

**FOUR NEW ISSUES
(Book Entry Only)**

**Ratings: S&P Ratings - All Series: "A+"
See "RATINGS" herein.**

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, the interest on the Series 2007A, Series 2007B Bonds and the Series 2007D Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes, except as described herein, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2007A Bonds, the Series 2007B Bonds and the Series 2007D Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. The interest on the Series 2007C Bonds is included in gross income for federal income tax purposes. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, stated interest on all four Series of Bonds is exempt from income taxation in the State of Missouri. See "TAX MATTERS" herein.

MISSOURI DEVELOPMENT FINANCE BOARD

\$19,390,000
Infrastructure Facilities Revenue Bonds
(City of Independence, Missouri –
Eastland Center Project)
Series 2007A

\$10,330,000
Infrastructure Facilities Revenue Bonds
(City of Independence, Missouri -
Hartman Heritage Centre Project)
Series 2007B

\$10,060,000
Taxable Infrastructure Facilities Revenue Bonds
(City of Independence, Missouri –
Santa Fe Redevelopment Project)
Series 2007C

\$995,000
Infrastructure Facilities Revenue Bonds
(City of Independence, Missouri -
Drumm Farm Project)
Series 2007D

Dated: All Series May 1, 2007

Due: See Inside Cover Pages

All four Series of Bonds (collectively, the "Bonds") are issuable only as fully registered bonds, without coupons, in the denomination of \$5,000 or any integral multiple thereof. Principal of and semiannual interest on the Bonds will be paid from moneys available therefore under the applicable Indenture (herein defined) by Commerce Bank, N.A., Kansas City, Missouri, as Trustee and Paying Agent. Principal of the Bonds will be due as shown on the inside cover page. Interest on the Bonds will be payable on each April 1 and October 1, beginning on October 1, 2007.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS-Redemption."

Payment of the principal of and interest on the Bonds is not secured by any deed of trust, mortgage or other lien on the applicable Project or any other facilities or property of the City. The Bonds are separately and independently secured.

The Bonds will be payable solely from, and will be secured by: (i) an assignment and a pledge of Loan Payments made by the City, pursuant to the applicable Financing Agreement between the Missouri Development Finance Board (the "Board") and the City of Independence, Missouri (the "City"); (ii) subject to the conditions described herein, certain Incremental Tax Revenues; and (iii) certain other funds held by the Trustee under the applicable Indenture. See **"SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS."**

THE BONDS ARE NOT AN INDEBTEDNESS OF BOARD, THE CITY, THE STATE OF MISSOURI OR ANY OTHER POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF MISSOURI. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWERS OF THE CITY, THE STATE OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE THE CITY, THE STATE OR ANY OTHER POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT, EXCEPT AS OTHERWISE DESCRIBED HEREIN. THE BOARD HAS NO TAXING POWER.

The Bonds are offered when, as and if issued by the Board and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approval of their validity by Gilmore & Bell, P.C., Kansas City, Missouri, Bond Counsel, as described herein. Certain legal matters will be passed on for the City by Allen Garner, City Counselor, Independence, Missouri, and for the Board by Gilmore & Bell, P.C., Kansas City, Missouri. It is expected that the Bonds will be available for delivery through DTC in New York, New York on or about May 30, 2007.

PiperJaffray®

The date of this Official Statement is May 21, 2007

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MISSOURI DEVELOPMENT FINANCE BOARD

Infrastructure Facilities Revenue Bonds

\$19,390,000

(City of Independence, Missouri - Eastland Center Project)

Series 2007A

Dated: May 1, 2007

Due: April 1 as shown below

Maturity Schedule

<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Offering</u> <u>Prices</u>	<u>CUSIP</u>
2008	\$1,205,000	5.00%	3.870%	100.915%	60636CVN6
2009	1,255,000	5.00	3.940	101.854	60636CVP1
2010	1,385,000	5.00	4.000	102.650	60636CVQ9
2011	1,455,000	5.00	4.060	103.302	60636CVR7
2012	1,325,000	5.00	4.110	103.861	60636CVS5
2013	860,000	4.00	4.210	98.918	60636CVT3
2014	930,000	4.125	4.280	99.084	60636CVU0
2015	1,010,000	4.250	4.340	99.402	60636CVV8
2016	1,100,000	5.00	4.410	104.273	60636CVW6
2017	1,195,000	5.00	4.450	104.336	60636CVX4
2018	1,310,000	5.00	4.500	103.932 c	60636CVY2
2019	1,425,000	5.00	4.540	103.610 c	60636CVZ9
2020	1,550,000	5.00	4.580	103.289 c	60636CWA3
2021	2,570,000	5.00	4.620	102.970 c	60636CWB1
2022	815,000	4.50	4.680	98.084	60636CWC9

c = Priced to the call date.

MISSOURI DEVELOPMENT FINANCE BOARD

Infrastructure Facilities Revenue Bonds

\$10,330,000

**(City of Independence, Missouri –
Hartman Heritage Centre Project)
Series 2007B**

Dated: May 1, 2007

Due: April 1 as shown below

Maturity Schedule

Serial Bonds

<u>Due April 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Offering Prices</u>	<u>CUSIP</u>
2008	\$555,000	4.00%	3.870%	100.101%	60636CWD7
2009	550,000	4.00	3.940	100.100	60636CWE5
2010	605,000	4.00	3.998	100.000	60636CWF2
2011	635,000	4.00	4.060	99.784	60636CWF0
2012	690,000	4.00	4.110	99.517	60636CWH8
2013	725,000	4.00	4.210	98.918	60636CWI4
2014	785,000	4.125	4.280	99.084	60636CWI1
2015	825,000	4.125	4.360	98.449	60636CWL9
2016	890,000	4.25	4.440	98.618	60636CWM7
2017	935,000	4.25	4.480	98.181	60636CWN5
2018	1,010,000	5.00	4.500	103.932 c	60636CWP0
2019	1,065,000	5.00	4.540	103.610 c	60636CWQ8
2020	1,060,000	5.00	4.580	103.289 c	60636CWR6

c = Priced to the call date.

MISSOURI DEVELOPMENT FINANCE BOARD

Taxable Infrastructure Facilities Revenue Bonds

\$10,060,000

**(City of Independence, Missouri -
Santa Fe Redevelopment Project)**

Series 2007C

Dated: May 1, 2007

Due: April 1 as shown below

Maturity Schedule

Serial Bonds

Due	Principal	Interest		Offering	
<u>April 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Prices</u>	<u>CUSIP</u>
2008	\$405,000	5.520%	5.510%	100%	60636CWS4
2009	385,000	5.450	5.445	100	60636CWT2
2010	405,000	5.410	5.407	100	60636CWU9
2011	425,000	5.420	5.418	100	60636CWV7
2012	450,000	5.465	5.463	100	60636CWW5
2013	475,000	5.515	5.513	100	60636CWX3
2014	500,000	5.646	5.644	100	60636CWY1
2015	530,000	5.696	5.695	100	60636CWZ8
2016	560,000	5.746	5.745	100	60636CXA2
2017	590,000	5.796	5.795	100	60636CXB0

Term Bonds

**\$5,335,000 Term Bonds due April 1, 2023, Interest Rate: 6.096%, Yield: 6.095%, Offering Price: 100%,
CUSIP: 60636CXH7**

MISSOURI DEVELOPMENT FINANCE BOARD

Infrastructure Facilities Revenue Bonds

\$995,000
(City of Independence, Missouri –
Drumm Farm Project)
Series 2007D

Dated: May 1, 2007

Due: April 1 as shown below

Maturity Schedule

Serial Bonds

<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Offering</u> <u>Prices</u>	<u>CUSIP</u>
2008	\$75,000	4.00%	3.930%	100.052%	60636CXJ3
2009	70,000	4.00	3.998	100.000	60636C XK0
2010	75,000	4.00	4.050	99.862	60636CXL8
2011	75,000	4.00	4.110	99.608	60636CXM6
2012	75,000	4.00	4.180	99.214	60636CXN4
2013	75,000	4.00	4.260	98.664	60636CXP9

