall, President
896 Cessna Street
Independence, Oregon 97351

Diana Lindskog
111 S. Gun Club Road
Independence, Oregon 97351

Marilyn Morton
1312 B Street
Independence, Oregon 97351

Tim Hinds
765 S 11th Street
Independence, Oregon 97351

Nancy Lodge
1220 D Street
Independence, Oregon 97351

Jerry Hoffman
1302 B Street
Independence, Oregon 97351

CITY ADMINISTRATION

Ross Smith, Interim City Manager

Vern Wells, Chief of Police

Karin Johnson, Administrative Services Director/
City Recorder

Mike Danko, Community Development Director
Public Works Director

Robin Puccetti, Library Director

Ken Perkins, Public Works Supervisor

Peggy Schorsch, Heritage Museum Director

Rich Rodeman, City Attorney

240 Monmouth Street
PO Box 7
Independence, Oregon 97351
503-838-1212

CITY OF INDEPENDENCE
TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
 <i>Basic Financial Statements</i>	
Government-wide Financial Statements	
Statement of Net Assets (Modified Cash Basis)	14
Statement of Activities (Modified Cash Basis)	15
Fund Financial Statements	
Statement of Assets and Liabilities (Modified Cash Basis) - Governmental Funds	16
Statement of Receipts, Disbursements, and Changes in Fund Balances (Modified Cash Basis) - Governmental Funds	17
Statement of Net Assets (Modified Cash Basis) - Proprietary Funds	18
Statement of Receipts, Disbursements, and Changes in Fund Net Assets (Modified Cash Basis) - Proprietary Funds	19
Notes to Basic Financial Statements	20-40
 <i>Required Supplementary Information</i>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances (Cash Basis) - Budget and Actual	
General Fund	41
Economic Development Fund	42
Halo Fund	43
 <i>Other Supplementary Information</i>	
Nonmajor Governmental Funds - Statements and Schedules	
Combining Statement of Assets and Liabilities (Modified Cash Basis)	44
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances (Modified Cash Basis)	45
Schedules of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Budget and Actual	
Urban Renewal Projects Fund	46
Streets Fund	47
Building Inspection Fund	48
Grants Program Fund	49
Special Assessment Fund	50
Park SDC Fund	51
Transportation SDC Fund	52
General Obligation Debt Service Fund	53
Urban Renewal Debt Service Fund	54
Nonmajor Enterprise Funds - Statements and Schedules	
Combining Statement of Net Assets (Modified Cash Basis)	55
Combining Statement of Receipts, Disbursements, and Changes in Fund Net Assets (Modified Cash Basis)	56
Schedules of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Budget and Actual	
Storm Drain Fund	57
Storm Drain SDC Fund	58
Sewer Fund	59

CITY OF INDEPENDENCE
TABLE OF CONTENTS

Page

FINANCIAL SECTION (Continued)

Other Supplementary Information (Continued)

Nonmajor Proprietary Funds - Statements and Schedules (Continued)

Schedules of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Budget and Actual
(Continued)

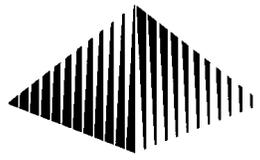
Water Fund	60
Water SDC Fund	61
Sewer SDC Fund	62

Other Schedules

Schedule of Property Tax Transactions	63
Schedule of Long-Term Debt Transactions	64-65
Schedule of Future Debt Requirements by Issue	66-70

COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	71-72
Schedule of Findings To Report On Internal Control Over Financial Reporting	73-80
Independent Auditor's Report Required by Oregon State Regulations	81-82



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Independence
P.O. Box 9
Independence, Oregon 97148

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Independence, Oregon, as of, and for the year then ended, June 30, 2010 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.

Except as noted below, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in the summary of significant accounting policies of the notes to the financial statements, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Oregon, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate fund information of the City of Independence, Oregon, as of June 30, 2010, and the respective changes in financial position – modified cash basis thereof for the year then ended, in conformity with the basis of accounting described in the summary of significant accounting policies in the notes to the financial statements.

The City has borrowed from OECCD on behalf of MINET. Funds borrowed have been passed through to MINET, and a receivable has been recorded which represents MINET's obligation to repay those loans. The amount borrowed from OECCD and passed through to MINET at June 30, 2010 was \$6,759,953. The City has also loaned MINET \$620,308. The total receivable from MINET at June 30, 2010 was \$7,380,261. The City considers the receivable to be fully collectible. MINET has incurred losses from operations since inception in 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2011 on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual fund financial statements and other financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other financial schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



By: _____
Charles A. Swank, A Shareholder
February 7, 2011

**CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

As management of the City of Independence, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. The 2010 financial statements are prepared on the modified cash basis of accounting. The previous year's financial statements were prepared on a different basis of accounting. Therefore, comparisons to the prior year are not included.

FINANCIAL HIGHLIGHTS

	<u>June 30, 2010</u>
Net assets	\$ 17,196,749
Change in restricted and unrestricted net assets	7,013,289
Governmental activities net assets	8,669,311
Business-type activities net assets	8,527,438

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include:

The *Statement of Net Assets (Modified Cash Basis)*. The *statement of net assets* presents information on all of the assets and liabilities of the City as of the date on the statement using the modified cash basis of accounting. Net assets are what remain after the liabilities have been paid off or otherwise satisfied. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities (Modified Cash Basis)*. The *statement of activities* presents information showing how the net assets of the City changed over the most recent fiscal year by tracking receipts, disbursements and other transactions that increase or reduce net assets utilizing the modified cash basis of accounting.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. The governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful in obtaining an understanding of each fund's activity.

Proprietary funds. The City charges customers for the services it provides. These services are generally reported in proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information related to schedules of revenues, expenditures and changes in fund balance - budget and actual for the General Fund and major special revenue funds.

The combining statements for the nonmajor funds and schedules of revenues, expenditures and changes in fund balance - budget and actual for governmental funds not presented as required supplementary information and proprietary funds are presented following the required supplementary information. There are also other schedules to assist the reader in understanding financial statements following the budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets (Modified Cash Basis). The Statement of Net Assets is provided on a comparative basis.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,196,749 as of June 30, 2010.

Restricted net assets represent resources that are subject to external restrictions on their use, such as debt service payments, receivables related to outstanding loans, or construction of capital assets. Unrestricted net assets are available for general operations of the City.

**Statement of Net Assets
As of June 30, 2010**

	Governmental Activities	Business-type Activities	Totals
Cash and investments	\$ 7,774,575	\$ 1,853,245	\$ 9,627,820
Other assets	8,904,421	333,391	9,237,812
Capital assets	17,812,490	11,710,273	29,522,763
Total assets	34,491,486	13,896,909	48,388,395
Other liabilities	177,182	189,838	367,020
Long-term debt	25,644,993	5,179,633	30,824,626
Total liabilities	25,822,175	5,369,471	31,191,646
Net assets			
Investment in capital assets, net of debt	6,218,908	6,590,020	12,808,928
Investment in long-term receivables net of debt	861,233	333,391	1,194,624
Fund net assets			
Restricted	222,286	1,434,213	1,656,499
Unrestricted	1,366,884	169,814	1,536,698
Total net assets	\$ 8,669,311	\$ 8,527,438	\$ 17,196,749

Statement of Activities (Modified Cash Basis). During the current fiscal year, the City's restricted and unrestricted net assets increased by \$7,013,289. The key elements of the change in the City's net assets for the year ended June 30, 2010 are as follows:

- Fees, fines and charges for services decreased by \$27,890.
- Loan proceeds of \$14,155,774, net of short-term repayments.

Statement of Activities
For the years ended June 30, 2010

	Governmental Activities	Business-type Activities	Totals
Receipts			
Program receipts			
Fines, fees, charges for services	\$ 721,902	\$ 2,338,768	\$ 3,060,670
Operating grants and contributions	1,612,441	-	1,612,441
Capital grants and contributions	273,905	45,764	319,669
General receipts			
Property tax	2,066,861	-	2,066,861
Franchise fees	442,816	-	442,816
Intergovernmental	189,789	-	189,789
Miscellaneous	198,585	26,235	224,820
Debt proceeds	16,009,252	93,627	16,102,879
	<hr/>	<hr/>	<hr/>
Total receipts	21,515,551	2,504,394	24,019,945
Disbursements			
General government	3,739,887	-	3,739,887
Community development	6,240,658	-	6,240,658
Public Safety	1,982,927	-	1,982,927
Culture and recreation	1,028,148	-	1,028,148
Interest on long-term debt	239,953	-	239,953
Transportation	852,001	-	852,001
Water	-	1,394,073	1,394,073
Storm	-	483,483	483,483
Sewer	-	1,045,526	1,045,526
	<hr/>	<hr/>	<hr/>
Total disbursements	14,083,574	2,923,082	17,006,656
<hr/>			
Change in restricted and unrestricted net assets before transfers	7,431,977	(418,688)	7,013,289
Transfers	(364,190)	364,190	-
	<hr/>	<hr/>	<hr/>
Change in restricted and unrestricted net assets	7,067,787	(54,498)	7,013,289
Beginning restricted and unrestricted net assets	529,606	1,717,904	2,247,510
	<hr/>	<hr/>	<hr/>
Ending restricted and unrestricted net assets	7,597,393	1,663,406	9,260,799
Long-term receivables	8,904,421	333,391	9,237,812
Capital assets	17,812,490	11,710,274	29,522,764
Long-term debt	(25,644,993)	(5,179,633)	(30,824,626)
	<hr/>	<hr/>	<hr/>
Net assets	\$ 8,669,311	\$ 8,527,438	\$ 17,196,749
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Governmental activities.

The following information details the governmental activities by program expenditures. These are direct expenditures that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function.

City of Independence
Governmental Activities – Program Expenses
For the years ended June 30, 2010

Programs	Amount	%
General government	\$ 3,739,887	28%
Public safety	1,982,927	14%
Transportation	852,001	6%
Community development	6,240,658	44%
Culture and recreation	1,028,148	7%
Interest on long-term debt	239,953	2%
Total expenses	<u>\$ 14,083,574</u>	<u>100%</u>

General government consists of administrative functions necessary to direct the work force, provide legal services, set policy, manage the City’s financial resources, and deliver services to customers. The department within this category is Administration,

Public safety consists of primarily of personnel costs and operating supplies to provide police protection and court services.

Transportation consists of street improvements and maintenance.

Community development consists of the Building Inspection department and MINET.

Culture and recreation consists of the Library department, Heritage Museum department, Parks Maintenance and the City Pool.

Business-type activities.

As shown in the Statement of Activities, the City’s restricted and unrestricted net assets from business-type activities decreased 3.2% from \$1,717,904 to \$1,663,406.

Charges for services are revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues primarily consist of fees charged for water, sewer and storm drain utilities. Expenses for water increased dramatically due to professional services and significant maintenance costs.

Grants and contributions are revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Revenues primarily consist of federal and state grants, system development

Charges (e.g. water, sewer) and developer infrastructure contributions (e.g. fair market value of subdivisions' infrastructure such as water, sewer, storm drain and right-of-way/easements). There were none of these type of revenues in 2010.

Transfers represent resources moved from the business-type activities to the governmental activities. Costs that are accumulated in several of the City's General Fund departments are beneficial to the water, sewer and storm drain utilities. The transfer recognizes the benefit that these utilities receive for the services received (accounts payable, billing, personnel, legal, etc.).

City of Independence
Business-type Activities - Program Expenses
For the years ended June 30, 2010

Programs	Amount	%
Sewer	\$ 1,045,526	36%
Water	1,394,073	48%
Storm Drain	483,483	17%
Total expenses	<u>\$ 2,923,082</u>	<u>100%</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following statement provides the detail of the governmental funds:

City of Independence
 Governmental Funds – Fund Balances
 As of June 30, 2010

Major Funds	Amount	%
General	\$ 1,816,503	24%
Economic Development	21,503	0%
HALO	(87,455)	-1%
Urban Renewal Projects	5,101,413	67%
Other	745,429	10%
Total fund balances	<u>\$ 7,597,393</u>	<u>100%</u>

At June 30, 2010, the City’s governmental funds reported combined fund balances of \$7,597,393. The increase is primarily due to bond proceeds.

General Fund. The General Fund accounts for all of the financial resources of the City, which are not accounted for in any other fund. At the end of the current fiscal year, unreserved fund balance was \$1,816,503. As a measure of the fund’s liquidity, it may be useful to compare the fund balance to the fund’s expenditures. Unreserved fund balance represents 52% of the total General Fund expenditures.

Economic Development Loan Fund. The Economic Development Loan Fund accounts for business-related loans the City makes to local businesses for the purpose of improving economic growth in the City. The primary source of income is from interest derived from the loans. The primary expenditures are new loans.

HALO Fund. The HALO fund accounts for revenue and disbursements for the Help Achieving Lifelong Objectives program.

Urban Renewal Projects Fund. The Urban Renewal Projects fund is used to fund capital projects in the Independence Urban Renewal District. The primary source of revenue is transfers from the Urban Renewal Debt Service fund from debt issuances. In the current fiscal year, capital projects included continued work on the Highway 51 corridor project, and the City Center facility.

MINET Fund. This fund accounts for receipts from Oregon Economic & Community Development (OECD). Expenditures are pass-through loans made to MINET for infrastructure.

Proprietary Funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The following table provides a comparison of total net assets for each major proprietary fund.

City of Independence Proprietary Funds
 Restricted and Unrestricted Net Assets
 As of June 30, 2010

City of Independence
 Proprietary Funds - Net Assets
 As of June 30, 2010

Fund	Amount	%
Sewer	\$ 201,242	12%
Sewer SDC	772,518	46%
Water	223,716	13%
Water SDC	533,626	32%
Other	(67,696)	-4%
Total net assets	<u>\$ 1,663,406</u>	<u>100%</u>

Water, Sewer, Storm Drain. The Water and Water SDC, Sewer and Sewer SDC, and Storm Drain and Storm Drain SDC funds account for the operations, maintenance, debt service, and capital construction of the water, sewer collection and treatment service, and storm drain distribution for the City. The primary sources of revenues are user fees, system development charges, borrowings, and interest earnings.

The primary component of each proprietary fund net asset balance is investment in capital assets – net of related debt. The unrestricted (available for current expenditure) net assets for the Water Fund are \$223,716, 13% of fund net assets. The Water funds have been accumulating over several years to prepare for significant capital expansion and replacement projects.