Term Bonds

\$310,000 Term Bonds due April 1, 2017, Interest Rate: 4.25%, Yield: 4.530%, Offering Price: 97.792%,
CUSIP: 60636CXT1

\$240,000 Term Bonds due April 1, 2020, Interest Rate: 4.50%, Yield: 4.710%, Offering Price: 97.988%,
CUSIP: 60636CXW4

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Board, the City or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact. The information set forth herein has been obtained from the Board, the City and other sources believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Board or the Underwriter. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Board or the City since the date hereof.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of that information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE INDENTURES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY BOARD. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "anticipate," "projected," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE CITY NOR ANY OTHER PARTY PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES UPON WHICH SUCH STATEMENTS ARE BASED OCCUR.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
INTRODUCTORY STATEMENT 1	Selection by Trustee of Bonds to be Redeemed..... 26
Purpose of the Official Statement..... 1	Deposit of Redemption Price 26
The Board..... 1	Bonds Payable on Redemption Date..... 26
The City 1	Bonds Redeemed in Part 26
The Plan of Finance..... 2	Transfer Outside Book-Entry Only System 27
The Bonds 2	CUSIP Numbers 27
Additional Bonds 2	SECURITY AND SOURCES OF PAYMENT
Security for the Bonds..... 2	FOR THE BONDS 27
Annual Appropriation Covenant 3	General..... 27
Tax Increment Financing..... 3	Special, Limited Obligations..... 28
Bondowners' Risks 3	The Financing Agreements 28
Continuing Disclosure..... 4	City Annual Appropriation Obligation 28
Definitions and Summaries of Legal Documents..... 4	Tax Increment Financing 29
THE BOARD 4	Debt Service Reserve Fund..... 30
General..... 4	The Indentures..... 30
Organization and Membership 4	Additional Bonds..... 30
Other Indebtedness of the Board 5	BONDOWNERS' RISKS 31
THE CITY 6	General..... 31
PLAN OF FINANCE 6	Risk Factors Relating to the City's Obligations to Make Loan Payments..... 31
Eastland Center Refunding..... 6	Risk Factors Relating to the Collection of Incremental Tax Revenues..... 32
Hartman Heritage Centre Refunding 8	Loss of Premium Upon Early Redemption 33
Santa Fe Refunding 8	Determination of Taxability 33
Drumm Farm New Money 9	Enforcement of Remedies..... 33
Redevelopment Projects 9	Amendment of Indentures..... 34
Sources and Uses of Funds..... 10	LITIGATION 34
TAX INCREMENT FINANCING IN MISSOURI 10	The Board 34
Overview 10	The City 34
The TIF Act..... 11	VERIFICATION OF MATHEMATICAL COMPUTATIONS 34
Tax Increment Financing Litigation..... 12	LEGAL MATTERS 34
Assessment and Collection of Ad Valorem Taxes 12	TAX MATTERS 35
Collection of Economic Activity Tax Revenues..... 14	General..... 35
THE REDEVELOPMENT PROJECTS 15	Tax Exempt Bonds..... 35
Eastland Center Redevelopment Project 15	Taxable Bonds..... 37
Hartman Heritage Centre Redevelopment Project..... 16	Tax Matters Applicable to All Bonds 37
Santa Fe Redevelopment Project..... 17	RATINGS 38
Drumm Farm Redevelopment Project..... 18	FINANCIAL STATEMENTS 38
THE BONDS 19	CONTINUING DISCLOSURE 38
General Terms 19	UNDERWRITING 38
Book-Entry Only System 19	MISCELLANEOUS 39
Redemption 21	Appendix A: Information Concerning the City of Independence, Missouri
Series 2007A Bonds 21	Appendix B: Accountants' Report and Audited Financial Statements of the City of Independence, Missouri for Fiscal Year Ended June 30, 2006
Series 2007B Bonds 22	Appendix C: Definitions of Words and Terms and Summaries of Certain Legal Documents
Series 2007C Bonds 22	Appendix D: Form of Opinion of Bond Counsel
Series 2007D Bonds 23	
Redemption of Term Bonds 24	
Election to Redeem; Notice to Trustee..... 25	
Notice of Redemption 25	

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OFFICIAL STATEMENT

MISSOURI DEVELOPMENT FINANCE BOARD

\$19,390,000 Infrastructure Facilities Revenue Bonds (City of Independence, Missouri - Eastland Center Project) Series 2007A	\$10,330,000 Infrastructure Facilities Revenue Bonds (City of Independence, Missouri - Hartman Heritage Centre Project) Series 2007B
\$10,060,000 Taxable Infrastructure Facilities Revenue Bonds (City of Independence, Missouri - Santa Fe Redevelopment Project) Series 2007C	\$995,000 Infrastructure Facilities Revenue Bonds (City of Independence, Missouri - Drumm Farm Project) Series 2007D

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to more complete information contained elsewhere in this Official Statement. The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or relative importance, and this Official Statement, including the Cover Page and Appendices, must be considered in its entirety. All capitalized terms used in this Official Statement that are not otherwise defined herein shall have the meanings ascribed to them in Appendix C hereto.

Purpose of the Official Statement

This Official Statement, including the cover page and the Appendices, sets forth certain information in connection with (i) the issuance and sale by the Missouri Development Finance Board, a body corporate and politic of the State of Missouri (the "Board"), of the above-described four separate series of bonds (the "Bonds"), (ii) the Board, (iii) the City of Independence, Missouri (the "City") and (iv) the refinancing and financing of four separate projects as more fully described herein (the "Projects") with the proceeds of each Series of the Bonds. Each Series of the Bonds is separately secured as described herein.

The Board

The Board is a body corporate and politic duly created and existing under the laws of the State of Missouri, including particularly the Missouri Development Finance Board Act, Sections 100.250 to 100.297, inclusive, of the Revised Statutes of Missouri, as amended (the "Act").

The City

The City of Independence, Missouri (the "City") is a constitutional charter city and political subdivision of the State of Missouri. See the caption "**THE CITY**" herein and "**APPENDIX A: INFORMATION CONCERNING THE CITY OF INDEPENDENCE, MISSOURI.**"

The Plan of Finance

The proceeds of each Series of the Bonds will be loaned to the City pursuant to four separate Financing Agreements, each dated as of May 1, 2007 (separately, a “Financing Agreement” or by Series, the Series 2007A Financing Agreement, the Series 2007B Financing Agreement, the Series 2007C Financing Agreement or the Series 2007D Financing Agreement) between the Board and the City. Series 2007A, Series 2007B and Series 2007C Bonds proceeds, together with money deposited in the debt service reserve funds for the issues being refunded, will be used to advance refund a portion (in the case Series 2007B Bonds) or all (in the case of the Series 2007A Bonds and the Series 2007C Bonds) of the bonds previously issued by the Board for the Eastland Center Project, the Hartman Heritage Centre Project and the Santa Fe Redevelopment Project. The Series 2007D Bonds will be used to reimburse or pay certain redevelopment costs relating to the Drumm Farm Redevelopment Project. The proceeds of each Series of Bonds will also be used to fund a separate Debt Service Reserve Fund for each Series of Bonds (other than the Series 2007D Bonds) and to pay the costs of issuing the Bonds, all as more fully described herein under the caption **“THE PLAN OF FINANCE.”** Each of the four Series of Bonds relate to a Tax Increment Financing Project previously approved by the City pursuant to the Tax Increment Financing Act (the “TIF Act”). Brief descriptions of the four projects: Eastland Center Project; the Hartman Heritage Centre Project; the Santa Fe Redevelopment Project; and the Drumm Farm Redevelopment Project are set forth under the caption **“THE REDEVELOPMENT PROJECTS.”**

The Bonds

The Bonds are being issued pursuant to the Act and four separate Bond Trust Indentures, each dated as of May 1, 2007 (each of said Bond Trust Indentures, together with all amendments and supplements thereto, being referred to herein as an “Indenture,” and by Series, the Series 2007A Indenture, the Series 2007B Indenture, the Series 2007C Indenture and the Series 2007D Indenture), all between the Board and Commerce Bank, N.A., Kansas City, Missouri (the “Trustee”), for the purpose of providing funds to make a loan to the City pursuant to the applicable Financing Agreement, in consideration of payments by the City, which will be sufficient to pay the principal of, premium, if any, and the interest on the Bonds, all as more fully described in the Financing Agreement and the Indenture relating to each Series of Bonds. A description of the Bonds is contained in this Official Statement under **“THE BONDS.”** All references to the Bonds are qualified in their entirety by the definitive forms thereof and the provisions with respect thereto included in the applicable Indenture and the applicable Financing Agreement. The Indenture and Financing Agreement relating to the Series 2007B Bonds will supplement and amend the original Indenture authorizing the Refunded Bonds and the related Financing Agreement. The Indenture and Financing Agreement relating to the Series 2007D Bonds will supplement and amend the original Indenture and Financing Agreement under which two prior series of bonds were issued to fund the Drumm Farm Redevelopment Project.

Additional Bonds

The Indenture relating to each Series of Bonds provides for the future issuance of additional bonds (“Additional Bonds”) which, if issued, would rank on a parity with the applicable Series of Bonds and any other bonds then outstanding under such Indenture issued on a parity with such Series of Bonds. See **“SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS – Additional Bonds”** and **“SUMMARY OF THE INDENTURE – Additional Bonds”** in *Appendix C* hereto.

Security for the Bonds

Each Series of the Bonds and the interest thereon are special, limited obligations of the Board, separately and independently secured, payable by the Board solely from (1) certain payments to be made by the City under the applicable Financing Agreement, (2) subject to the conditions described herein, certain Incremental Tax Revenues; and (iii) certain other funds held by the Trustee under the applicable Indenture, and not from any other fund or source of the Board, and are separately and independently secured under the applicable Indenture and the applicable Financing Agreement as described herein. Payments under each

Financing Agreement are designed to be sufficient, together with other funds available for such purpose, to pay when due the principal of, premium, if any, and interest on the Series of Bonds relating to such Financing Agreement. Except as noted herein, all payments by the City under each Financing Agreement are subject to annual appropriation. Pursuant to each Indenture, the Board will assign to the Trustee, for the benefit and security of the registered owners of the Bonds, substantially all of the rights of the Board in the applicable Financing Agreement, including all Loan Payments payable thereunder.

The Bonds are not an indebtedness of the Board, the City, the State of Missouri or any other political subdivision thereof within the meaning of any provision of the constitution or laws of the state of Missouri. Neither the full faith and credit nor the taxing powers of the City, the State or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The issuance of the bonds shall not, directly, indirectly or contingently, obligate the City, the State or any other political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment, except as otherwise described herein. The Board has no taxing power. See **“SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”** herein.

Annual Appropriation Covenant

Each Financing Agreement contains an annual appropriation covenant pursuant to which the City agrees to budget and appropriate sufficient moneys to pay all Loan Payments and reasonably estimated Additional Payments for the next succeeding fiscal year. If the City continues to appropriate such moneys, the City's obligations to make Loan Payments and Additional Payments will be payable from all general fund revenues of the City for that fiscal year. The taxing power of the City is not pledged to the payment of Loan Payments either as to principal or interest. See the caption **“SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS – Annual Appropriation Obligation of the City.”** The City's decision to budget and appropriate is a separate and independent decision for each Series of Bonds.

Tax Increment Financing

As more fully described herein, the City's obligation to make Loan Payments with respect to the Bonds under each Financing Agreement will, in addition to the annual appropriation covenant discussed in the preceding paragraph, be secured by Incremental Tax Revenues, a portion of which described herein as the Payment in Lieu of Taxes, are not subject to annual appropriation. The portion described herein as the Economic Activity Taxes are subject to annual appropriation by the City. Tax Increment Financing has been approved and is in effect with respect to each Project. The redevelopment agreement related to each project (collectively, the “Redevelopment Agreements”) provides for disbursements of Incremental Tax Revenues for purposes other than making payments related to the Bonds and Additional Bonds issued on a parity therewith. See **“THE REDEVELOPMENT PROJECTS”** herein.

Prospective investors should not rely upon the collection of Incremental Tax Revenues (PILOTS and EATS) as a source of repayment of the Bonds, but should instead evaluate the likelihood that the City will continue to appropriate moneys sufficient to make Loan Payments under each Financing Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Tax Increment Financing” herein.

Bondowners' Risks

Payment of the principal of and interest on the Bonds is primarily dependent upon the City's decision to continue to appropriate sufficient moneys to make Loan Payments under each Financing Agreement. See **“BONDOWNERS' RISKS”** for a discussion of certain risks. There are numerous risks associated with the collection of Incremental Tax Revenues. See **“BONDOWNERS' RISKS”** for a discussion of certain risks.

Continuing Disclosure

The City will execute Continuing Disclosure Agreements for the benefit of the owners of the Bonds to provide certain annual financial information and notices of the occurrence of certain material events. The information will include a description of the Incremental Tax Revenues deposited into each Project Special Allocation Fund. A summary of the Continuing Disclosure Agreements is attached to this Official Statement in *Appendix C*.

Definitions and Summaries of Legal Documents

Definitions of certain words and terms used in this Official Statement are set forth in *Appendix C* of this Official Statement. Summaries of each Indenture, each Financing Agreement and Continuing Disclosure Agreements are included in this Official Statement in *Appendix C* hereto. The Bonds of each Series are separately and independently secured. The Indentures, Financing Agreements and Continuing Disclosure Agreements for each Series of Bonds are substantially similar to the Indenture and Financing Agreement summarized in *Appendix C*, except as otherwise noted. Such definitions and summaries do not purport to be comprehensive or definitive. All references herein to the specified documents are qualified in their entirety by reference to the definitive forms of such documents, copies of which may be viewed at the principal corporate trust office of the Trustee, Commerce Bank, N.A., Corporate Trust Department, 922 Walnut, 10th Floor, Kansas City, Missouri 64106. Copies of such documents and the other documents described herein will be available at the offices of the Underwriter, Piper Jaffray & Co., at 11150 Overbrook Road, Suite 310, Leawood, Kansas 66211 during the period of the offering and, thereafter, at the principal corporate trust office of the Trustee.

THE BOARD

General

The issuer of the Bonds is the Missouri Development Finance Board (the "Board"), a body corporate and politic duly created and existing under the laws of the State of Missouri, including particularly the Missouri Development Finance Board Act, Sections 100.250 to 100.297, inclusive, of the Revised Statutes of Missouri, as amended (the "Act"). The Bonds will be authorized and issued by the Board under the provisions of the statutes of the State of Missouri, including the Act. Missouri law requires that the State shall not be liable in any event for the payment of the principal of or interest on any bonds of the Board or for the performance of any pledge, mortgage, obligation or agreement undertaken by the Board and no breach of any such pledge, mortgage, obligation or agreement may impose any pecuniary liability upon the State or any charge upon the general credit or taxing power of the State.