The unrestricted net assets for Sewer account for just over 12% (or \$201,242) of the fund net assets. Like the water fund, the assets of this fund are being accumulated for significant sewer projects in upcoming years.

Finally, the unrestricted net assets of the Storm Drain fund total \$5,477, or .33% of the fund net assets. This fund is beginning to accumulate resources for future capital needs as determined by a master plan.

BUDGETARY HIGHLIGHTS

There was one supplemental budget which results in changes or variances from the original to the final budget for the General Fund. For more detailed information see budget to actual comparisons.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Independence’s investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$29,522,761 (net of accumulated depreciation). This investment in capital assets includes land, buildings, distribution systems (water, sanitary sewer, and storm drain), improvements, machinery and equipment, park facilities, roads and sidewalks. The City made significant capital outlays during the year.

Major capital events during the current fiscal year included the following:

- Continuing work related to the Highway 51 Corridor/Widening project.
- Continued construction of the Civic Center (new City Hall)
- Completion of work on the Ash Creek Multi-purpose Trail.
- Continued work on new water source wells

Capital Assets As of June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 945,496	\$ 945,496	\$ 201,804	\$ 201,804	\$ 1,147,300	\$ 1,147,300
Buildings	8,481,376	3,603,071	917,071	596,919	9,398,447	4,199,990
Equipment	1,142,540	978,215	881,707	778,479	2,024,247	1,756,694
Infrastructure	16,510,093	16,305,480	-	-	16,510,093	16,305,480
Water and sewer system	-	-	16,587,142	16,355,457	16,587,142	16,355,457
	27,079,505	21,832,262	18,587,724	17,932,659	45,667,229	39,764,921
Less:						
accumulated depreciation	(9,267,015)	(8,516,744)	(6,877,451)	(6,461,242)	(16,144,466)	(14,977,986)
Net capital assets	\$ 17,812,490	\$ 13,315,518	\$ 11,710,273	\$ 11,471,417	\$ 29,522,763	\$ 24,786,935

The following table is a summarized reconciliation of the change in capital assets:

City of Independence
Changes in Capital Assets
Years Ended June 30, 2010

	Governmental Activities	Business-type Activities	Totals
Beginning balance	\$13,315,518	\$11,471,417	\$ 24,786,935
Additions	5,247,243	655,065	5,902,308
Retirements	-	-	-
Depreciation	(750,271)	(416,209)	(1,166,480)
Ending balance	<u>\$17,812,490</u>	<u>\$11,710,273</u>	<u>\$ 29,522,763</u>

The City depreciates all its capital assets except for land and construction in progress.

Debt Administration

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$30,457,951, capital lease of \$158,530 and compensated absences of \$208,145.

City of Independence
Outstanding Debt
As of June 30, 2010

	Governmental Activities	Business-type Activities	Totals
General Obligation Bonds	\$ 1,205,000	\$ -	\$ 1,205,000
Full Faith and Credit Obligations	13,410,000	-	13,410,000
Urban Renewal Bonds	2,900,000	-	2,900,000
Notes	7,901,963	417,724	8,319,687
Water Revenue Bonds	-	2,190,000	2,190,000
Sewer Revenue Bonds	-	2,433,264	2,433,264
Leases	79,265	79,265	158,530
Compensated Absences	148,765	59,380	208,145
	<u>\$ 25,644,993</u>	<u>\$ 5,179,633</u>	<u>\$ 30,824,626</u>

During the current fiscal year, the City's total debt increased by \$14,485,013.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The assessed valuation of the City of Independence is \$335,255,180 therefore, the current debt limitation for the City of Independence is \$10,057,655.

Additional information on the City's long-term debt can be found in the notes to the basic financial statements of this report.

Economic Factors and Next Year's Budget

The City's Budget Committee considered all the following factors while preparing the budget for the 2010-11 fiscal year.

- Expected rates and consumption for business-type funds
- Staffing requirements and the desired level of service
- Capital outlay

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Independence
Attn: Finance Director
205 Maple Street
PO Box 9
Independence, Oregon 97148

BASIC FINANCIAL STATEMENTS

CITY OF INDEPENDENCE, OREGON
STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)
JUNE 30, 2010

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
ASSETS			
Cash	\$ 7,774,575	\$ 1,853,245	\$ 9,627,820
Property taxes receivable	181,225	-	181,225
Other receivables	8,723,196	333,391	9,056,587
Nondepreciable capital assets	945,496	201,804	1,147,300
Other capital assets, net of depreciation	16,866,994	11,508,469	28,375,463
<i>Total Assets</i>	34,491,486	13,896,909	48,388,395
LIABILITIES			
Deposits	167,196	116,665	283,861
Payroll liabilities	83,159	-	83,159
Due from other funds	(73,173)	73,173	-
Noncurrent liabilities:			
Due within one year:			
Bonds, notes payable, and other	636,573	344,935	981,508
Due in more than one year:			
Bonds, notes payable, and other	25,008,420	4,834,698	29,843,118
<i>Total Liabilities</i>	25,822,175	5,369,471	31,191,646
NET ASSETS			
Investment in capital assets (net of related debt)	6,218,908	6,590,020	12,808,928
Restricted for:			
Investment in long-term receivables (net of related debt)	861,233	333,391	1,194,624
Debt service	222,286	201,242	423,528
Construction	-	1,232,971	1,232,971
Unrestricted	1,366,884	169,814	1,536,698
<i>Total Net Assets</i>	\$ 8,669,311	\$ 8,527,438	\$ 17,196,749

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON
STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2010

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Governmental activities:				
General government	\$ 3,739,887	\$ 354,254	\$ 55,600	\$ -
Public safety	1,982,927	187,469	112,529	-
Community development	6,240,658	45,856	1,015,427	-
Culture and recreation	1,028,148	134,323	4,442	26,375
Transportation	852,001	-	424,443	247,530
Interest on long-term debt	239,953	-	-	-
<i>Total Governmental Activities</i>	14,083,574	721,902	1,612,441	273,905
Business-type activities:				
Water	1,394,073	1,258,105	-	16,507
Sewer	1,045,526	870,879	-	22,656
Storm	483,483	209,784	-	6,601
<i>Total Business-type Activities</i>	2,923,082	2,338,768	-	45,764
<i>Total Activities</i>	<u>\$ 17,006,656</u>	<u>\$ 3,060,670</u>	<u>\$ 1,612,441</u>	<u>\$ 319,669</u>
General Receipts:				
Property taxes				
Franchise fees				
Intergovernmental				
Loan proceeds				
Miscellaneous				
<i>Total General Receipts</i>				
Transfers				
Change in Restricted and Unrestricted Net Assets				
Restricted and Unrestricted Net Assets, July 1, 2009				
Restricted and Unrestricted Net Assets, June 30, 2010				
Long-term receivables				
Capital Assets				
Long-term Debt				
Net Assets				

Net Changes in Restricted and Unrestricted Net Assets

<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
\$ (3,330,033)	\$ -	\$ (3,330,033)
(1,682,929)	-	(1,682,929)
(5,179,375)	-	(5,179,375)
(863,008)	-	(863,008)
(180,028)	-	(180,028)
(239,953)	-	(239,953)
(11,475,326)	-	(11,475,326)
-	(119,461)	(119,461)
-	(151,991)	(151,991)
-	(267,098)	(267,098)
-	(538,550)	(538,550)
(11,475,326)	(538,550)	(12,013,876)
2,066,861	-	2,066,861
442,816	-	442,816
189,789	-	189,789
16,009,252	93,627	16,102,879
198,585	26,235	224,820
18,907,303	119,862	19,027,165
(364,190)	364,190	-
7,067,787	(54,498)	7,013,289
529,606	1,717,904	2,247,510
7,597,393	1,663,406	9,260,799
8,904,421	333,391	9,237,812
17,812,490	11,710,274	29,522,764
(25,644,993)	(5,179,633)	(30,824,626)
\$ 8,669,311	\$ 8,527,438	\$ 17,196,749

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON**STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**

JUNE 30, 2010

	<u>General</u>	<u>Economic Development</u>	<u>HALO</u>
ASSETS			
Cash	\$ 1,413,375	\$ 21,503	\$ -
Property taxes receivable	127,115	-	-
Other receivables	190,428	1,242,597	92,881
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	\$ 1,730,918	\$ 1,264,100	\$ 92,881
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities			
Deposits	\$ 132,955	\$ -	\$ -
Payroll liabilities	83,159	-	-
Due to other funds	(619,242)	-	87,455
Deferred revenue	317,543	1,242,597	92,881
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	(85,585)	1,242,597	180,336
Fund Balances			
Unreserved, reported in:			
General fund	1,816,503	-	-
Special revenue funds	-	21,503	(87,455)
Capital projects funds	-	-	-
Debt services funds	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	1,816,503	21,503	(87,455)
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Fund Balances</i>	\$ 1,730,918	\$ 1,264,100	\$ 92,881
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Urban Renewal Project</i>	<i>MINET</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ 5,101,413	\$ -	\$ 1,238,284	\$ 7,774,575
-	-	54,110	181,225
-	6,759,953	437,337	8,723,196
<u>\$ 5,101,413</u>	<u>\$ 6,759,953</u>	<u>\$ 1,729,731</u>	<u>\$ 16,678,996</u>
\$ -	\$ -	\$ 34,241	\$ 167,196
-	-	-	83,159
-	-	458,614	(73,173)
-	6,759,953	491,447	8,904,421
<u>-</u>	<u>6,759,953</u>	<u>984,302</u>	<u>9,081,603</u>
-	-	-	1,816,503
-	-	(105,353)	(171,305)
5,101,413	-	628,496	5,729,909
-	-	222,286	222,286
<u>5,101,413</u>	<u>-</u>	<u>745,429</u>	<u>7,597,393</u>
<u>\$ 5,101,413</u>	<u>\$ 6,759,953</u>	<u>\$ 1,729,731</u>	<u>\$ 16,678,996</u>

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES –
(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Economic Development</u>	<u>HALO</u>
RECEIPTS			
Taxes and assessments	\$ 1,385,800	\$ -	\$ -
Licenses and permits	473,418	-	-
Charges for services	92,913	-	-
Intergovernmental	772,461	-	1,015,427
Fines and forfeitures	170,411	-	-
Miscellaneous	211,055	106,941	-
<i>Total Receipts</i>	<u>3,106,058</u>	<u>106,941</u>	<u>1,015,427</u>
DISBURSEMENTS			
General government	598,945	-	-
Public safety	1,982,927	-	-
Culture and recreation	683,667	-	-
Community development	-	294,134	1,032,657
Transportation	-	-	-
Capital outlay	204,050	-	-
Debt Service			
Principal	12,558	-	-
Interest and costs of issuance	234,814	-	-
<i>Total Disbursements</i>	<u>3,716,961</u>	<u>-</u>	<u>1,032,657</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(610,903)	106,941	(17,230)
OTHER FINANCING SOURCES (USES)			
Proceeds from short- and long-term borrowing	15,915,625	-	-
Repayment of short-term debt	(2,505,625)	-	-
Transfers in	342,044	-	-
Transfers out	(11,630,272)	(5,500)	-
<i>Total Other Financing Sources (Uses)</i>	<u>2,121,772</u>	<u>(299,634)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,510,869	(192,693)	(17,230)
FUND BALANCES (DEFICIT), Beginning of year			
	305,634	214,196	(70,225)
FUND BALANCES (DEFICIT), End of year	<u>\$ 1,816,503</u>	<u>\$ 21,503</u>	<u>\$ (87,455)</u>

<i>Urban Renewal Project</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
\$ -	\$ 681,061	\$ 2,066,861
-	65,212	538,630
-	11,290	104,203
-	490,460	2,278,348
-	-	170,411
-	29,849	347,845
-	1,277,872	5,506,298
-	-	598,945
-	-	1,982,927
-	237,678	921,345
19,021	204,341	1,550,153
-	391,321	391,321
4,492,642	550,551	5,247,243
-	418,959	431,517
-	219,683	454,497
4,511,663	2,022,533	11,283,814
(4,511,663)	(744,661)	(5,777,516)
-	93,627	16,009,252
-	-	(2,505,625)
10,226,710	830,376	11,399,130
-	(127,548)	(11,763,320)
10,226,710	796,455	12,845,303
5,715,047	51,794	7,067,787
(613,634)	693,635	529,606
\$ 5,101,413	\$ 745,429	\$ 7,597,393

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON**STATEMENT OF NET ASSETS (MODIFIED CASH BASIS) - PROPRIETARY FUNDS**

JUNE 30, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Water SDC</u>
ASSETS			
Cash	\$ 340,381	\$ 201,242	\$ 533,626
Other receivables	-	97,984	93,043
Nondepreciable capital assets	-	-	81,156
Other capital assets, net of depreciation	3,042,367	4,271,188	1,564,223
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	3,382,748	4,570,414	2,272,048
LIABILITIES			
Deposits	116,665	-	-
Deferred revenue	-	97,984	93,043
Due to other funds	-	-	-
Noncurrent liabilities:			
Due within one year			
Loan payable	-	37,890	-
Bond payable	205,000	39,958	-
Due in more than one year			
Loan payable	-	379,834	-
Bond payable	1,985,000	2,393,306	-
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	2,306,665	2,948,972	93,043
NET ASSETS			
Investment in capital assets (net of related debt)	852,367	1,420,200	1,645,379
Restricted for construction	-	-	533,626
Unrestricted	223,716	201,242	-
	<hr/>	<hr/>	<hr/>
<i>Total Net Assets</i>	1,076,083	1,621,442	2,179,005
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities and Net Assets</i>	\$ 3,382,748	\$ 4,570,414	\$ 2,272,048
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<i>Sewer SDC</i>	<i>Other Business-type Funds</i>	<i>Totals</i>
\$ 772,518	\$ 5,478	\$ 1,853,245
109,548	32,816	333,391
83,583	200,059	364,798
1,691,875	775,822	11,345,475
<hr/>	<hr/>	<hr/>
2,657,524	1,014,175	13,896,909
-	-	116,665
109,548	32,816	333,391
-	73,173	73,173
-	17,552	55,442
-	-	244,958
-	61,713	441,547
-	-	4,378,306
<hr/>	<hr/>	<hr/>
109,548	185,254	5,643,482
<hr/>	<hr/>	<hr/>
1,775,458	896,617	6,590,021
772,518	(73,173)	1,232,971
-	5,477	430,435
<hr/>	<hr/>	<hr/>
2,547,976	828,921	8,253,427
<hr/>	<hr/>	<hr/>
\$ 2,657,524	\$ 1,014,175	\$ 13,896,909
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS****(MODIFIED CASH BASIS) - PROPRIETARY FUNDS****YEAR ENDED JUNE 30, 2010**