Organization and Membership

The Board was established pursuant to the Act in 1982 and consists of twelve members, eight of which are appointed by the Governor, with the advice and consent of the Senate. The Lieutenant Governor, the Director of the Department of Economic Development, the Director of the Department of Agriculture and the Director of the Department of Natural Resources serve as ex-officio, voting members of the Board. No more than five of the members may be of the same political party except for the Lieutenant Governor, the Director of the Department of Economic Development, the Director of the Department of Agriculture and the Director of the Department of Natural Resources. Appointed members serve terms of four years. Each member of the Board continues to serve until a successor has been duly appointed and qualified.

Robert V. Miserez serves as Executive Director of the Board.

As of the date hereof, the members of the Board and the terms of appointed members are as follows:

- ***Peter D. Kinder*** — Chairman. The Honorable Peter Kinder is the Lieutenant Governor of the State of Missouri.
- ***John D. Starr*** — Vice Chairman, term as a member expires September 14, 2007. Mr. Starr is Chief Executive Officer of KOCH Equipment LLC, a worldwide distributor and manufacturer for the meat and food industry located in Kansas City, Missouri.
- ***Larry D. Neff*** — Secretary, term as a member expires September 14, 2010. Mr. Neff is President of Larry Neff Management and Development in Neosho, Missouri.
- ***Nelson C. Grumney, Jr.*** — Treasurer, term as a member expires September 14, 2008. Mr. Grumney is President and Chief Executive Officer of Neland Investment Management, LLC in St. Louis, Missouri.
- ***James D. Hill*** — term as a member expires September 14, 2007. Mr. Hill is a representative for Concept Marketing in St. Louis, Missouri.
- ***Paul S. Lindsey*** — term as a member expired September 14, 2003. Mr. Lindsey is President of Alliance Energy LLC in Lebanon, Missouri.
- ***Richard J. Wilson*** — term as a member expires September 14, 2008. Mr. Wilson is Executive Vice President of Jefferson Bank of Missouri in Jefferson City, Missouri.
- ***L.B. Eckelkamp, Jr.*** — term as a member expires September 14, 2007. Mr. Eckelkamp is Chairman of the Board of Bank of Washington in Washington, Missouri.
- ***Danette D. Proctor*** — term as a member expires September 14, 2010. Ms. Proctor is co-owner of D-4 Investments, LLC in Springfield, Missouri.
- ***Gregory A. Steinhoff*** — ex-officio member. Mr. Steinhoff is the Director of the Department of Economic Development.
- ***Katie Smith*** — ex-officio member. Ms. Smith is the Director of the Department of Agriculture.
- ***Doyle Childers*** — ex-officio member. Mr. Childers is the Director of the Department of Natural Resources.

Other Indebtedness of the Board

The Board has sold and delivered other bonds and notes secured by instruments separate and apart from, and not secured by, the Indentures securing the Bonds. The holders and owners of such bonds and notes have no claim on assets, funds or revenues of the Board pledged under the Indentures, and the owners of the Bonds will have no claim on assets, funds or revenues of the Board securing other bonds and notes. The Board has never defaulted on any of its bonds or notes.

With respect to additional indebtedness of the Board, the Board intends to enter into separate agreements for the purpose of providing financing for other eligible projects and programs. Issues that may be sold by the Board in the future will be created under separate and distinct indentures or resolutions and secured by instruments, properties and revenues separate from those securing the Bonds.

EXCEPT FOR INFORMATION CONCERNING THE BOARD IN THE SECTIONS OF THIS OFFICIAL STATEMENT CAPTIONED “**THE BOARD**” AND “**LITIGATION – THE BOARD**,” NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOARD AND THE BOARD MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE CITY

Incorporated in 1849, the City of Independence, Missouri (the “City”) is the county seat of Jackson County, Missouri and adjoins Kansas City, Missouri to the west. The City is the fourth largest city in Missouri. The City is organized under the laws of the State of Missouri and operates under a Constitutional Charter approved by the voters in October 1961. The City is governed according to a Council-Manager Plan. The City Council, which consists of seven members, including the Mayor, is the legislative governing body of the City. Non-partisan elections are held every two years to provide for staggered terms of office. The Mayor and two at-large council members are elected to four-year terms and, in alternating elections, the four district council members are elected to four-year terms. Certain information describing the City is attached hereto in *Appendix A*.

PLAN OF FINANCE

The proceeds of the Bonds will be used to advance refund bonds previously issued by the Board and to reimburse or pay the costs of certain redevelopment costs relating to the Drumm Farm Redevelopment Project.

Eastland Center Refunding

The proceeds of the Series 2007A Bonds will be loaned by the Board to the City pursuant to the Series 2007A Financing Agreement and used by the City to refund all of the outstanding Infrastructure Facilities Revenue Bonds (Eastland Center Project Phase I), Series 2000A (the “Eastland Series 2000A Refunded Bonds”); Infrastructure Facilities Revenue Bonds (Eastland Center Project Phase II), Series 2000B (the “Eastland Series 2000B Refunded Bonds”); Infrastructure Facilities Revenue Bonds (Eastland Center Project Phase III), Series 2001 (the “Eastland Series 2001 Refunded Bonds”); and Infrastructure Facilities Revenue Bonds (Eastland Center Project Phase IV), Series 2002 (the “Eastland Series 2002 Refunded Bonds”), and, collectively, the “Eastland Series 2007A Refunded Bonds.”

Set forth below is a description of the Eastland Series 2000A Refunded Bonds:

Dated	Maturity	Principal	Interest	CUSIP	Redemption	Redemption
<u>Date</u>	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Number</u>	<u>Date</u>	<u>Price</u>
5/1/2000	4/1/08*	\$520,000	5.75%	60636CDU0	4/1/08	100%
5/1/2000	4/1/09*	570,000	5.75%	60636CDU0	4/1/09	100
5/1/2000	4/1/10	200,000	5.80%	60636CDV8	4/1/09	100
5/1/2000	4/1/12	1,920,000	5.75%	60636CDX4	4/1/09	100

*Sinking fund redemptions of term bond with 4/1/09 maturity

Set forth below is a description of the Eastland Series 2000B Refunded Bonds:

<u>Dated</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
11/1/2000	4/1/08	\$350,000	6.000%	60636CEQ8	4/1/08	100%
11/1/2000	4/1/15	3,870,000	6.000	60636CEV7	4/1/09	100
11/1/2000	4/1/17	1,785,000	5.875	60636CEW5	4/1/09	100
11/1/2000	4/1/21	5,735,000	6.000	60636CEX3	4/1/09	100

Set forth below is a description of the Eastland Series 2001 Refunded Bonds:

<u>Dated</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
11/1/2001	4/1/08	45,000	4.000%	60636CGT0	4/1/08	100%
11/1/2001	4/1/09	50,000	4.000	60636CGU7	4/1/09	100
11/1/2001	4/1/10	55,000	4.100	60636CGV5	4/1/10	100
11/1/2001	4/1/11	\$60,000	4.200	60636CGW3	4/1/10	100
11/1/2001	4/1/16	380,000	4.875	60636CHB8	4/1/10	100
11/1/2001	4/1/21	650,000	5.250	60636CHG7	4/1/10	100

Set forth below is a description of the Eastland Series 2002 Refunded Bonds:

<u>Dated</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
11/1/2002	4/1/08	\$150,000	3.500%	60636CHY8	4/1/08	100%
11/1/2002	4/1/09	150,000	3.625	60636CHZ5	4/1/09	100
11/1/2002	4/1/10	150,000	3.875	60636CJA8	4/1/10	100
11/1/2002	4/1/11	150,000	4.000	60636CJB6	4/1/11	100
11/1/2002	4/1/12	150,000	4.100	60636CJC4	4/1/12	100
11/1/2002	4/1/17	730,000	4.750	60636CJH3	4/1/12	100
11/1/2002	4/1/22	1,560,000	5.125	60636CJN0	4/1/12	100

To effect the refunding, the City will transfer \$17,521,920.90 of the proceeds of the Series 2007A Bonds, together with \$2,331,500 from debt service reserve funds established for the Eastland Series 2007A Refunded Bonds, to Commerce Bank, N.A., as escrow agent (the "Escrow Agent"), for deposit in the Escrow Fund established under an Escrow Trust Agreement dated May 1, 2007 (the "Series 2007A Escrow Trust Agreement"), between the City, the Board and the Escrow Agent. The moneys deposited in the Escrow Fund will be used to purchase direct non-callable obligations of the United States of America (the "Escrowed Securities") maturing in such amounts and at such times as shall be sufficient, together with the interest to accrue thereon, to pay the principal and interest on the Eastland Series 2007A Refunded Bonds through and including the redemption dates shown above.