	<u>Water</u>	<u>Sewer</u>	<u>Water SDC</u>
OPERATING RECEIPTS			
Charges for services	\$ 1,258,105	\$ 870,879	\$ -
Miscellaneous	14,294	5,785	1,877
<i>Total Operating Receipts</i>	<u>1,272,399</u>	<u>876,664</u>	<u>1,877</u>
OPERATING DISBURSEMENTS			
Personal services	613,264	499,768	-
Materials and services	190,707	141,733	12,544
Capital outlay	115,705	132,840	146,030
<i>Total Operating Disbursements</i>	<u>919,676</u>	<u>774,341</u>	<u>158,574</u>
OPERATING RECEIPTS OVER(UNDER) OPERATING DISBURSEMENTS	352,723	102,323	(156,697)
NON OPERATING RECEIPTS (DISBURSEMENTS)			
Debt proceeds	-	-	-
Debt service			
Principal	(200,000)	(74,415)	-
Interest	(115,823)	(127,042)	-
<i>Total Non Operating Receipts (Disbursements)</i>	<u>(315,823)</u>	<u>(201,457)</u>	<u>-</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS			
System development revenue	-	-	16,507
Transfers in	102,908	402,908	1,706
Transfers out	(122,534)	(96,233)	(571)
NET CHANGES IN RESTRICTED AND UNRESTRICTED NET ASSETS	17,274	207,541	(139,055)
RESTRICTED AND UNRESTRICTED NET ASSETS, Beginning of the year	206,442	(6,299)	672,681
RESTRICTED AND UNRESTRICTED NET ASSETS, End of year	<u>\$ 223,716</u>	<u>\$ 201,242</u>	<u>\$ 533,626</u>

<i>Sewer SDC</i>	<i>Other Business-type Funds</i>	<i>Totals</i>
\$ -	\$ 209,784	\$ 2,338,768
2,044	2,235	26,235
2,044	212,019	2,365,003
-	146,867	1,259,899
68,302	58,068	471,354
1,426	260,957	656,958
69,728	465,892	2,388,211
(67,684)	(253,873)	(23,208)
-	93,627	93,627
-	(14,362)	(288,777)
-	(3,229)	(246,094)
-	76,036	(441,244)
22,656	6,601	45,764
1,426	105,626	614,574
(834)	(30,212)	(250,384)
(44,436)	(95,822)	(54,498)
816,954	28,126	1,717,904
\$ 772,518	\$ (67,696)	\$ 1,663,406

The accompanying notes are an integral part of the financial statements

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Independence, Oregon (the City) is governed by an elected mayor and six council members who comprise the City Council. All significant activities and organizations for which the City is financially accountable are included in the financial statements.

There are certain governmental agencies and various service entities which provide services within the City. These agencies have independently elected governing boards and the City is not financially accountable for these organizations. Therefore, financial information for these agencies is not included in the accompanying basic financial statements.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Assets (Modified Cash Basis) presents all the assets and liabilities of the City, including capital assets and related debt. Net assets, representing assets less liabilities, is shown in two components. Restricted for special purposes, amounts which must be spent in accordance with legal restrictions, and unrestricted, the amount available for ongoing City activities. When disbursements are paid for purposes in which both restricted and unrestricted net assets are available, the City deems restricted assets to be spent first.

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

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Currently, the City has governmental (general, special revenue and debt service) and proprietary type funds. Major individual governmental funds, capital projects and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the other supplementary information.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, receipts and disbursements. The various funds are reported by generic classification within the financial statements.

The reporting model sets forth minimum criteria (percentage of the assets liabilities, receipts or disbursements of either fund category or the government and enterprise combined) for the determination of major funds. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

General Fund

This fund accounts for the financial operations of the City not accounted for in any other fund. Principal sources of revenue are property taxes, licenses and permits, franchise fees and State shared revenues. Primary expenditures are for police protection, insurance and general administration.

Economic Development Fund

This fund accounts for disbursements related to economic development within the City.

HALO Fund

This fund accounts for revenue and disbursements for the Help Achieving Lifelong Objectives program.

Urban Renewal Project Fund

This fund accounts for disbursement related to urban renewal construction projects.

MINET Fund

This fund accounts for receipts from Oregon Economic & Community Development (OECD). Expenditures are pass-through loans made to MINET for infrastructure.

The City reports the following nonmajor governmental funds:

Street Fund

This fund accounts for street maintenance and improvements. Primary source of receipts are from motor vehicle fuel taxes and disbursements are for street maintenance and improvements.

Building Inspection Fund

This fund accounts for building inspections and related permits revenue.

Grants Programs Fund

This fund accounts for proceeds from and disbursements of special grants.

Special Assessments Fund

This fund accounts for receipts from a local improvement district. Expenditures are earmarked for debt incurred for making improvements to the district.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Park SDC Fund

This fund accounts for system development charges designated for parks.

Transportation SDC Fund

This fund accounts for system development charges designated for transportation projects.

General Obligation Debt Service Fund

This fund accounts for receipts from property taxes. Expenditures are earmarked for general obligation debt service.

Urban Renewal Debt Service Fund

This fund accounts for receipts from property taxes. Expenditures are earmarked for debt service incurred the City of Independence Urban Renewal Agency.

The City reports the following major proprietary funds:

Water Fund

The Water Fund is used to account for the operation of the City's water department. Primary receipts are sales of water to users, connection fees and interest on invested funds. Disbursements are for operating costs.

Sewer Fund

This fund is used to account for the operation of the City's sewer utility. Primary receipts are charges for sewer services and interest on invested funds. Disbursements are for operating costs.

Water SDC Fund

This fund is used to account for system development charges earmarked for the development and repair of the water system.

Sewer SDC Fund

This fund is used to account for system development charges earmarked for the development and repair of the sewer system.

The City reports the following nonmajor proprietary funds:

Storm Drain Fund

This fund accounts for storm drain operations, maintenance and system capital improvements.

Storm Drain SDC Fund

This fund is used to account for system development charges earmarked for the development and repair of the storm drain system.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

Accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board, define principles that should be used to report financial transactions. The government-wide and proprietary fund financial statements are reported using the economic resources and accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred. The governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become both measurable and available, while expenditures are recorded when the related liability is incurred.

The City's policy is to prepare its financial statements on the basis of modified cash receipts and disbursements. Consequently, certain receipts and the related assets are recognized when received rather than when earned, and certain disbursements and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Also, assets that are measurable but not yet collected are recorded on the City's statement of assets and liabilities as an asset and deferred revenue. Capital assets and the related debt obligations are not recorded. The City's policy, although not in accordance with accounting principles generally accepted in the United States of America, is acceptable under Oregon Law (ORS 294.445), which leaves the selection of the method of accounting to the discretion of the municipal corporation.

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." The City has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the City has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

Enterprise funds distinguish between operating receipts and disbursements and nonoperating items. Operating receipts and disbursements result from providing services to customers in connection with ongoing utility operations. The principal operating receipts are charges to customers for service. Operating disbursements include payroll and related costs, materials and supplies, and capital outlay. All receipts not considered operating are reported as nonoperating items.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, receipts and disbursements as of and for the year ended June 30, 2010. Actual results may differ from such estimates.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The City maintains cash and investments in a common pool that is available for use by all funds. Each fund type's portion of this pool is displayed in the financial statements as cash and investments.

Oregon Revised Statutes authorize the City to invest in certificates of deposit, savings accounts, bank repurchase agreements, bankers' acceptances, general obligations of U.S. Government and its agencies, certain bonded obligations of Oregon municipalities and the State Treasurer's Local Government Investment Pool, among others.

Investments in the Local Governmental Investment Pool are stated at cost, which approximates fair value.

Receivables and Deferred Revenues

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. Uncollected property taxes levied for the current year are recorded as receivable at year-end. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

The City makes economic development loans to various entities within the City which are payable to the City in monthly installments. Uncollected balances on the economic development loans are recorded as receivables and offset by deferred revenue.

Property tax receivables and economic development loans receivable are offset by deferred revenue and, accordingly, have not been recorded as revenues.

Capital Assets

Capital assets (items costing more than \$5,000 and lasting more than one year) are valued at estimated historical cost or actual historical cost. Capital assets are recorded as disbursements in the funds and capitalized on the Statement of Net Assets (Modified Cash Basis). Maintenance and repairs of capital assets are charged to disbursements in the governmental fund types as incurred and are not capitalized. Upon disposal, the Statement of Net Assets (Modified Cash Basis) is relieved of the related cost. Depreciation is computed on capital assets and recorded on the Statements of Net Assets (Modified Cash Basis). Depreciation expense is not recorded on the Statement of Activities (Modified Cash Basis). Interest is not capitalized as a cost of construction of capital assets.

Purchases of public domain capital assets (streets, sidewalks, lighting systems, curbs and gutters and similar assets) that are immovable and of value only to the City as a governmental unit are reported as disbursements as incurred and are not capitalized.

Accrued Compensated Absences

Accumulated unpaid vacation and sick pay is recorded as a disbursement when paid, and is recorded as a liability on the government-wide Statement of Net Assets.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

The City adopts the budget by department for the general fund and by object for other funds. Therefore, cash disbursements of a fund may not legally exceed that fund's appropriations for specific departments or objects. The City Council may amend the budget to expend unforeseen receipts by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2010:

	<i>Carrying Value</i>	<i>Fair Value</i>
Cash		
Cash on hand and in checking account	\$ (11,824)	\$ (11,824)
Investments		
Local Government Investment Pool	9,639,644	9,639,644
	<u>\$ 9,627,820</u>	<u>\$ 9,627,820</u>

Deposits

At June 30, 2010, the City's deposits with various financial institutions had a bank balance of \$48,994. All deposits not covered by FDIC insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions up to \$250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program. The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2010, none of the City's bank balances were exposed to custodial credit risk as the balances are under FDIC insurance limits.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CASH AND INVESTMENTS (Continued)

Investments

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2010, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality. Separate financial statements for the Oregon Short-Term Fund are available from the Oregon State Treasurer.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair value of its investments by limiting the weighted average maturity of its investments through use of the Local Government Investment Pool.

Custodial Risk - Investments

For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City's investment policy limits the types of investments that may be held and does not allow securities to be held by the counterparty.

The LGIP is administered by the Oregon State Treasury with the advice of other state agencies and is not registered with the U.S. Securities and Exchange Commission. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision, or public corporation of the state that by law is made the custodian of, or has control of any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short Term Fund Board, which has established diversification percentages and specifies the types and maturities of the investments. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. These investments within the LGIP must be invested and managed as a prudent investor would, exercising reasonable care, skill and caution. Professional standards indicate that the investments in external investment pools are not subject to custodial risk because they are not evidenced by securities that exist in physical or book entry form. Nevertheless, management does not believe that there is any substantial custodial risk related to investments in the LGIP.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LOANS RECEIVABLE

The City makes loans for several purposes, including financing of system development charges, economic development loans to local businesses and has loaned MINET funds for infrastructure received from Oregon Economic and Community Development Special Public Works Fund.

System Development Charges

The City offers financing of system development charges to customers. All loans carry an interest rate of 7% per annum over 10 years. Monthly repayments are required

Economic Development Loans

The City operates a loan program through its Economic Development Loan Fund. Twenty year loans are made to local businesses at below-market rates for the purpose of stimulating economic growth. The screening and approval process is contracted through the Mid-Willamette Valley Council of Governments. As of June 30, 2010 there were six loans outstanding totaling \$1,242,597 with interest rates ranging between 3-5%. Monthly repayments are required.

MINET

The City has obtained funds from the Oregon Economic and Community Development Loan Fund for the purpose of providing MINET the necessary capital it needs to provide services to the community. The terms of the loans to MINET equal that charged by the State of Oregon. As of June 30, 2010, \$6,366,489 had been drawn/loaned.

Summarized Financial data for MINET is as follows:

	<u>2010</u>	<u>2009</u>
Assets:		
Current and other assets	\$ 145,425	\$ 499,452
Capital assets (net of depreciation)	15,564,692	15,497,632
Total Assets	<u>\$ 15,710,117</u>	<u>\$ 15,997,084</u>
Liabilities and net assets:		
Current liabilities	\$ 1,879,638	\$ 1,055,202
Long-term debt	18,384,312	18,099,863
Total liabilities	<u>20,263,950</u>	<u>19,155,065</u>
Net assets:		
Investment in capital, net of related debt	89,973	640,821
Unrestricted	(4,643,806)	(3,798,802)
Total net assets	<u>(4,553,833)</u>	<u>(3,157,981)</u>
Total liabilities and net assets	<u>\$ 15,710,117</u>	<u>\$ 15,997,084</u>

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CAPITAL ASSETS

The changes in capital assets for the business-type activities for the year ended June 30, 2010 were as follows:

	<u><i>Beginning Balance</i></u>	<u><i>Increases</i></u>	<u><i>Decreases</i></u>	<u><i>Ending Balance</i></u>
NON-DEPRECIABLE				
Land	\$ 201,804	\$ -	\$ -	\$ 201,804
DEPRECIABLE				
Buildings	596,919	320,152	-	917,071
Distribution systems	16,355,457	231,685	-	16,587,142
Equipment	778,479	103,228	-	881,707
<i>Total Depreciable</i>	<u>17,730,855</u>	<u>655,065</u>	<u>-</u>	<u>18,385,920</u>
ACCUMULATED DEPRECIATION				
Buildings	(138,394)	(22,564)	-	(160,958)
Distribution systems	(5,862,118)	(344,924)	-	(6,207,042)
Equipment	(460,730)	(48,721)	-	(509,451)
<i>Total accumulated depreciation</i>	<u>(6,461,242)</u>	<u>(416,209)</u>	<u>-</u>	<u>(6,877,451)</u>
<i>Depreciable capital assets, net</i>	<u>11,269,613</u>	<u>238,856</u>	<u>-</u>	<u>11,508,469</u>
<i>Business-type activities capital assets, net</i>	<u>\$11,471,417</u>	<u>\$ 238,856</u>	<u>\$ -</u>	<u>\$11,710,273</u>