The issuance of the Series 2007A Bonds will result in a reduction of the debt service on the bonds issued for the Eastland Center Redevelopment Project. Following their issuance, the Series 2007A Bonds will be the only outstanding bonds secured by Incremental Tax Revenues relating to the Eastland Center Redevelopment Project. See **"THE REDEVELOPMENT PROJECTS - Eastland Center Redevelopment Project - Eastland Center Tax Increment Revenues."**

Hartman Heritage Centre Refunding

The proceeds of the Series 2007B Bonds will be loaned by the Board to the City pursuant to the Series 2007B Financing Agreement and used by the City to refund all of the outstanding Infrastructure Facilities Revenue Bonds (Hartman Heritage Centre Project), Series 2000A (the "Hartman Heritage Series 2000A Refunded Bonds").

Set forth below is a description of the Hartman Heritage Series 2000A Refunded Bonds:

<u>Dated Date</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
4/1/2000	4/1/08	\$450,000	5.150%	60636CCJ6	4/1/08	100%
4/1/2000	4/1/09	475,000	5.200	60636CCK3	4/1/09	100
4/1/2000	4/1/12	1,725,000	5.550	60636CCN7	4/1/09	100
4/1/2000	4/1/20	7,325,000	5.875	60636CCW7	4/1/09	100

To effect the refunding, the City will transfer \$9,112,890.21 of the proceeds of the Series 2007B Bonds, together with \$1,183,588.27 from the debt service reserve fund established for the Hartman Heritage Series 2000A Refunded Bonds, to Commerce Bank, N.A., as escrow agent (the "Escrow Agent"), for deposit in the Escrow Fund established under an Escrow Trust Agreement dated May 1, 2007 (the "Series 2007B Escrow Trust Agreement"), between the City and the Escrow Agent. The moneys deposited in the Escrow Fund will be used to purchase direct non-callable obligations of the United States of America (the "Escrowed Securities") maturing in such amounts and at such times as shall be sufficient, together with the interest to accrue thereon, to pay the principal and interest on the Hartman Heritage Series 2000A Refunded Bonds through and including the redemption dates shown above.

The issuance of the Series 2007B Bonds will result in a reduction of the debt service on the bonds issued for the Hartman Heritage Centre Redevelopment Project. Following the issuance of the Series 2007B Bonds the total principal amount of bonds issued for the Hartman Heritage Centre Redevelopment Project and secured by Incremental Tax Revenues relating to the Hartman Heritage Centre Redevelopment Project will be \$18,335,000. See **"THE REDEVELOPMENT PROJECTS - Hartman Heritage Centre Redevelopment Project - Hartman Heritage Centre Tax Increment Revenues."**

Santa Fe Refunding

The proceeds of the Series 2007C Bonds will be loaned by the Board to the City pursuant to the Series 2007C Financing Agreement and used by the City to refund all outstanding Infrastructure Facilities Revenue Bonds (Santa Fe Development Project), Series 2001 (the "Santa Fe Series 2001 Refunded Bonds").

Set forth below is a description of the Santa Fe Series 2001 Refunded Bonds:

<u>Dated Date</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Maturity or Redemption Date</u>	<u>Redemption Price</u>
8/1/2001	4/1/08	\$255,000	4.375%	60636CFE4	4/1/08	100%
8/1/2001	4/1/09	285,000	4.30	60636CFF1	4/1/09	100
8/1/2001	4/1/10	320,000	4.40	60636CFG9	4/1/10	100
8/1/2001	4/1/13	1,135,000	5.50	60636CFK0	4/1/11	100
8/1/2001	4/1/23	7,645,000	5.25	60636CFP9	4/1/11	100

To effect the refunding, the City will transfer \$8,858,139.87 of the proceeds of the Series 2007C Bonds together with \$1,023,000 from the debt service reserve fund established for the Santa Fe Series 2001 Refunded Bonds to Commerce Bank, N.A., as escrow agent (the "Escrow Agent"), for deposit in the Escrow Fund established under an Escrow Trust Agreement dated May 1, 2007 (the "Series 2007C Escrow Trust Agreement"), between the City and the Escrow Agent. The moneys deposited in the Escrow Fund will be used to purchase direct non-callable obligations of the United States of America (the "Escrowed Securities") maturing in such amounts and at such times as shall be sufficient, together with the interest to accrue thereon, to pay the principal and interest on the Santa Fe Series 2001 Refunded Bonds through and including the redemption dates shown above.

The issuance of the Series 2007C Bonds will result in an increase in the debt service on the bonds issued for the Santa Fe Redevelopment Project. However, the refunding of the Santa Fe Redevelopment Series 2001 Refunded Bonds will allow the City to enter agreements to be reimbursed by the Developer. See **"THE REDEVELOPMENT PROJECTS - Santa Fe Redevelopment Project - Santa Fe Tax Increment Revenues."**

Drumm Farm New Money

The proceeds of the Series 2007D Bonds will be used to pay or reimburse the payment of certain redevelopment project costs of the Drumm Farm Project.

The Board, at the request of the City, has previously issued two series of Bonds for the payment of redevelopment project costs of the Drumm Farm Project. The first series was issued by the Board in March of 2005 in the aggregate principal amount of \$1,030,000, of which \$925,000 is currently outstanding (the "Series 2005 Drumm Farm Bonds"). The second series was issued by the Board in May of 2006 in the aggregate principal amount of \$1,590,000, of which \$1,520,000 is currently outstanding (the "Series 2006 Drumm Farm Bonds"). The City expects to issue Additional Bonds to finance other redevelopment project costs relating to the Drumm Farm Project. See the caption **"THE REDEVELOPMENT PROJECTS - Drumm Farm Project"** herein.

Redevelopment Projects

The Plan of Finance involves refinancing three separate redevelopment projects and providing new money for the Drumm Farm Redevelopment Project. All of these Redevelopment Projects have been previously approved by the City. Each of those projects is separately described under the caption **"THE REDEVELOPMENT PROJECTS."**

Sources and Uses of Funds

Sources of Funds:

	<u>Series 2007A</u>	<u>Series 2007B</u>	<u>Series 2007C</u>	<u>Series 2007D</u>
Principal amount of the Bonds	\$19,390,000.00	\$10,330,000.00	\$10,060,000.00	\$995,000.00
Accrued Interest	75,811.83	36,340.63	47,454.24	3,365.21
Transfer from Refunded Bond Debt	2,331,500.00	1,183,588.27	1,023,000.00	
Service Reserve Funds				
Net Reoffering Premium/(Net Original Issue Discount)	<u>459,797.50</u>	<u>52,291.05</u>	<u> </u>	<u>(13,623.60)</u>
Total sources of funds	<u>\$22,257,109.33</u>	<u>\$11,602,219.95</u>	<u>\$11,130,454.24</u>	<u>\$984,741.61</u>

Uses of Funds:

	<u>Series 2007A</u>	<u>Series 2007B</u>	<u>Series 2007C</u>	<u>Series 2007D</u>
Deposit to the Escrow Fund	19,853,420.90	\$10,296,478.48	\$ 9,881,139.87	n/a
Deposit to Project Fund				\$923,981.23
Deposit to the Debt Service Reserve Fund	1,939,000.00	1,033,000.00	953,606.40	
Deposit to the Debt Service Fund	75,811.83	36,340.63	47,454.24	3,365.21
Costs of issuance for the Bonds*	<u>388,876.60</u>	<u>236,400.84</u>	<u>248,253.73</u>	<u>57,395.17</u>
Total uses of Funds:	<u>\$22,257,109.33</u>	<u>\$11,602,219.95</u>	<u>\$11,130,454.24</u>	<u>\$984,741.61</u>

*Includes Underwriter's Discount.