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

The changes in capital assets of governmental activities for the year ended June 30, 2010 were as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
NON-DEPRECIABLE				
Land	\$ 945,496	\$ -	\$ -	\$ 945,496
DEPRECIABLE				
Buildings	3,603,071	4,878,305	-	8,481,376
Equipment	308,962	121,817	-	430,779
Vehicles	669,253	42,508	-	711,761
Infrastructure	16,305,480	204,613	-	16,510,093
<i>Total Depreciable</i>	<u>20,886,766</u>	<u>5,247,243</u>	<u>-</u>	<u>26,134,009</u>
ACCUMULATED DEPRECIATION				
Buildings	(621,513)	(227,593)	-	(849,106)
Equipment	(226,034)	(32,411)	-	(258,445)
Vehicles	(466,809)	(77,517)	-	(544,326)
Infrastructure	(7,202,388)	(412,750)	-	(7,615,138)
<i>Total accumulated depreciation</i>	<u>(8,516,744)</u>	<u>(750,271)</u>	<u>-</u>	<u>(9,267,015)</u>
<i>Depreciable capital assets, net</i>	<u>11,651,340</u>	<u>4,496,972</u>	<u>-</u>	<u>16,148,312</u>
<i>Governmental activities capital assets</i>	<u>\$13,315,518</u>	<u>\$4,496,972</u>	<u>\$ -</u>	<u>\$17,812,490</u>

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG TERM-DEBT

Governmental long-term transactions for the year ending June 30, 2010 were as follows:

	<i>Outstanding July 1, 2009</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2010</i>	<i>Due Within One Year</i>
Governmental Activities					
2003 Refunding Bonds	\$ 1,445,000	-	\$ (240,000)	\$ 1,205,000	\$ 270,000
SPWF Loan - Hoffman	724,755	-	(24,597)	700,158	29,785
SPWF Loan - Library	414,410	-	(12,558)	401,852	17,662
OECD MINET Loan #1	4,665,879	-	(114,709)	4,551,170	-
OECD MINET Loan #2	769,650	49,480	(50,347)	768,783	-
OECD MINET Loan #3	930,960	509,040	-	1,440,000	-
CIP Incentive Fund – Cinema	40,000	-	-	40,000	-
2007 Urban Renewal Bonds	3,040,000	-	(140,000)	2,900,000	190,000
2010 Civic Center Bond	-	13,410,000	-	13,410,000	-
	<u>12,030,654</u>	<u>13,968,520</u>	<u>(582,211)</u>	<u>25,416,963</u>	<u>507,447</u>
Capital leases payable	-	93,627	(14,362)	79,265	17,552
	<u>12,030,654</u>	<u>14,062,147</u>	<u>(596,573)</u>	<u>25,496,228</u>	<u>524,999</u>
Compensated absences	150,932	111,032	(113,199)	148,765	111,574
	<u>\$ 12,181,586</u>	<u>\$ 14,173,179</u>	<u>\$ (709,772)</u>	<u>\$ 25,644,993</u>	<u>\$ 636,573</u>

During the year, the City also borrowed and repaid \$2,505,625 in short-term bond anticipation notes. The payments on MINET loans #1 and #2 were made directly by MINET and were not recorded by the City.

Enterprise long-term transactions for the year ending June 30, 2010 were as follows:

	<i>Outstanding July 1, 2009</i>	<i>Issued</i>	<i>Matured/ Redeemed During Year</i>	<i>Outstanding June 30, 2010</i>	<i>Due Within One Year</i>
Business-type Activities					
2000 Sewer Revenue Bonds	\$ 2,471,056	-	\$ (37,792)	\$ 2,433,264	\$ 39,958
2000 Sewer DEQ Loan	454,347	-	(36,623)	417,724	37,890
1998 Water Revenue Bonds	1,010,000	-	(140,000)	870,000	140,000
2004 Water Revenue Bonds	1,380,000	-	(60,000)	1,320,000	65,000
	<u>5,315,403</u>	<u>-</u>	<u>(274,415)</u>	<u>5,040,988</u>	<u>282,848</u>
Capital lease payable	-	93,627	(14,362)	79,265	17,552
	<u>5,315,403</u>	<u>93,627</u>	<u>(288,777)</u>	<u>5,120,253</u>	<u>300,400</u>
Compensated absences	63,181	43,585	(47,386)	59,380	44,535
	<u>\$ 5,378,584</u>	<u>\$ 137,212</u>	<u>\$ (336,163)</u>	<u>\$ 5,179,633</u>	<u>\$ 344,935</u>

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

Governmental activities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	663,690	1,152,102	1,815,792
2012	702,431	1,124,466	1,826,898
2013	781,409	1,094,892	1,876,301
2014	1,080,639	1,061,733	2,142,372
2015	762,243	1,018,689	1,780,932
2016-2020	4,246,173	4,573,398	8,819,571
2021-2025	4,232,507	3,579,933	7,812,440
2026-2030	4,362,165	2,543,153	6,905,318
2031-2035	3,969,972	1,379,585	5,349,557
2036-2040	4,695,000	416,750	5,111,750
	\$ 25,496,228	\$ 17,944,701	\$ 43,440,929

Business-type Activities

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	300,400	230,764	531,164
2012	309,405	217,381	526,786
2013	278,582	204,379	482,961
2014	287,937	191,753	479,690
2015	284,557	178,734	463,291
2016-2020	1,167,116	710,758	1,877,874
2021-2025	889,473	484,925	1,374,398
2026-2030	423,047	324,758	747,805
2031-2035	527,192	220,611	747,803
2036-2040	652,544	90,827	743,371
	\$ 5,120,253	\$ 2,854,890	\$ 7,975,143

The City's business-type activity loans require financial statements to be prepared in accordance with GAAP. The City prepares its financial statements on the modified cash basis.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT *(Continued)*

The City is obligated to the State of Oregon Economic Development Department to repay two Special Public Works Fund (SPWF) loans, both dated January 23, 2002. One loan, in the original amount of \$892,775 (“Hoffman”), was used to finance street and industrial park improvements. The second loan, in the original amount of \$500,000 (“Library”) was used for construction of Independence Public Library. The loans carry interest rates that vary between 3.00% and 5.00%.

On December 13, 2004, the City was awarded a \$3,600,000 interim bond financing loan from Oregon Economic Development Department – Special Public Works Fund, to complete a Fiber-To-The-Home build out in Independence. On April 11, 2006, the amount of the award was increased to \$4,835,264. The interest rate on the interim loan is 1.66% over two years, with repayment made by MInet. The City was subsequently awarded a second and third loan in the amount of \$769,050 and \$1,440,000, with interest at 6%. As of June 30, 2010, \$6,759,953 had been drawn on the loans.

On October 24, 2006 the City borrowed \$40,000 for a CIP Incentive loan for the Cinema property. The loan bears interest at 3%, and is due in full in 5 years. Interest is payable annually.

The 2007 Urban renewal bonds were issued in the amount of \$3,200,000. Proceeds were used to pay off interim financing on the Highway 51 project and for continued construction. Interest is 4.75%. The bond principal is payable annually, and interest is payable semiannually. The final bonds mature in 2022.

In the year ended June 30, 2000, the City issued sewer revenue bonds in the amount of \$2,751,800, payable to USDA Rural Development. The interest rate on the issuance is 4.5%, and requires a reserve balance of \$149,561. The Sewer fund is also obligated for a note payable to the State of Oregon Department of Environmental Quality. This note carries interest at the rate of 3.43%, matures in 2019, and requires a reserve balance of \$51,790. The sewer fund has a reserve of \$201,351 which is \$109 short of the required reserve. The City is not in compliance with reserve balance requirements as of June 30, 2010.

The 1998 Water Revenue Refunding Bonds were issued in 1998 in the amount of \$1,890,000. Proceeds were used to refund portions of the 1992-A, 1992-B, and 1994 Water Revenue Bonds. Interest rates range from 3.70% to 5.10%. On July 7, 2004, the City sold Water Revenue Bonds, Series 2004, in the amount of \$1,600,000. The bonds were authorized by Ordinance No.1252, as amended by Ordinance No.1253, as amended by Ordinance No.914 (collectively “the Master Ordinance”) and Ordinance No.1430 enacted by the City Council on February 24, 2004. Proceeds of the issuance were used to fund construction of a new 1.5 million gallon water reservoir facility and related water telemetry system

In April 2010, the City issued \$13,410,000 Full Faith and Credit Obligations. Proceeds were used for the constructions and equipping of a new City Hall (Civic Center). Interest rates range from 3.00% to 5.00%. The bonds mature in 2040.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

LONG-TERM DEBT (Continued)

Capital Lease

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2011	\$ 35,105	\$ 7,111	\$ 42,216
2012	36,896	5,320	42,216
2013	38,779	3,437	42,216
2014	40,758	1,458	42,216
2015	6,992	44	7,036
	<u>\$ 158,530</u>	<u>\$ 17,370</u>	<u>\$ 175,900</u>

The City entered into a lease purchase agreement July 7, 2009 with National City Commercial Capital Company, LLC for the purpose of purchasing an Elgin Street Sweeper. The lease purchase agreement is in the amount of \$187,253. The equipment is recorded partly in the Street Fund and partly in the Storm Drain Fund. Monthly schedule payments are \$3,518. The lease purchase has a term of 60 months.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

PENSION PLAN

Plan Description

The City is a participating employer in the Oregon Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan. The 2003 legislature adopted certain changes in the Oregon Public Employee Retirement System, and created a new system for all people hired after August 29, 2003. The Public Employee Retirement System (PERS), which was established under Oregon Revised Statute (ORS) 238.600, applies to all employees who had established membership prior to August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), which was established under ORS 238A and went into effect on January 1, 2004, applies to all people who are first employed with a public employer after August 29, 2003. The Public Employees Retirement Board (PERB) governs and acts as a common investment and administrative agent for both plans which are the retirement plans for most public employers in the State of Oregon. Benefits are established by state statute, and employer contributions are made at the actuarially determined rate for each system as adopted by the PERB. The Oregon Public Employees Retirement System, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Both PERS and OPSRP plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Funding Status

Covered employees are required by state statute to contribute 6.0 percent of their salary to the plan which is invested in the Individual Account Program (IAP). Employers are permitted to pay employee contributions to the fund.

The City is required by statute to contribute actuarially computed amounts as determined by OPERS. OPERS completes an actuarial valuation as of December 31 of odd numbered years for new rates to be implemented July 1 of the next odd numbered year. Rates are subject to change as a result of subsequent actuarial valuations and the proportion of the system that is funded for each local government employer. For rate changes implemented July 1, 2005 the PERB voted to phase in the rate changes for PERS (for most employers a rate increase).

For OPSRP, all employers are included in a single pool, with separate rates assigned for police and fire participants and general service participants. Beginning July 1, 2009, PERS rates were set at 5.59 percent for Tier1/Tier 2 and OPSRP rates were set at 4.37 percent for police and fire and 1.66 percent for general service employees.

Annual Pension Cost

The City’s contribution to PERS for the fiscal years ending June 30, 2008, 2009, and 2010 were \$356,434, \$382,754 and \$354,175, respectively, which equaled the required contributions for the years.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

TRANSFERS

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund	\$ 342,044	\$ (11,630,272)
Economic Development Fund	-	(5,500)
Urban Renewal Projects Fund	10,226,710	-
Street Fund	-	(10,500)
Special Assessment Fund	41,388	-
Parks SDC Fund	-	(406)
Transportation SDC Fund	788,988	(16,642)
Urban Renewal Debt Service Fund	-	(100,000)
Water Fund	102,908	(122,534)
Sewer Fund	402,908	(96,233)
Storm Drain Fund	102,908	(19,882)
Water SDC Fund	1,706	(571)
Sewer SDC Fund	1,426	(834)
Storm Drain SDC Fund	2,718	(10,330)
	<u>\$ 12,013,704</u>	<u>\$ (12,013,704)</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

The Proprietary funds paid fees to the General Fund for fiscal year ended June 30, 2010 as follows:

	<u><i>In Lieu of Taxes</i></u>	<u><i>Franchise Fees</i></u>	<u><i>Total</i></u>
Sewer	\$ 35,000	\$ 61,232	\$ 96,232
Water	35,000	87,534	122,534
Storm	15,000	14,882	29,882
	<u>\$ 85,000</u>	<u>\$ 163,648</u>	<u>\$ 248,648</u>

The City's System Development Funds pay overhead to the City's General Fund. These payments are recorded as disbursements (administration fees) in the SDC funds and receipts (transfers in) in the General Fund. Payments during the fiscal year ended June 30, 2010 are as follows:

	<u><i>Transfers</i></u>	<u><i>Materials & Services</i></u>	<u><i>Total</i></u>
Sewer SDC Fund	\$ 46,304	\$ 58,974	\$ 105,278
Transportation SDC Fund	52,157	-	52,157
Parks SDC Fund	15,410	7,835	23,245
Water SDC Fund	571	7,314	7,885
Storm SDC Fund	5,000	244	5,244
	<u>\$ 20,981</u>	<u>\$ 15,393</u>	<u>\$ 36,374</u>

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

CONTINGENCIES

The City purchases commercial insurance to cover all commonly insurable risks, which includes property damage, liability and employee bonds. Most policies carry a small deductible amount. No insurance claims settled in each of the prior three years have exceeded policy coverage.

CONCENTRATION OF CREDIT RISK

The City is exposed to risk of loss through loans made to legally separate entities. As such, the City has incurred a concentration of credit risk for both operating and capital loans made to MInet should MInet default on its obligations. The total amount loaned to MInet as of June 30, 2010 is shown below:

<u>Loaned to MINET</u>	<u>Purpose of Loan</u>	<u>Amount</u>	<u>Interest Rate</u>
Economic Development Loan	Operations	\$ 663,336	3%
Economic Development Loan	Operations	294,134	0%
Pass-through from OECDD	Capital/Infrastructure	6,759,953	various

The OECDD loan was to mature in December 2007, with the amount drawn plus any capitalized interest being refunded through a State of Oregon Special Public Works Fund (SPWF) bond issuance. The bond issuance has been delayed. The OECDD loan is secured by 1) full faith and credit of the City, 2) refunding proceeds of long-term bond issuance, and 3) net revenues from water system. The term of the long-term bond issuance will be 25 years at an interest rate to be determined.

In the current fiscal year, the City loaned to MINET \$294,134 from the Economic Development fund for the purpose of paying annual debt service. The money was repaid in September 2010.