TAX INCREMENT FINANCING IN MISSOURI

The following description of Tax Increment Financing in Missouri applies to the Incremental Tax Revenues. Incremental Tax Revenues from each Project are pledged (subject to annual appropriation with respect to the pledge of EATS) to secure each Series of Bonds. The obligation of the City to make Loan Payments under each Financing Agreement is also secured by the annual appropriation obligation of the City as described herein under the caption "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS – Annual Appropriation Obligation of the City."

Each Series of Bonds is separately and independently secured. No owner of Bonds has any claim on the Incremental Tax Revenues pledged to another Series of Bonds.

Overview

Tax increment financing is an economic development tool whereby cities and counties encourage the redevelopment of designated areas. The theory of tax increment financing is that, by encouraging redevelopment projects, the value of real property in a redevelopment area should increase and, if the redevelopment project includes establishments that pay sales and other economic activity taxes, the amounts of economic activity taxes generated by the redevelopment area should also increase.

When tax increment financing is adopted for a redevelopment area, the assessed value of real property in the redevelopment area is frozen for tax purposes at the current base level prior to the construction of improvements. The owners of the property continue to pay property taxes at the base level. As the property is improved, the assessed value of real property in the redevelopment area should increase above the base level. By applying the tax rate of all taxing districts having taxing power within the redevelopment area to the increase in assessed valuation of the improved property over the base level, a "tax increment" is produced. The annual tax increments (referred to as "Payments in Lieu of Taxes" or "Pilots") are paid by the owners of

property in the same manner as regular property taxes. The payments in lieu of taxes are transferred by the collecting agency to the treasurer of the city or county and deposited in the Pilots Account of a “special allocation fund.” Similarly, an amount (referred to as “Economic Activity Tax Revenues” or “EATS”) attributable to 50% of the increase in tax revenues generated by economic activities within each of the Redevelopment Areas (including sales and utilities taxes, but excluding personal property taxes, taxes imposed on sales or charges for sleeping rooms paid by transient guests of hotels and motels, licenses, fees or special assessments, other than payments in lieu of taxes, sales taxes levied pursuant to Section 70.500 RSMo and taxes levied for the purpose of public transportation pursuant to Section 94.660 RSMo) over the amount of such taxes generated by economic activities within each of the Redevelopment Areas in the calendar year prior to the adoption of tax increment financing for each Redevelopment Area by the City are transferred by the collecting agency to the treasurer of the city or county and deposited in an economic activity tax account of such special allocation fund. Tax increment financing for the Drumm Farm Redevelopment Project was adopted in 1999, and was adopted for each of the other Redevelopment Projects in 2000. All or a portion of the moneys in the special allocation fund are used to pay redevelopment project costs or to retire bonds or other obligations issued to pay such costs. A separate special allocation fund has been established for each of the Santa Fe, Hartman Heritage, Drumm Farm and Eastland Redevelopment Projects. A separate redevelopment area has also been established for each of the Redevelopment Projects (collectively, the “Redevelopment Areas”).

The TIF Act

The TIF Act was enacted in 1982 and has been amended several times in subsequent years. The constitutional validity of the TIF Act (prior to the amendments) was upheld by the Missouri Supreme Court in *Tax Increment Financing Commission of Kansas City, Missouri v. J.E. Dunn Construction Co., Inc.*, 781 S.W.2d 70 (Mo. 1989). The TIF Act authorizes cities and counties to provide long-term financing for redevelopment projects in “blighted,” “conservation” and “economic development” areas (as defined in the TIF Act) through the issuance of bonds and other obligations. Prior to the amendments to the TIF Act, such obligations were payable solely from Payments in Lieu of Taxes derived from the redevelopment area. As a result of amendments to the TIF Act, such obligations are also payable from economic activity tax revenues derived from the redevelopment area, except those economic activity tax revenues expressly excluded in the TIF Act. The validity of certain portions of amendments to the TIF Act relating to the capture of economic activity tax revenues was upheld by the Missouri Supreme Court in *County of Jefferson v. QuikTrip Corporation*, 912 S.W.2d 487 (Mo. 1995).

Amendments to the TIF Act have been proposed in each legislative session during recent years. In connection with proposed amendments to the TIF Act that may be introduced in future legislative sessions, it is not possible to predict the nature of such proposed amendments or whether such proposed amendments to the TIF Act will become law during future sessions of the General Assembly.

Although Payments in Lieu of Taxes may be irrevocably pledged to the repayment of bonds, Economic Activity Tax Revenues are subject to annual appropriation by the governing body of the city, and there is no obligation on the part of the governing body to appropriate Economic Activity Tax Revenues in any year. See the captions **“BONDOWNERS’ RISKS – Risk Factors Relating to the Collection of Incremental Tax Revenues - Risk of Non-Appropriation of Economic Activity Taxes”** herein.

Tax Increment Financing Litigation

From time to time cases are filed in a Missouri court challenging certain aspects of the TIF Act. Circuit courts in Missouri are trial courts and decisions in those courts are not binding on other Missouri courts. Circuit court decisions, whether favorable or unfavorable with respect to the constitutionality and application of the TIF Act, may be appealed to a Missouri Court of Appeals, and, ultimately, the Missouri Supreme Court. If the plaintiffs are successful in one or more of the currently pending cases, the court's decision may interpret the requirements of the TIF Act in a manner adverse to the establishment of tax increment financing for the Redevelopment Project Areas. It is not possible to predict whether an adverse holding in any current or future litigation would prompt a challenge to the adoption of tax increment financing in the Redevelopment Project Areas. If current or future litigation challenging all or any part of the TIF Act were to be applied to the adoption of tax increment financing in the Redevelopment Areas, Economic Activity Taxes and Payments in Lieu of Taxes may not be available to pay principal of and interest on the Bonds and the enforceability of the Indentures could be adversely affected. Neither the Board, the City nor any other party involved in the issuance and sale of the Bonds can predict or guarantee the outcome of any currently pending or future litigation challenging the constitutionality or the application of the TIF Act or the application by a court of a potential holding in any case to other tax increment projects.

Assessment and Collection of Ad Valorem Taxes

General. The City and the Redevelopment Areas are located within Jackson County, Missouri (the "County"). On or before September 1 in each year, each political subdivision located within the County which imposes ad valorem taxes (the "Taxing Districts") is required to estimate the amount of taxes that will be required during the next succeeding fiscal year to pay interest falling due on general obligation bonds issued and the principal of bonds maturing in such year and the costs of operation and maintenance plus such amounts as shall be required to cover emergencies and anticipated tax delinquencies. The Taxing Districts certify the amount of such taxes which shall be levied, assessed and collected on all taxable tangible property in the County to the County Assessor by September 1. All taxes levied must be based upon the assessed valuation of land and other taxable tangible property in the County as shall be determined by the records of the County Assessor and must be collected and remitted to the Taxing Districts. All the laws, rights and remedies provided by the laws of the State for the collection of State, county, city, school and other ad valorem taxes are applicable to the collection of taxes authorized to be collected in the Redevelopment Areas.

The Missouri Constitution requires uniformity in taxation of real property by directing such property to be subclassed as agricultural, residential or commercial and permitting different assessment ratios for each subclass. Agricultural real property is currently assessed at 12% of true value in money, residential property is currently assessed at 19% of true value in money and commercial, industrial and all other real property is assessed at 32% of true value in money. The phrase "true value in money" has been held to mean "fair market value" except with respect to agricultural property.

Real property within the County is assessed by the County Assessor. The County Assessor is responsible for preparing the tax roll each year and for submitting the tax roll to the Board of Equalization. The Board of Equalization has the authority to question and determine the proper values of real property and then adjust and equalize individual properties appearing on the tax rolls. The County Collector collects taxes for all Taxing Districts within the County limits. The County Collector deducts a commission for its services. After such collections and deductions of commission, taxes are distributed according to the Taxing District's pro rata share.

Taxes are levied on all taxable property based on the equalized assessed value thereof determined as of January 1 in each year. Under Missouri law, each property must be reassessed every two years (in odd numbered years). The County Collector prepares the tax bills and mails them to each taxpayer in September. Payment is due by December 31, after which taxes become delinquent and accrue a penalty of one percent per

month. In the event of an increase in the assessed value of a property, notice of such increase must be given to the owner of the affected property, which notice is generally given in March.

Valuation of Real Property. The County Assessor must determine the assessed value of a property based upon the State law requirement that property be valued at its true value in money. For agricultural land, true value is based on its productive capability. As to residential and commercial property, true value in money is the fair market value of the property on the valuation date. The fair market value is arrived at by using the three universally recognized approaches to value: cost approach, the sales comparison approach and the income approach.

The cost approach is typically applied when a property is newly constructed and is based on the principle of substitution. This principle states that no informed buyer will pay more for a property than the cost to reproduce or replace the property. Value is determined under the cost approach by adding the estimated land value to the replacement or reproduction cost reduced by estimated depreciation. Courts have held however, that construction cost alone is not a proper basis for determining true value in money and that all factors which affect the use and utility of the property must be considered.

The sales comparison approach determines value based upon recent sales prices of comparable properties. Comparable sales are adjusted for differences in properties by comparing such items as sales price per square foot and net operating income capitalization rates.

The income approach estimates market value by discounting to present value a stream of estimated net operating income. First, the property's gross potential income is estimated based on gross rents being generated at the property. A vacancy allowance is then deducted to arrive at effective gross income. Next, allowable operating expenses are deducted to arrive at an estimate of the property's net operating income. Finally, the net operating income is divided by an appropriate capitalization rate to arrive at the estimated present value of the income stream.

Certain properties, such as those used for charitable, educational, and religious purposes, are excluded from both the real estate ad valorem tax and personal property tax. In addition, pursuant to various State statutes, the City and other public entities may grant real estate tax abatement, under certain conditions, to businesses building or rehabilitating property within their boundaries.

Appeal of Assessment. State statutes establish various mechanisms for a property owner to appeal the assessment of a tax on its property. Typically, there are four issues that can be raised in property tax appeals: overvaluation, uniformity, misclassification and exemption. Overvaluation appeals are the most common appeals presented by taxpayers. An overvaluation appeal requires the taxpayer to prove that the true value in money of the property is less than that determined by the assessor. Uniformity appeals are based on the assertion that other property in the same class and county as the subject property is assessed at a lower percentage of value than the subject property. A misclassification appeal is based on an assertion that assessing authorities have improperly subclassified a property. Exemption appeals are based on claims that the property in question is exempt from taxation.

Overvaluation appeals generally must be made administratively, first to the Board of Equalization and then to the State Tax Commission, within prescribed time periods following notice of an increase in assessment. Appeals to the Board of Equalization must be filed with the County Clerk as Secretary of the Board of Equalization on or before the third Monday in June of each year. Appeals to the State Tax Commission must be filed by the later of December 31 or 30 days after the date of the final decision of the Board of Equalization. Where valuation is not an issue, appeals must be taken directly to the State circuit court rather than the State Tax Commission. If an appeal is pending on December 31, the due date for the payment of taxes, State statutes provide a procedure for the payment of taxes under protest. If taxes are paid but not under protest, the taxpayer cannot recover the amount paid unless the taxes have been mistakenly or erroneously paid. Application for a refund of mistakenly or erroneously paid taxes must be made within one

year after the tax in dispute was paid. Typically, only that portion of the taxes being disputed is identified as being paid under protest, unless a claim of exemption is being asserted. The portion of the tax paid under protest is required to be held in an interest bearing account. Unless an appeal before the Board of Equalization or State Tax Commission is pending, suit must be brought by the taxpayer to resolve the dispute within 90 days, or the escrowed funds will be released to the Collector of Revenue and distributed to the Taxing Districts.

No owner of any property located within any of the Redevelopment Areas is restricted from appealing the determination of the assessed value of any such property. Any appeals, however, will be required to be conducted in the manner as summarized above under current law.

Reassessment and Tax Rate Rollback. As previously stated, a general reassessment of all property in the State is required to be conducted every two years. When, as a result of such reassessment, the assessed valuation within a Taxing District increases by more than an allowable percentage, the Taxing District is required to roll back the rate of tax within the Taxing District so as to produce substantially the same amount of tax revenue as was produced in the previous year increased by an amount called a "preceding valuation factor." A "preceding valuation factor" is a percentage increase or decrease based on the average annual percentage changes in total assessed valuation of the County over the previous three or five years, whichever is greater, adjusted to eliminate the effect of boundary changes, changes from State to County assessed property, general reassessment and State ordered changes.

The Hancock Amendment. An amendment to the Missouri Constitution limiting taxation and government spending was approved by Missouri voters on September 4, 1980, and went into effect with the 1981-82 fiscal year. The amendment (Article X, Sections 16 through 24 of the Missouri Constitution, and popularly known as the Hancock Amendment) limits the rate of increase and the total amount of taxes that shall be imposed in any fiscal year, and provides that the limit shall not be exceeded without voter approval.

Provisions are included in the Hancock Amendment for rolling back tax rates to produce an amount of revenues equal to that of the previous year if the definition of the tax base is changed or if property is reassessed. The tax levy on the assessed valuation of new construction is exempt from this limitation in the initial year of new construction. The limitation on local governmental units also does not apply to taxes imposed for the payment of principal of, premium, if any, and interest on bonds approved by the requisite percentage of voters.

Tax Delinquencies. Taxes and payments in lieu of taxes due upon any real estate within the Redevelopment Project Areas remaining unpaid on the first day of January, annually, are delinquent, and the County Collector is empowered to enforce the lien of the taxing jurisdictions thereon. Whenever the County Collector is unable to collect any taxes on the tax roll, having diligently endeavored and used all lawful means to do so, he is required to compile lists of delinquent tax bills collectible by him. All lands and lots on which taxes are delinquent and unpaid are subject to suit to collect delinquent tax bills or suit for foreclosure of the tax liens. Upon receiving a judgment, the Sheriff must advertise the sale of the land, fixing the date of sale within 30 days after the first publication of the notice. Delinquent taxes, with penalty, interest and costs, may be paid to the County Collector at any time before the property is sold therefor. No action for recovery of delinquent taxes shall be valid unless initial proceedings therefor are commenced within five years after delinquency of such taxes.