Audited annual financial statements of MInet may be obtained by writing to MInet, 405 N. Hogan Road, Monmouth, Oregon, 97361, or by calling (503) 837-0700.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

DEFICIT FUND BALANCES

At June 30, 2010, the Street Fund had a deficit fund balance of \$360,195, the HALO Fund had a deficit fund balance of \$87,455, the Grants Program Fund had a deficit fund balance of \$5,451, the Storm Drain SDC fund had a deficit fund balance of \$63,725 and the Parks SDC fund had a deficit fund balance of \$92,973.

OVEREXPENDITURE OF APPROPRIATIONS

The City had the following over expenditures during the current year.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General government	\$ 459,700	\$ 593,489	\$ (133,789)
Culture and recreation	587,121	689,123	(102,002)
Debt service	-	32,499	(32,499)
Transfers out	655,000	11,630,272	(10,975,272)
Economic Development			
Loan proceeds	255,000	294,134	(39,134)
Halo			
Materials and service	706,066	775,378	(69,312)
Urban Renewal Projects			
Materials and service	-	19,021	(19,021)
Street			
Personal services	259,297	264,332	(5,035)
Capital outlay	47,887	137,633	(89,746)
Debt service	-	17,591	(17,591)
Transfers out	-	10,500	(10,500)
Parks SDC			
Materials and service	19,000	158,617	(139,617)
Capital outlay	44,789	106,803	(62,014)
Transfers out	-	406	(406)
Transportation SDC			
Capital outlay	52,423	306,115	(253,692)
Transfers out	-	16,642	(16,642)

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

OVEREXPENDITURE OF APPROPRIATIONS (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Storm Drain			
Personal services	144,236	146,867	(2,631)
Capital outlay	66,239	202,006	(135,767)
Debt service	-	17,591	(17,591)
Transfers out	-	19,882	(19,882)
Storm Drain SDC			
Materials and Services	21,500	26,344	(4,844)
Capital outlay	-	58,951	(58,951)
Transfers out		10,330	(10,330)
Sewer			
Personal services	474,572	499,768	(25,196)
Capital outlay	75,500	132,840	(57,340)
Transfers out	35,000	96,233	(61,233)
Water			
Capital outlay	69,069	115,705	(46,636)
Debt service	315,822	315,823	(1)
Transfers out	35,000	122,534	(87,534)
Water SDC			
Transfers out	-	571	(571)
Sewer SDC			
Transfers out	-	834	(834)

GASB PRONOUNCEMENTS ISSUED, NOT YET IN EFFECT

The Governmental Accounting Standards Board (GASB) issues pronouncements that have future effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on future financial statements.

GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", issued February, 2009 will be effective for the District Beginning with its fiscal year ending June 30, 2011. The Statement establishes new classifications for fund equity and new definitions for governmental fund types.

CITY OF INDEPENDENCE, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2010

SUBSEQUENT EVENTS

The City adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855). ASC 855 establishes new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through February 7, 2011, the date on which the financial statements were available to be issued.

In September 2010 the City issued \$7,995,000 Full Faith and Credit Bonds. Proceeds were used by MINET for financing additional improvements to the MINET system and other capital expenditures. Interest rates range from 2.00% to 5.844% and the bonds are scheduled to mature in 2040.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF INDEPENDENCE**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Taxes and assessments	\$ 1,398,193	\$ 1,398,193	\$ 1,385,800	\$ (12,393)
Licenses and permits	634,780	634,780	473,418	(161,362)
Charges for services	88,000	88,000	92,913	4,913
Intergovernmental	402,150	402,150	772,461	370,311
Fines and forfeitures	220,000	220,000	170,411	(49,589)
Miscellaneous	105,000	215,000	211,055	(3,945)
<i>Total Receipts</i>	2,848,123	2,958,123	3,106,058	147,935
DISBURSEMENTS				
General government	329,286	459,700	593,489	(133,789)
Public safety	2,095,623	2,095,623	1,991,254	104,369
Culture and recreation	587,121	587,121	689,123	(102,002)
Capital outlay	65,220	241,581	195,723	45,858
Contingency	153,073	55,976	-	55,976
Debt service	-	-	32,499	(32,499)
<i>Total Disbursements</i>	3,230,323	3,440,001	3,502,088	(62,087)
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(382,200)	(481,878)	(396,030)	85,848
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	13,195,127	13,195,127
Transfers in	185,000	824,108	342,044	(482,064)
Transfers out	(5,000)	(655,000)	(11,630,272)	(10,975,272)
<i>Total Other Financing Sources (Uses)</i>	180,000	169,108	1,906,899	-
NET CHANGE IN FUND BALANCE	(202,200)	(312,770)	1,510,869	1,823,639
FUND BALANCE, Beginning of year	202,200	318,081	305,634	(12,447)
FUND BALANCE, End of year	\$ -	\$ 5,311	\$ 1,816,503	\$ 1,811,192

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – ECONOMIC DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$ 125,000	\$ 125,000	\$ 106,941	\$ (18,059)
DISBURSEMENTS	-	-	-	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	125,000	125,000	106,941	(18,059)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	(255,000)	(255,000)	(294,134)	(39,134)
Transfers out	-	(31,067)	(5,500)	25,567
<i>Total Other Financing Sources (Uses)</i>	(255,000)	(286,067)	(299,634)	(13,567)
NET CHANGE IN FUND BALANCE	(130,000)	(161,067)	(192,693)	(31,626)
FUND BALANCE, Beginning of year	140,000	214,471	214,196	(275)
FUND BALANCE, End of year	\$ 10,000	\$ 53,404	\$ 21,503	\$ (31,901)

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – HALO FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 869,250	\$ 971,804	\$ 1,015,427	\$ 43,623
DISBURSEMENTS				
Personal services	353,500	265,738	257,279	8,459
Materials and services	515,750	706,066	775,378	(69,312)
<i>Total Disbursements</i>	<u>869,250</u>	<u>971,804</u>	<u>1,032,657</u>	<u>(60,853)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	(17,230)	(17,230)
FUND BALANCE (DEFICIT), Beginning of year	-	-	(70,225)	(70,225)
FUND BALANCE (DEFICIT), End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (87,455)</u>	<u>\$ (87,455)</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF INDEPENDENCE, OREGON**COMBINING STATEMENT OF ASSETS AND LIABILITIES (MODIFIED CASH BASIS) –
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2010

	<u>Street</u>	<u>Building Inspection</u>	<u>Grants Programs</u>	<u>Special Assessments</u>
ASSETS				
Cash and investments	\$ -	\$ 282,848	\$ -	\$ 11,681
Property taxes receivable	-	-	-	-
Other receivables	-	-	-	212,848
<i>Total Assets</i>	<u>\$ -</u>	<u>\$ 282,848</u>	<u>\$ -</u>	<u>\$ 224,529</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Deposits	\$ -	\$ 34,241	\$ -	\$ -
Due to other funds	360,190	-	5,451	-
Deferred Revenue	-	-	-	212,848
<i>Total Liabilities</i>	<u>360,190</u>	<u>34,241</u>	<u>5,451</u>	<u>212,848</u>
Fund Balances				
Unreserved (deficit), reported in:				
Special revenue funds	(360,190)	248,607	(5,451)	11,681
Capital projects funds	-	-	-	-
Debt services funds	-	-	-	-
<i>Total Fund Balances</i>	<u>(360,190)</u>	<u>248,607</u>	<u>(5,451)</u>	<u>11,681</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ -</u>	<u>\$ 282,848</u>	<u>\$ -</u>	<u>\$ 224,529</u>

<i>Parks SDC</i>	<i>Transportation SDC</i>	<i>General Obligation Debt Service</i>	<i>Urban Renewal Debt Service</i>	<i>Totals</i>
\$ -	\$ 721,469	\$ 73,493	\$ 148,793	\$ 1,238,284
-	-	22,609	31,501	54,110
18,599	205,890	-	-	437,337
<u>\$ 18,599</u>	<u>\$ 927,359</u>	<u>\$ 96,102</u>	<u>\$ 180,294</u>	<u>\$ 1,729,731</u>
\$ -	\$ -	\$ -	\$ -	\$ 34,241
92,973	-	-	-	458,614
18,599	205,890	22,609	31,501	491,447
<u>111,572</u>	<u>205,890</u>	<u>22,609</u>	<u>31,501</u>	<u>984,302</u>
-	-	-	-	(105,353)
(92,973)	721,469	-	-	628,496
-	-	73,493	148,793	222,286
<u>(92,973)</u>	<u>721,469</u>	<u>73,493</u>	<u>148,793</u>	<u>745,429</u>
\$ 18,599	\$ 927,359	\$ 96,102	\$ 180,294	\$ 1,729,731

CITY OF INDEPENDENCE, OREGON**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES****(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2010**

	<u>Street</u>	<u>Building Inspection</u>	<u>Grants Program</u>	<u>Special Assessment</u>
RECEIPTS				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	34,040	-	-
Charges for services	11,290	-	-	-
Intergovernmental	413,153	-	77,307	-
Miscellaneous	1,170	-	-	24,620
Total Receipts	425,613	34,040	77,307	24,620
DISBURSEMENTS				
Culture and recreation	-	-	79,061	-
Community development	-	184,185	3,074	-
Transportation	391,321	-	-	-
Capital outlay	137,633	-	-	-
Debt service				
Principal	14,362			24,597
Interest	3,229			34,868
Total Disbursements	546,545	184,185	82,135	59,465
RECEIPTS OVER (UNDER)				
DISBURSEMENTS	(120,932)	(150,145)	(4,828)	(34,845)
OTHER FINANCING SOURCES (USES)				
Capital lease	93,627	-	-	-
Transfers in	-	-	-	41,388
Transfers out	(10,500)	-	-	-
Total Other Financing Sources (Uses)	83,127	-	-	41,388
NET CHANGE IN FUND BALANCES	(37,805)	(150,145)	(4,828)	6,543
FUND BALANCES (Deficit),				
Beginning of year	(322,385)	398,752	(623)	5,138
FUND BALANCES (Deficit), End of year	\$ (360,190)	\$ 248,607	\$ (5,451)	\$ 11,681

<i>Parks SDC</i>	<i>Transportation SDC</i>	<i>General Obligation Debt Service</i>	<i>Urban Renewal Debt Service</i>	<i>Totals</i>
\$ -	\$ -	\$ 323,002	\$ 358,059	\$ 681,061
10,148	21,024	-	-	65,212
-	-	-	-	11,290
-	-	-	-	490,460
183	1,960	-	1,916	29,849
10,331	22,984	323,002	359,975	1,277,872
158,617	-	-	-	237,678
-	16,932	-	150	204,341
-	-	-	-	391,321
106,803	306,115	-	-	550,551
		240,000	140,000	418,959
		52,296	129,290	219,683
265,420	323,047	292,296	269,440	2,022,533
(255,089)	(300,063)	30,706	90,535	(744,661)
-	-	-	-	93,627
-	788,988	-	-	830,376
(406)	(16,642)	-	(100,000)	(127,548)
(406)	772,346	-	(100,000)	796,455
(255,495)	472,283	30,706	(9,465)	51,794
162,522	249,186	42,787	158,258	693,635
\$ (92,973)	\$ 721,469	\$ 73,493	\$ 148,793	\$ 745,429

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – URBAN RENEWAL PROJECTS FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS				
Materials and services	-	-	19,021	(19,021)
Capital outlay	10,226,710	10,226,710	4,492,642	5,734,068
<i>Total Disbursements</i>	10,226,710	10,226,710	4,511,663	5,715,047
RECEIPTS OVER (UNDER) DISBURSEMENTS	(10,226,710)	(10,226,710)	(4,511,663)	5,715,047
OTHER FINANCING SOURCES (USES)				
Transfers in	10,226,710	10,226,710	10,226,710	-
NET CHANGE IN FUND BALANCE	-	-	5,715,047	5,715,047
FUND BALANCE (DEFICIT), Beginning of year	-	-	(613,634)	(618,394)
FUND BALANCE, End of year	\$ -	\$ -	\$ 5,101,413	\$ 5,096,653

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – STREET FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ -	\$ -	\$ 11,290	\$ 11,290
Intergovernmental	410,000	410,000	413,153	3,153
Miscellaneous	500	500	1,170	670
<i>Total Receipts</i>	410,500	410,500	425,613	15,113
DISBURSEMENTS				
Personal services	259,297	259,297	264,332	(5,035)
Materials and services	137,350	137,350	126,989	10,361
Capital outlay	47,887	47,887	137,633	(89,746)
Debt service	-	-	17,591	(17,591)
Contingency	5,966	5,966	-	5,966
<i>Total Disbursements</i>	450,500	450,500	546,545	(96,045)
RECEIPTS OVER (UNDER) DISBURSEMENTS	(40,000)	(40,000)	(120,932)	(80,932)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	93,627	93,627
Transfers out	-	-	(10,500)	(10,500)
<i>Total Other Financing Sources (Uses)</i>	-	-	83,127	(10,500)
NET CHANGE IN FUND BALANCE	(40,000)	(40,000)	(37,805)	2,195
FUND BALANCE (DEFICIT), Beginning of year	40,000	40,000	(322,385)	(362,385)
FUND BALANCE (DEFICIT), End of year	\$ -	\$ -	\$ (360,190)	\$ (360,190)

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL - BUILDING INSPECTION FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Licenses and permits	\$ 125,000	\$ 125,000	\$ 34,040	\$ (90,960)
DISBURSEMENTS				
Personal services	240,928	240,928	171,022	69,906
Materials and services	28,420	28,420	13,163	15,257
Capital outlay	25,000	25,000	-	25,000
Contingency	30,652	30,652	-	30,652
<i>Total Disbursements</i>	<u>325,000</u>	<u>325,000</u>	<u>184,185</u>	<u>140,815</u>
RECEIPTS OVER (UNDER)				
DISBURSEMENTS	(200,000)	(200,000)	(150,145)	49,855
FUND BALANCE, Beginning of year	<u>200,000</u>	<u>200,000</u>	<u>398,752</u>	<u>198,752</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,607</u>	<u>\$ 248,607</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – GRANTS PROGRAMS FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Intergovernmental	\$ 1,357,188	\$ 1,357,188	\$ 77,307	\$ (1,279,881)
DISBURSEMENTS				
Materials and services	307,188	307,188	82,135	225,053
Capital outlay	1,050,000	1,050,000	-	1,050,000
<i>Total Disbursements</i>	<u>1,357,188</u>	<u>1,357,188</u>	<u>82,135</u>	<u>1,275,053</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	(4,828)	(4,828)
OTHER FINANCING SOURCES (USES)				
Transfers in	5,000	5,000	-	(5,000)
NET CHANGE IN FUND BALANCE	<u>5,000</u>	<u>5,000</u>	<u>(4,828)</u>	<u>(9,828)</u>
FUND BALANCE (DEFICIT), Beginning of year	<u>-</u>	<u>-</u>	<u>(623)</u>	<u>(623)</u>
FUND BALANCE (DEFICIT), End of year	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ (5,451)</u>	<u>\$ (10,451)</u>

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL –SPECIAL ASSESSMENT FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$ 59,465	\$ 59,465	\$ 24,620	\$ (34,845)
DISBURSEMENTS				
Debt service	59,465	59,465	59,465	-
RECEIPTS OVER (UNDER) DISBURSEMENTS	-	-	(34,845)	(34,845)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	41,388	41,388
NET CHANGE IN FUND BALANCE	-	-	6,543	6,543
FUND BALANCE, Beginning of year	-	-	5,138	5,138
FUND BALANCE, End of year	\$ -	\$ -	\$ 11,681	\$ 11,681

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – PARKS SDC FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Licenses and permits	\$ 22,622	\$ 22,622	\$ 9,777	\$ (12,845)
Miscellaneous	100	100	554	454
<i>Total Receipts</i>	<u>22,722</u>	<u>22,722</u>	<u>10,331</u>	<u>(12,391)</u>
DISBURSEMENTS				
Materials and services	32,722	19,000	158,617	(139,617)
Capital outlay	-	44,789	106,803	(62,014)
<i>Total Disbursements</i>	<u>32,722</u>	<u>63,789</u>	<u>265,420</u>	<u>(201,631)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(10,000)	(41,067)	(255,089)	(214,022)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	31,067	-	(31,067)
Transfers out	-	-	(406)	(406)
NET CHANGE IN FUND BALANCE	<u>(10,000)</u>	<u>(10,000)</u>	<u>(255,495)</u>	<u>(245,495)</u>
FUND BALANCE, Beginning of year				
	<u>10,000</u>	<u>10,000</u>	<u>162,522</u>	<u>152,522</u>
FUND BALANCE (DEFICIT), End of year				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (92,973)</u>	<u>\$ (92,973)</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – TRANSPORTATION SDC FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		
RECEIPTS				
Licenses and permits	\$ 77,423	\$ 77,423	\$ 21,024	\$ (56,399)
Miscellaneous	100	100	1,960	1,860
<i>Total Receipts</i>	<u>77,523</u>	<u>77,523</u>	<u>22,984</u>	<u>(54,539)</u>
DISBURSEMENTS				
Materials and services	125,000	125,000	16,932	108,068
Capital outlay	52,423	52,423	306,115	(253,692)
<i>Total Disbursements</i>	<u>177,423</u>	<u>177,423</u>	<u>323,047</u>	<u>(145,624)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(99,900)	(99,900)	(300,063)	(200,163)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	788,988	788,988
Transfers out	-	-	(16,642)	(16,642)
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>-</u>	<u>772,346</u>	<u>772,346</u>
NET CHANGE IN FUND BALANCE	(99,900)	(99,900)	472,283	572,183
FUND BALANCE, Beginning of year	<u>100,000</u>	<u>100,000</u>	<u>249,186</u>	<u>149,186</u>
FUND BALANCE, End of year	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 721,469</u>	<u>\$ 721,369</u>

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – GENERAL OBLIGATION DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		
RECEIPTS				
Taxes and assessments	\$ 324,795	\$ 324,795	\$ 323,002	\$ (1,793)
DISBURSEMENTS				
Debt service	324,795	324,795	292,296	32,499
RECEIPTS OVER (UNDER)				
DISBURSEMENTS	-	-	30,706	30,706
FUND BALANCE, Beginning of year	10,000	10,000	42,787	32,787
FUND BALANCE, End of year	\$ 10,000	\$ 10,000	\$ 73,493	\$ 63,493

CITY OF INDEPENDENCE, OREGON

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – URBAN RENEWAL DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Taxes and assessments	\$ 406,000	\$ 381,898	\$ 358,059	\$ (23,839)
Miscellaneous	-	1,905	1,916	11
<i>Total Receipts</i>	406,000	383,803	359,975	(23,828)
DISBURSEMENTS				
Materials and services		457,663	150	457,513
Debt service	269,290	3,786,697	269,290	3,517,407
<i>Total Disbursements</i>	269,290	4,244,360	269,440	3,974,920
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	136,710	(3,860,557)	90,535	3,951,092
OTHER FINANCING SOURCES (USES)				
Loan proceeds	10,000,000	17,175,945	-	(17,175,945)
Transfers out	(10,226,710)	(11,948,457)	(100,000)	11,848,457
<i>Total Other Financing Sources (Uses)</i>	(226,710)	5,227,488	(100,000)	(5,327,488)
NET CHANGE IN FUND BALANCE	(90,000)	1,366,931	(9,465)	(1,376,396)
FUND BALANCE, Beginning of year	100,000	156,743	158,258	1,515
FUND BALANCE, End of year	\$ 10,000	\$ 1,523,674	\$ 148,793	\$ (1,374,881)

CITY OF INDEPENDENCE, OREGON**COMBINING STATEMENT OF NET ASSETS (MODIFIED CASH BASIS) - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2010**

	<u>Storm Drain</u>	<u>Storm Drain SDC</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 5,478	\$ -	\$ 5,478
Other receivables	23,368	9,448	32,816
Nondepreciable capital assets	149,303	50,756	200,059
Other capital assets, net of depreciation	122,148	653,674	775,822
<i>Total Assets</i>	<u>300,297</u>	<u>713,878</u>	<u>1,014,175</u>
LIABILITIES			
Due to other funds	-	73,173	73,173
Deferred revenue	23,368	9,448	32,816
Noncurrent liabilities:			
Due within one year			
Loan payable	17,552	-	17,552
Due in more than one year			
Loan payable	61,713	-	61,713
<i>Total Liabilities</i>	<u>102,633</u>	<u>82,621</u>	<u>185,254</u>
NET ASSETS			
Investment in capital assets (net of related debt)	192,187	704,430	896,617
Restricted for construction	-	(73,173)	(73,173)
Unrestricted	5,477	-	5,477
<i>Total Net Assets</i>	<u>197,664</u>	<u>631,257</u>	<u>828,921</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 300,297</u>	<u>\$ 713,878</u>	<u>\$ 1,014,175</u>

CITY OF INDEPENDENCE, OREGON**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS
(MODIFIED CASH BASIS) - NONMAJOR ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2010**

	<u>Storm Drain</u>	<u>Storm Drain SDC</u>	<u>Totals</u>
OPERATING RECEIPTS			
Charges for services	\$ 209,784	\$ -	\$ 209,784
Miscellaneous	659	1,576	2,235
<i>Total Operating Receipts</i>	210,443	1,576	212,019
OPERATING DISBURSEMENTS			
Personal services	146,867	-	146,867
Materials and services	31,724	26,344	58,068
Capital outlay	202,006	58,951	260,957
<i>Total Operating Disbursements</i>	380,597	85,295	465,892
OPERATING RECEIPTS OVER(UNDER) OPERATING DISBURSEMENTS	(170,154)	(83,719)	(253,873)
NON OPERATING RECEIPTS (DISBURSEMENTS)			
Debt proceeds	93,627	-	93,627
Debt service			
Principal	(14,362)	-	(14,362)
Interest	(3,229)	-	(3,229)
<i>Total Non Operating Receipts (Disbursements)</i>	76,036	-	76,036
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS			
System development revenue	-	6,601	6,601
Transfers in	102,908	2,718	105,626
Transfers out	(19,882)	(10,330)	(30,212)
NET CHANGE IN RESTRICTED AND UNRESTRICTED NET ASSETS	(11,092)	(84,730)	(95,822)
RESTRICTED AND UNRESTRICTED NET ASSETS, Beginning of the year	16,569	11,557	28,126
RESTRICTED AND UNRESTRICTED NET ASSETS, End of year	\$ 5,477	\$ (73,173)	\$ (67,696)

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – STORM DRAIN FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 210,000	\$ 210,000	\$ 209,784	\$ (216)
Miscellaneous	300	300	659	359
<i>Total Receipts</i>	<u>210,300</u>	<u>210,300</u>	<u>210,443</u>	<u>143</u>
DISBURSEMENTS				
Personal services	144,236	144,236	146,867	(2,631)
Materials and services	69,825	69,825	31,724	38,101
Capital outlay	66,239	66,239	202,006	(135,767)
Debt service	-	-	17,591	(17,591)
Contingency	10,000	10,000	-	10,000
<i>Total Disbursements</i>	<u>290,300</u>	<u>290,300</u>	<u>398,188</u>	<u>(107,888)</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(80,000)</u>	<u>(80,000)</u>	<u>(187,745)</u>	<u>(107,745)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	93,627	93,627
Transfers in	-	-	102,908	102,908
Transfers out	-	-	(19,882)	(19,882)
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>-</u>	<u>176,653</u>	<u>176,653</u>
NET CHANGE IN FUND BALANCE	<u>(80,000)</u>	<u>(80,000)</u>	<u>(11,092)</u>	<u>68,908</u>
FUND BALANCE, Beginning of the year	<u>80,000</u>	<u>80,000</u>	<u>16,569</u>	<u>(63,431)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,477</u>	<u>\$ 5,477</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – STORM DRAIN SDC FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		
RECEIPTS				
Licenses and permits	\$ 14,008	\$ 14,008	\$ 6,601	\$ (7,407)
Miscellaneous	100	100	1,576	1,476
<i>Total Receipts</i>	14,108	14,108	8,177	(5,931)
DISBURSEMENTS				
Materials and services	21,500	21,500	26,344	(4,844)
Capital outlay	-	-	58,951	(58,951)
Debt service	2,608	2,608		2,608
<i>Total Disbursements</i>	24,108	24,108	85,295	(61,187)
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(10,000)	(10,000)	(77,118)	(67,118)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,718	2,718
Transfers out	-	-	(10,330)	(10,330)
<i>Total Other Financing Sources (Uses)</i>	-	-	(7,612)	(7,612)
NET CHANGE IN FUND BALANCE	(10,000)	(10,000)	(84,730)	(74,730)
FUND BALANCE, Beginning of year	10,000	10,000	11,557	1,557
FUND BALANCE (DEFICIT), End of year	\$ -	\$ -	\$ (73,173)	\$ (73,173)

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL - SEWER FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Charges for services	\$ 968,850	\$ 968,850	\$ 870,879	\$ (97,971)
Miscellaneous	2,000	2,000	5,785	3,785
<i>Total Receipts</i>	<u>970,850</u>	<u>970,850</u>	<u>876,664</u>	<u>(94,186)</u>
DISBURSEMENTS				
Personal services	474,572	474,572	499,768	(25,196)
Materials and services	226,281	226,281	141,733	84,548
Capital outlay	75,500	75,500	132,840	(57,340)
Debt service	201,457	201,457	201,457	-
Contingency	233,040	233,040	-	233,040
<i>Total Disbursements</i>	<u>1,210,850</u>	<u>1,210,850</u>	<u>975,798</u>	<u>235,052</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(240,000)	(240,000)	(99,134)	140,866
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	402,908	402,908
Transfers out	(35,000)	(35,000)	(96,233)	(61,233)
<i>Total Other Financing Sources (Uses)</i>	<u>(35,000)</u>	<u>(35,000)</u>	<u>306,675</u>	<u>341,675</u>
NET CHANGE IN FUND BALANCE	(275,000)	(275,000)	207,541	482,541
FUND BALANCE (DEFICIT), Beginning of the year	<u>275,000</u>	<u>275,000</u>	<u>(6,299)</u>	<u>(281,299)</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 201,242</u>	<u>\$ 201,242</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		
RECEIPTS				
Charges for services	\$ 1,340,500	\$ 1,340,500	\$ 1,258,105	\$ (82,395)
Miscellaneous	8,750	8,750	14,294	5,544
<i>Total Receipts</i>	1,349,250	1,349,250	1,272,399	(76,851)
DISBURSEMENTS				
Personal services	627,273	627,273	613,264	14,009
Materials and services	285,200	285,200	190,707	94,493
Capital outlay	69,069	69,069	115,705	(46,636)
Debt service	315,822	315,822	315,823	(1)
Contingency	365,886	365,886	-	365,886
<i>Total Disbursements</i>	1,663,250	1,663,250	1,235,499	427,751
RECEIPTS OVER (UNDER) DISBURSEMENTS	(314,000)	(314,000)	36,900	(277,100)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	102,908	102,908
Transfers out	(35,000)	(35,000)	(122,534)	(87,534)
<i>Total Other Financing Sources (Uses)</i>	(35,000)	(35,000)	(19,626)	15,374
NET CHANGE IN FUND BALANCE	(349,000)	(349,000)	17,274	(261,726)
FUND BALANCE, Beginning of year	375,000	375,000	206,442	168,558
FUND BALANCE, End of year	\$ 26,000	\$ 26,000	\$ 223,716	\$ (197,716)

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – WATER SDC FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ 45,669	\$ 45,669	\$ 16,507	\$ (29,162)
Miscellaneous	500	500	1,877	1,377
<i>Total Receipts</i>	<u>46,169</u>	<u>46,169</u>	<u>18,384</u>	<u>(27,785)</u>
DISBURSEMENTS				
Materials and services	121,169	121,169	12,544	108,625
Capital outlay	100,000	348,204	146,030	202,174
<i>Total Disbursements</i>	<u>221,169</u>	<u>469,373</u>	<u>158,574</u>	<u>310,799</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(175,000)	(423,204)	(140,190)	283,014
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,706	1,706
Transfers out	-	-	(571)	(571)
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>-</u>	<u>1,135</u>	<u>1,135</u>
NET CHANGE IN FUND BALANCE	(175,000)	(423,204)	(139,055)	284,149
FUND BALANCE, Beginning of year	<u>175,000</u>	<u>620,905</u>	<u>672,681</u>	<u>-</u>
FUND BALANCE, End of year	<u>\$ -</u>	<u>\$ 197,701</u>	<u>\$ 533,626</u>	<u>\$ 183,987</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE (CASH BASIS) -
BUDGET AND ACTUAL – SEWER SDC FUND
YEAR ENDED JUNE 30, 2010**

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
RECEIPTS				
Licenses and permits	\$ 61,448	\$ 61,448	\$ 22,656	\$ (38,792)
Miscellaneous	500	500	2,044	1,544
<i>Total Receipts</i>	61,948	61,948	24,700	(37,248)
DISBURSEMENTS				
Materials and services	170,750	170,750	68,302	102,448
Capital outlay	73,198	73,198	1,426	71,772
<i>Total Disbursements</i>	243,948	243,948	69,728	174,220
RECEIPTS OVER (UNDER) DISBURSEMENTS				
	(182,000)	(182,000)	(45,028)	136,972
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,426	1,426
Transfers out	-	-	(834)	(834)
<i>Total Other Financing Sources (Uses)</i>	-	-	592	592
NET CHANGE IN FUND BALANCE	(182,000)	(182,000)	(44,436)	137,564
FUND BALANCE, Beginning of the year	182,000	182,000	816,954	634,954
FUND BALANCE, End of year	\$ -	\$ -	\$ 772,518	\$ 772,518

OTHER SCHEDULES

CITY OF INDEPENDENCE, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
YEAR ENDED JUNE 30, 2010

<i>Tax Year</i>	<i>2009-2010 Levy</i>	<i>Uncollected Balance July 1, 2009</i>	<i>Discounts & Adjustments</i>	<i>Turnovers</i>	<i>Uncollected Balance June 30, 2010</i>
2009-2010	\$ 2,146,239	\$ -	\$ 57,811	\$ 1,991,256	\$ 97,172
2008-2009		106,153	(1,881)	51,191	56,843
2007-2008	-	30,363	(1,313)	13,174	18,502
2006-2007	-	11,328	(1,059)	6,706	5,681
2005-2006	-	4,204	(800)	4,133	871
2004-2005	-	535	(47)	187	395
2003-2004	-	275	(36)	122	189
Prior	-	1,636	(18)	82	1,572
Total	\$ 2,146,239	\$ 154,494	\$ 52,657	\$ 2,066,851	\$ 181,225

CITY OF INDEPENDENCE, OREGON
SCHEDULE OF LONG-TERM DEBT TRANSACTIONS
YEAR ENDED JUNE 30, 2010

	<u><i>Interest Rates</i></u>	<u><i>Date of Issue</i></u>	<u><i>Fiscal Year of Maturity</i></u>
PRINCIPAL TRANSACTIONS			
Governmental Obligations			
2003 GO Refunding Bonds	1.05 - 3.9%	2003	2013-14
SPWF Loan - Hoffman	3.0-5.0%	2003	2027-28
SPWF Loan - Library	3.0-5.0%	2003	2027-28
Oregon Economic Development Loan #1	1.66%	2005	2027-28
Oregon Economic Development Loan #2	6.00%	2008	Unspecified
Oregon Economic Development Loan #3	6.00%	2008	Unspecified
Community Incentive Fund Loan - Cinema	3.00%	2007	2010-11
2007 Urban Renewal Bonds	4.75%	2007	2021-22
2009 Bond Anticipation Note	5.00%	2009	2010
2010 Civic Center Bond	3%-5%	2010	2040
Capital Lease		2010	2015
Enterprise Obligations			
2000 Sewer Revenue Bonds	4.50%	2000	2039-40
2000 Sewer DEQ Loan	3.43%	2000	2018-19
1998 Water Refunding Bonds	3.7-5.1%	1998	2017-18
2004 Water Revenue Bonds	1.8-5.375%	2004	2024-25
Capital Lease		2010	2015

<i>Outstanding July 1, 2009</i>	<i>Issued</i>	<i>Paid</i>	<i>Outstanding June 30, 2010</i>
\$ 1,445,000	-	240,000	1,205,000
724,755	-	24,597	700,158
414,410	-	12,558	401,852
4,665,879	-	114,709	4,551,170
769,650	49,480	50,347	768,783
930,960	509,040	-	1,440,000
40,000	-	-	40,000
3,040,000	-	140,000	2,900,000
-	2,500,000	2,500,000	-
-	13,410,000	-	13,410,000
-	93,627	14,362	79,265
2,471,501	-	38,237	2,433,264
454,347	-	36,623	417,724
1,010,000	-	140,000	870,000
1,380,000	-	60,000	1,320,000
-	93,627	14,362	79,265
<u>\$ 17,346,502</u>	<u>\$ 16,655,774</u>	<u>\$ 3,385,795</u>	<u>\$ 30,616,481</u>

CITY OF INDEPENDENCE, OREGON
SCHEDULE OF LONG-TERM DEBT TRANSACTIONS (Continued)
YEAR ENDED JUNE 30, 2010

	<i>Interest Rates</i>	<i>Date of Issue</i>	<i>Unmatured Interest July 1, 2009</i>
INTEREST TRANSACTIONS			
Governmental Obligations			
2003 GO Refunding Bonds	1.05 - 3.9%	2003	\$ 169,425
SPWF Loan - Hoffman	3.0-5.0%	2003	384,059
SPWF Loan - Library	3.0-5.0%	2003	220,129
Oregon Economic Development Loan #1	1.66%	2005	3,706,341
Oregon Economic Development Loan #2	6.00%	2008	694,580
Oregon Economic Development Loan #3	6.00%	2008	-
Community Incentive Fund Loan - Cinema	3.00%	2007	4,800
2007 Urban Renewal Bonds	4.75%	2007	959,481
2010 Civic Center Bond	3.0-5.0%	2010	-
Capital Lease		2010	-
Enterprise Obligations			
2000 Sewer Revenue Bonds	4.50%	2000	2,160,451
2000 Sewer DEQ Loan	3.43%	2000	90,563
1998 Water Refunding Bonds	3.7-5.1%	1998	195,844
2004 Water Revenue Bonds	1.8-5.375%	2004	638,477
Capital Lease		2010	-
			<u>\$ 9,224,150</u>

<i>New Issues</i>	<i>Interest Paid</i>	<i>Unmatured Interest June30, 2010</i>
\$ -	\$ 52,296	\$ 117,129
-	34,868	349,191
-	19,941	200,188
-	259,617	3,446,724
-	19,311	675,269
-	-	-
-	1,200	3,600
-	128,090	831,391
12,312,525	-	12,312,525
11,914	3,229	8,685
-	111,324	2,049,127
-	15,273	75,290
-	46,326	149,518
-	66,207	572,270
11,914	3,229	8,685
<u>\$ 12,336,353</u>	<u>\$ 760,911</u>	<u>\$ 20,799,592</u>

CITY OF INDEPENDENCE, OREGON
SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE
JUNE 30, 2010

Fiscal Year Ending June 30,	2003 Refunding Bonds			SPWF Loan - Hoffman Road		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 270,000	\$ 44,496	\$ 314,496	\$ 29,785	\$ 33,860	\$ 63,645
2012	290,000	35,046	325,046	29,989	32,594	62,583
2013	310,000	24,606	334,606	30,206	31,289	61,495
2014	335,000	12,981	347,981	30,437	29,945	60,382
2015	-	-	-	30,685	28,560	59,245
2016	-	-	-	35,949	27,134	63,083
2017	-	-	-	36,232	25,426	61,658
2018	-	-	-	36,528	23,705	60,233
2019	-	-	-	41,844	21,933	63,777
2020	-	-	-	42,180	19,883	62,063
2021	-	-	-	42,532	17,816	60,348
2022	-	-	-	47,908	15,690	63,598
2023	-	-	-	48,304	13,294	61,598
2024	-	-	-	48,719	10,879	59,598
2025	-	-	-	54,155	8,443	62,598
2026	-	-	-	54,612	5,735	60,347
2027	-	-	-	60,093	3,005	63,098
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
Unspecified	-	-	-	-	-	-
	<u>\$ 1,205,000</u>	<u>\$ 117,129</u>	<u>\$ 1,322,129</u>	<u>\$ 700,158</u>	<u>\$ 349,191</u>	<u>\$ 1,049,349</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)****JUNE 30, 2010**

Fiscal Year Ending June 30,	2007 Urban Renewal Bonds			OECD D MINet Loan		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 190,000	\$ 121,525	\$ 311,525	\$ 120,933	\$ 253,739	\$ 374,672
2012	200,000	113,675	313,675	127,235	247,541	374,776
2013	205,000	105,423	310,423	138,624	240,988	379,612
2014	215,000	96,759	311,759	145,104	233,849	378,953
2015	225,000	87,573	312,573	156,709	226,231	382,940
2016	235,000	77,854	312,854	168,451	217,808	386,259
2017	245,000	67,593	312,593	175,306	208,754	384,060
2018	255,000	56,588	311,588	156,612	199,331	355,943
2019	265,000	44,888	309,888	163,036	190,952	353,988
2020	275,000	32,738	307,738	174,543	182,189	356,732
2021	290,000	20,025	310,025	181,168	172,589	353,757
2022	300,000	6,750	306,750	192,882	162,625	355,507
2023	-	-	-	204,690	152,017	356,707
2024	-	-	-	216,650	140,452	357,102
2025	-	-	-	228,721	128,211	356,932
2026	-	-	-	240,909	115,288	356,197
2027	-	-	-	253,220	101,677	354,897
2028	-	-	-	265,662	87,370	353,032
2029	-	-	-	283,311	71,961	355,272
2030	-	-	-	301,113	55,529	356,642
2031	-	-	-	319,077	38,065	357,142
2032	-	-	-	337,214	19,557	356,772
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
Unspecified	-	-	-	-	-	-
	<u>\$ 2,900,000</u>	<u>\$ 831,391</u>	<u>\$ 3,731,391</u>	<u>\$ 4,551,170</u>	<u>\$ 3,446,723</u>	<u>\$ 7,997,894</u>

OECD D MINet Loan 2			OECD D MINet Loan 3		
Principal	Interest	Total	Principal	Interest	Total
\$ 17,758	\$ 51,900	\$ 69,658	\$ -	\$ -	\$ -
18,983	50,674	69,658	-	-	-
20,293	49,365	69,658	-	-	-
21,694	47,964	69,658	-	-	-
23,190	46,468	69,658	-	-	-
24,791	44,867	69,658	-	-	-
26,501	43,157	69,658	-	-	-
28,330	41,328	69,658	-	-	-
30,284	39,374	69,658	-	-	-
32,374	37,284	69,658	-	-	-
34,608	35,050	69,658	-	-	-
36,996	32,662	69,658	-	-	-
39,548	30,109	69,658	-	-	-
42,277	27,381	69,658	-	-	-
45,194	24,464	69,658	-	-	-
48,313	21,345	69,658	-	-	-
51,646	18,012	69,658	-	-	-
55,210	14,448	69,658	-	-	-
59,019	10,638	69,658	-	-	-
63,092	6,566	69,658	-	-	-
48,681	2,213	50,894	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,440,000	-	1,440,000
\$ 768,783	\$ 675,269	\$ 1,444,052	\$ 1,440,000	\$ -	\$ 1,440,000

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)****JUNE 30, 2010**

Fiscal Year Ending June 30,	2010 Civic Center Bond			Capital Lease		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ -	\$ 622,400	\$ 622,400	\$ 17,552	\$ 3,556	\$ 21,108
2012	-	622,400	622,400	18,448	2,660	21,108
2013	-	622,400	622,400	19,390	1,719	21,108
2014	295,000	622,400	917,400	20,379	729	21,108
2015	305,000	613,550	918,550	3,496	21	3,518
2016	315,000	604,400	919,400	-	-	-
2017	325,000	593,375	918,375	-	-	-
2018	335,000	582,000	917,000	-	-	-
2019	350,000	568,600	918,600	-	-	-
2020	365,000	554,600	919,600	-	-	-
2021	375,000	540,000	915,000	-	-	-
2022	390,000	525,000	915,000	-	-	-
2023	410,000	509,400	919,400	-	-	-
2024	425,000	493,000	918,000	-	-	-
2025	440,000	476,000	916,000	-	-	-
2026	465,000	454,000	919,000	-	-	-
2027	485,000	430,750	915,750	-	-	-
2028	510,000	406,500	916,500	-	-	-
2029	535,000	381,000	916,000	-	-	-
2030	565,000	354,250	919,250	-	-	-
2031	590,000	326,000	916,000	-	-	-
2032	620,000	296,500	916,500	-	-	-
2033	650,000	265,500	915,500	-	-	-
2034	685,000	233,000	918,000	-	-	-
2035	720,000	198,750	918,750	-	-	-
2036	755,000	162,750	917,750	-	-	-
2037	795,000	125,000	920,000	-	-	-
2038	830,000	85,250	915,250	-	-	-
2039	875,000	43,750	918,750	-	-	-
2040	-	-	-	-	-	-
Unspecified	-	-	-	-	-	-
	<u>\$13,410,000</u>	<u>\$12,312,525</u>	<u>\$25,722,525</u>	<u>\$ 79,265</u>	<u>\$ 8,685</u>	<u>\$ 87,950</u>

Total Governmental

Principal	Interest	Total
\$ 663,690	\$ 1,152,102	\$ 1,815,792
702,431	1,124,466	1,826,898
781,409	1,094,892	1,876,301
1,080,639	1,061,733	2,142,372
762,243	1,018,689	1,780,932
797,501	987,504	1,785,005
826,506	952,877	1,779,383
835,102	916,646	1,751,748
873,972	878,295	1,752,267
913,092	838,076	1,751,168
947,498	795,686	1,743,184
992,186	751,723	1,743,909
732,162	712,596	1,444,759
762,497	678,007	1,440,504
798,163	641,921	1,440,084
839,182	599,666	1,438,848
885,575	555,225	1,440,800
830,872	508,318	1,339,190
877,330	463,599	1,340,930
929,205	416,345	1,345,550
957,758	366,278	1,324,036
957,214	316,057	1,273,271
650,000	265,500	915,500
685,000	233,000	918,000
720,000	198,750	918,750
755,000	162,750	917,750
795,000	125,000	920,000
830,000	85,250	915,250
875,000	43,750	918,750
-	-	-
1,440,000	-	1,440,000
\$25,496,228	\$17,944,701	\$43,440,929

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)****JUNE 30, 2010**

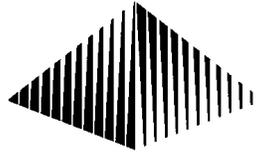
Fiscal Year Ending June 30,	2000 Sewer Revenue Bonds			Sewer DEQ Loan		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 39,958	\$ 109,603	\$ 149,561	\$ 37,890	\$ 14,006	\$ 51,896
2012	41,756	107,805	149,561	39,201	12,695	51,896
2013	43,635	105,926	149,561	40,557	11,339	51,896
2014	45,598	103,963	149,561	41,960	9,936	51,896
2015	47,650	101,911	149,561	43,411	8,485	51,896
2016	49,794	99,766	149,560	44,914	6,982	51,896
2017	52,035	97,526	149,561	46,467	5,429	51,896
2018	54,377	95,184	149,561	48,075	3,821	51,896
2019	56,824	92,737	149,561	49,737	2,159	51,896
2020	59,381	90,180	149,561	25,512	438	25,950
2021	62,053	87,508	149,561	-	-	-
2022	64,845	84,715	149,560	-	-	-
2023	67,763	81,797	149,560	-	-	-
2024	70,813	78,748	149,561	-	-	-
2025	73,999	75,562	149,561	-	-	-
2026	77,329	72,232	149,561	-	-	-
2027	80,809	68,752	149,561	-	-	-
2028	84,446	65,115	149,561	-	-	-
2029	88,246	61,315	149,561	-	-	-
2030	92,217	57,344	149,561	-	-	-
2031	96,366	53,194	149,560	-	-	-
2032	100,703	48,858	149,561	-	-	-
2033	105,234	44,326	149,560	-	-	-
2034	109,970	39,591	149,561	-	-	-
2035	114,919	34,642	149,561	-	-	-
2036	120,090	29,471	149,561	-	-	-
2037	125,494	24,067	149,561	-	-	-
2038	131,141	18,420	149,561	-	-	-
2039	137,043	12,518	149,561	-	-	-
2040	138,776	6,351	145,127	-	-	-
Unspecified	-	-	-	-	-	-
	<u>\$ 2,433,264</u>	<u>\$ 2,049,127</u>	<u>\$ 4,482,391</u>	<u>\$ 417,724</u>	<u>\$ 75,290</u>	<u>\$ 493,014</u>

CITY OF INDEPENDENCE, OREGON**SCHEDULE OF FUTURE DEBT REQUIREMENTS BY ISSUE (Continued)**

JUNE 30, 2010

Fiscal Year Ending June 30,	Capital Lease			Total Business-Type		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 17,552	\$ 3,556	\$ 21,108	\$ 300,400	\$ 230,764	\$ 531,164
2012	18,448	2,660	21,108	309,405	217,381	526,786
2013	19,390	1,719	21,108	278,582	204,379	482,961
2014	20,379	729	21,108	287,937	191,753	479,690
2015	3,496	21	3,518	284,557	178,734	463,291
2016	-	-	-	294,708	165,471	460,179
2017	-	-	-	308,502	151,332	459,834
2018	-	-	-	187,452	139,942	327,394
2019	-	-	-	196,561	131,458	328,019
2020	-	-	-	179,893	122,555	302,448
2021	-	-	-	162,053	114,383	276,436
2022	-	-	-	169,845	106,081	275,926
2023	-	-	-	177,763	97,385	275,148
2024	-	-	-	185,813	88,289	274,102
2025	-	-	-	193,999	78,787	272,786
2026	-	-	-	77,329	72,232	149,561
2027	-	-	-	80,809	68,752	149,561
2028	-	-	-	84,446	65,115	149,561
2029	-	-	-	88,246	61,315	149,561
2030	-	-	-	92,217	57,344	149,561
2031	-	-	-	96,366	53,194	149,560
2032	-	-	-	100,703	48,858	149,561
2033	-	-	-	105,234	44,326	149,560
2034	-	-	-	109,970	39,591	149,561
2035	-	-	-	114,919	34,642	149,561
2036	-	-	-	120,090	29,471	149,561
2037	-	-	-	125,494	24,067	149,561
2038	-	-	-	131,141	18,420	149,561
2039	-	-	-	137,043	12,518	149,561
2040	-	-	-	138,776	6,351	145,127
Unspecified	-	-	-	-	-	-
	<u>\$ 79,265</u>	<u>\$ 8,685</u>	<u>\$ 87,950</u>	<u>\$ 5,120,253</u>	<u>\$ 2,854,890</u>	<u>\$ 7,975,143</u>

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Council Members
City of Independence
240 Monmouth Street
Independence, Oregon 97351

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Independence, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 7, 2011. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider none of the deficiencies described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all deficiencies described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City of Independence, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties


CERTIFIED PUBLIC ACCOUNTANTS

February 7, 2011

PRIOR YEAR FINDINGS

2009-1: Depositing Taxes for Mid-month Draws

Criteria:

The IRS requires deposits of withheld taxes for draws.

Condition:

The City does not withhold taxes on mid-month draws.

Effect:

Taxes are not withheld or paid as required by IRS regulations.

Recommendation:

We recommend the City withhold and pay taxes on mid-month draws.

Response:

Management concurs with the recommendation.

Current Year Update:

As of September 2010, management has implemented policies to address this issue and mid-month draws are no longer allowed.

2009-2: Timeliness of Data Entry

Criteria:

Financial transactions should be entered in a timely manner.

Condition:

In some instances cash receipt information is not entered timely into the cash receipting module.

Effect:

Delay in entering data makes timely review and detection of errors more difficult.

Recommendation:

We recommend the City commit the resources necessary to enter data on a timely basis.

Response:

Management concurs with the recommendation and has been working towards bringing the data entry processes current.

CITY OF INDEPENDENCE, OREGON

SCHEDULE OF FINDINGS TO REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

(Continued)

YEAR ENDED JUNE 30, 2010

PRIOR YEAR FINDINGS *(continued)*

2009-2: Timeliness of Data Entry *(continued)*

Current Year Update:

Procedures were implemented in the current year to address this issue. Cash receipt information is now entered timely into the cash receipting module.

2009-3: Timeliness of Bank Reconciliations

Criteria:

Bank reconciliations should be performed in a timely manner.

Condition:

During the year some bank reconciliations were not performed timely.

Effect:

Bank reconciliations are an important control in preventing and detecting errors. Failure to perform them in a timely manner increases the risk that errors may not be prevented or detected.

Recommendation:

We recommend the City commit the resources necessary to reestablish bank reconciliations on a timely basis.

Response:

Management concurs with the recommendation and has been working towards bringing the financial processing and reconciliation processes current.

Current Year Update:

Procedures were implemented in the current year to address this issue. Bank reconciliations are now prepared timely.

CITY OF INDEPENDENCE, OREGON

SCHEDULE OF FINDINGS TO REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

(Continued)

YEAR ENDED JUNE 30, 2010

PRIOR YEAR FINDINGS *(Continued)*

2009-4: Reviewing Transactions and Recording Approval for Transactions

Criteria:

Transactions should be approved prior to payment and this approval for transactions should be documented.

Condition:

A number of transactions are not being reviewed or approved. Such transactions include:

- cell phone bills are not reviewed for personal calls
- invoices less than \$10,000 are not agreed to payments prior to mailing the payments
- check registers are not reviewed after they have been printed
- journal entries approval forms are sometimes incomplete and explanations of the purpose of the entry are sometimes cryptic or missing.
- the GL software is capable of generating a report of all journal entries posted, but this report is not being utilized
- A large number of transactions were reclassified subsequent to the initial posting. This indicates that either the initial review was ineffective, or there was confusion about how to properly classify the transaction.
- The integrity of the numerical sequence of checks is not being monitored.

Effect:

Failure to review transactions and document approval makes it more difficult to assess the validity and propriety of transactions.

Recommendation:

We recommend the City establish appropriate review procedures for the items listed above, and document performance of the review.

Response:

Management concurs with the recommendation and has been working towards bringing the financial processing and reconciliation processes current.

Current Year Update:

Improvements to procedures were implemented in the current year to address this issue. Financial processing and reconciliation procedures are being performed on a timelier basis.

CITY OF INDEPENDENCE, OREGON

SCHEDULE OF FINDINGS TO REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

(Continued)

YEAR ENDED JUNE 30, 2010

PRIOR YEAR FINDINGS *(Continued)*

2009-5: Cross-training for Employees

Criteria:

Adequate backup for job duties assures the ability to perform operation functions smoothly during times of employee absences.

Condition:

The City does not have adequate backup for some positions.

Effect:

Employee absence or termination could disrupt operations.

Recommendation:

We recommend the City commit the resources necessary to cross-train employees.

Response:

Management concurs with the recommendation.

Current Year Update:

This issue was not addressed in the current year. See current year finding 2010-5.

2009-6: Communication between Employees

Criteria:

Employees should be able to share information about the City's operations with each other. Such sharing is useful in building rapport and solving problems. It is also useful for avoiding actions in one department that adversely affect another department. This is especially true with software issues and changes.

Condition:

Employees are not always able to provide input to other employees when decisions are being made.

Effect:

The quality of decisions is diminished, and morale suffers.

Recommendation:

We recommend the City explore ways to solicit input from all affected employees when a decision is being considered.

CITY OF INDEPENDENCE, OREGON

SCHEDULE OF FINDINGS TO REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

(Continued)

YEAR ENDED JUNE 30, 2010

PRIOR YEAR FINDINGS *(Continued)*

2009-6: Communication between Employees (Continued)

Response:

Management concurs with the recommendation.

Current Year Update:

This issue was not addressed in the current year.

CURRENT YEAR FINDINGS

2010-1: Lack of Review of Employee Timesheets

Criteria:

Employee timesheets should be reviewed by an appropriate supervisor.

Condition:

City employees complete timesheets to record time worked and compensated absences used; however, these timesheets were not always reviewed and approved by an appropriate supervisor prior to payroll checks being prepared and issued. This may result in payroll checks being issued for time not actually worked, or use of compensated absences not being appropriately recorded.

Cause:

City procedures requiring supervisor review of timesheets have not been enforced.

Recommendation:

Timesheets for all City employees should be reviewed and approved by an appropriate supervisor prior to payroll checks being prepared.

Management Response:

The City concurs and has implemented procedures to ensure that all timesheets are approved.

2010-2: Timeliness of Audit Filing

Criteria:

The City's financial report should be filed with the Secretary of State by December 31st of each calendar year, unless an extension has been obtained.

Condition:

The City's financial report for the year ended June 30, 2010 was not filed timely.

CITY OF INDEPENDENCE, OREGON
SCHEDULE OF FINDINGS TO REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
(Continued)
YEAR ENDED JUNE 30, 2010

CURRENT YEAR FINDINGS *(Continued)*

2010-2: Timeliness of Audit Filing (continued)

Cause:

Due to late filing in prior years, the City's audit schedule fell behind to the point that the audit for the year ended June 30, 2010 could not be completed and filed on a timely basis.

Recommendation:

We recommend that the City maintain the audit schedule so as to ensure timely filing.

Management Response:

The City concurs and is now up-to-date with audit completions.

2010-3: Electronic Check Signing

Criteria:

The ability to perform electronic check signing should be regulated via IT control.

Condition:

The Accounts Payable Technician has the ability to change the dollar threshold in the system which designates which checks receive electronic signature.

Cause:

The electronic check signing function in the system has not been protected.

Recommendation:

We recommend that IT controls be implemented in the system to remove this ability.

Management Response:

The City concurs and will implement this recommendation.

2010-4: Utility Billing Account Reconciliation

Criteria:

The UB system should be reconciled to the GL on a regular basis.

Condition:

Reconciliations between the UB system and the GL are performed on a monthly basis; however, discrepancies identified during this process were not always investigated and resolved. Failure to do so could result in a greater risk of fraud or misstatement of the financial statements.

CURRENT YEAR FINDINGS *(Continued)*

2010-4: Utility Billing Account Reconciliation (continued)

Cause:

The City has not previously had reconciliation procedures in place for all necessary accounts.

Recommendation:

The UB system should be reconciled to the general ledger on a monthly basis, and any discrepancies identified during this process should be investigated and resolved in a timely manner.

Management Response:

The City concurs and will update its procedures to ensure that all material accounts are reconciled at year end.

2010-5: Lack of Cross-Training for Finance Department Duties

Criteria:

A second member of personnel should be cross-trained to perform all necessary duties.

Condition:

There are a number of duties within the City's Finance Department for which there is not currently adequate cross-training. This could result in an instance where such a duty may not be processed in a timely manner due to the absence of a given individual.

Cause:

Cross-training procedures have not been implemented.

Recommendation:

We recommend that a second member of personnel be cross-trained to perform all necessary duties.

Management Response:

The City concurs with this recommendation and is in the process of reorganizing Finance Department responsibilities. Such cross-training will be implemented during this process.

CURRENT YEAR FINDINGS (Continued)

2010-6: Lack of Review of Check Registers

Criteria:

Check registers should be reviewed for reasonableness prior to checks being printed.

Condition:

There is currently no supervisor review of check registers prior to checks being printed and issued.

Cause:

City processes have not implemented such a procedure.

Recommendation:

We recommend that all check registers be reviewed for reasonableness prior to checks being issued.

Management Response:

The City concurs and has implemented this recommendation. Beginning in December 2010, the Finance Director now reviews all check registers prior to check issuance.

2010-7: Lack of Review of Journal Entries

Criteria:

All journal entries should be reviewed by a second member of personnel.

Condition:

All journal entries are not being reviewed by a second member of personnel. In some instances, the same person will prepare and post an entry without any additional review.

Cause:

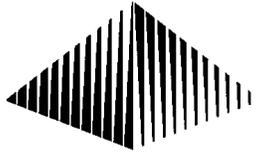
City procedures have not been enforced to ensure that such review is taking place.

Recommendation:

We recommend that all journal entries be reviewed by a second member of personnel.

Management Response:

The City concurs and will implement this recommendation. Beginning in February 2011, only one member of personnel will be authorized to prepare and post journal entries; additionally, all journal entries will be reviewed by the Finance Director.



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Mayor and City Council
City of Independence, Oregon
Independence, Oregon

We have audited the basic financial statements of the City of Independence, Oregon as of and for the year ended June 30, 2010, and have issued our report thereon dated February 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the City of Independence, Oregon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295).**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Highway revenues used for public highways, roads, and streets.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **Accountability for collecting or receiving money by elected officials - no money was collected or received by elected officials.**

In connection with our testing nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. Audited financial statements were not filed timely with the Oregon Secretary of State.
2. Over expenditures as disclosed in the notes to the financial statements.

3. Excess of actual revenues over actual expenditures in second preceding year did not equal the beginning balance in the first preceding year.
4. Transfers were not budgeted as requirements in other funds
5. The City reports on the cash basis of accounting. The current year budget was prepared on the modified accrual basis of accounting.

OAR 162-10-0230 Internal Control

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We issued a separate letter dated February 7, 2011 on significant deficiencies some of which we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of the City of Independence, Oregon and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Charles A. Swank, A Shareholder
February 7, 2011