Collection of Economic Activity Tax Revenues

Retail businesses are required to collect the sales tax from purchasers at the time of sale and pay the amounts collected to the Department of Revenue of the State with the filing of returns, except for the sales tax on motor vehicles, trailers, boats and outboard motors, which is due at the time application is made for title and registration. The sales volume of a retail business determines the frequency of payments made to the Department of Revenue of the State. In most cases, the retail businesses in the City make monthly payments to

the Department of Revenue of the State, which are due on the tenth day of each calendar month for sales taxes collected in the preceding calendar month. Retail businesses located in the City submit applications to the City for a merchants license and an occupancy permit, and before such license and permit are awarded verification of a tax identification number from the State is made by the City. In the event of a failure by a retail business to remit sales taxes, interest and penalties, the unpaid amount may become a lien in the nature of a judgment lien against the delinquent taxpayer. In the event of overpayment by any retail business as a result of error or duplication, provision is made under State law for refunds.

Pursuant to State law, taxpayers who promptly pay their sales tax are entitled to retain 2% of the amount of taxes owed. Within 30 days of receipt of sales taxes by the Department of Revenue of the State, the Director of the Department of Revenue remits to the State Treasurer for deposit in a special trust fund for the benefit of each political subdivision entitled to a sales tax distribution the amount of such sales tax receipts less 1% of such amount which constitutes a fee paid to the State for collecting and distributing the tax. The State Treasurer then distributes moneys on deposit in the special trust fund on behalf of each such political subdivision to such political subdivision on a monthly basis.

The City expects only minimal taxable sales within the Drumm Farm Redevelopment Area. The Economic Activity Taxes therein are projected to be less than 3% of the total tax increment financing revenues collected for the Drumm Farm Redevelopment Project, with the remaining revenues project to be Payments in Lieu of Taxes. As a result, only a small amount of Economic Activity Taxes are expected to be available to make Loan Payments related to the Series 2007D Bonds, the Drumm Farm Series 2005 Bonds, the Drumm Farm Series 2006 Bonds and any Additional Bonds which may be issued on a parity therewith.

THE REDEVELOPMENT PROJECTS

Eastland Center Redevelopment Project

The Eastland Center Redevelopment Area. The Eastland Center Redevelopment Area consists of approximately 212 acres of undeveloped land located in the City at the southeast corner of the intersection of Interstate Highway 70 and U.S. Highway 291. The Eastland Center Redevelopment Area is located in eastern Jackson County within the corporate limits of the City, the County's second largest city, and within two miles of Jackson County's two fastest growing cities, Lee's Summit and Blue Springs.

Approval of Eastland Center Redevelopment Plan. Following public hearings by the TIF Commission of the City, the City Council adopted the TIF Ordinances approving the Eastland Center Redevelopment Plan and the Eastland Center Redevelopment Project and designating the Eastland Center Redevelopment Area as a "blighted area" under the TIF Act, and adopting tax increment financing for the Eastland Center Redevelopment Area.

The Eastland Center Redevelopment Project. The Eastland Center Redevelopment Plan provides for the construction of both a Public Project and a Private Project (each as defined below) within the Eastland Center Redevelopment Area (the "Area") in order to cure the blighted conditions that exist in the Area. The Area consists of 212 acres located immediately east of Interstate Highway 470, immediately south of Interstate 70 and immediately north of U.S. Highway 40. The developer of the project is Ehrhart Development Company based in St. Louis, Missouri (the "Developer"). The Redevelopment Plan calls for the construction of 1,300,000 square feet of Class A office space and 550,000 square feet of retail, restaurant and shop space and at least two hotels. Redevelopment Project Costs are estimated to be \$254,000,000 which includes \$11,225,000 in City Improvements (the "Public Project") and \$242,000,000 in Developer Improvements (the "Private Project"). Developer Improvements include \$20,323,000 in Developer On-Site Reimbursable Project Costs and about \$8,800,000 in Developer Off-Site Reimbursable Project Costs.

Eastland Center Redevelopment Project Costs. The Eastland Center Public Project consists of the following improvements: (1) street improvements and related landscaping, traffic studies, design, engineering and surveys, (2) excavation and demolition of storm sewers and utility relocation, (3) traffic signals and controls, (4) retaining walls, sidewalks, streetlights and related improvements, (5) fencing and landscaping screens, and (6) certain clearing, grading, stormwater and utility costs on the site of the Eastland Center Redevelopment Project.

Status of the Eastland Center Redevelopment Project Improvements. Except for off-site street improvements, the Eastland Center Public Project is substantially complete. The retail, commercial and hotel components of the Private Project have been completed, as has some smaller scale office development. Office sites along Interstate 70 remain to be developed, with targeted improvement being signature office buildings of substantial size. Pursuant to the Eastland Center Redevelopment Agreement the City is obligated to reimburse the Developer for an additional \$7.57 million in redevelopment project costs relating to the project. Approximately \$7 million of this amount will only be incurred upon the development of the office buildings and if certain other conditions are satisfied. Approximately \$570,000 of this amount is currently due the Developer, subject to certain final conditions on payment. The City expects to issue Additional Bonds to finance these costs if and when such additional costs are incurred. If and when issued, such bonds will qualify as Additional Bonds and will be secured on a parity with the Series 2007A Bonds as to Incremental Tax Revenues from the Eastland Center Redevelopment Project.

Eastland Center Tax Increment Revenues. The City's audited financial statements for the years ended June 30, 2005, and June 30, 2006 indicate that for those two fiscal years the City has deposited Incremental Tax Revenues from the Eastland Redevelopment Project into the Special Allocation Fund in the amounts of \$2,600,785 and \$3,378,327, respectively. Scheduled principal and interest payments on bonds payable from the Eastland Special Allocation Fund in FY 2005 was \$1,913,169 and \$1,989,556 in FY 2006, providing annual debt service coverage of approximately 1.35x in FY 2005 and 1.69x in FY 2006. Net maximum annual debt service on the Series 2007A Bonds, will be \$2,203,113, which would have resulted in coverage of .86 in FY 2005 and .90 in FY 2006.

Hartman Heritage Centre Redevelopment Project

The Hartman Heritage Centre Redevelopment Area. The Hartman Heritage Centre Redevelopment Area is located in Eastern Jackson County within the corporate limits of the City and consists of approximately 60.29 acres of land located north of Interstate Highway 70 at its intersection with Little Blue Parkway and south of the Little Blue River. The Hartman Heritage Centre Redevelopment Area is located within two miles of Jackson County's two fastest growing cities, Lee's Summit and Blue Springs.

Approval of Hartman Heritage Centre Redevelopment Plan. Following public hearings by the TIF Commission of the City, the City Council adopted the TIF Ordinances approving the Hartman Heritage Centre Redevelopment Plan and the Hartman Heritage Centre Redevelopment Project and designating the Hartman Heritage Centre Redevelopment Area as a "blighted area" under the TIF Act, and adopting tax increment financing for the Hartman Heritage Centre Redevelopment Area.

The Hartman Heritage Centre Redevelopment Project. The Hartman Heritage Centre Redevelopment Plan provides for the construction of both public and private improvements within the Hartman Heritage Centre Redevelopment Area in order to cure the blighted conditions that exist. The public improvements will consist of approximately \$12.5 million of public infrastructure. The private improvements will consist of a mixed-use development at an estimated cost of \$97.6 million, which includes approximately \$6,716,000 of costs which the City expects to either (i) reimburse with the proceeds of the Bonds or Additional Bonds secured on a parity with the Bonds, or (ii) reimburse on a "pay-as-you-go" basis with the proceeds of Incremental Tax Revenues which are not needed to pay the debt service on the Bonds. The first phase is expected to consist of at least 270,000 square feet of new retail/commercial space and a convention center hotel, including a full service restaurant. The second phase is expected to consist of up to 325,000 square feet

of office space, approximately 40,000 square feet of restaurant and professional and financial office development, and possibly one or more additional hotels. The Developer of the project is Dial Realty Development Corp., a Nebraska corporation (the "Developer"), however, the Developer may enter into sale and lease agreements with third parties to complete the development.

The Hartman Heritage Centre Redevelopment Project Costs. "Redevelopment Costs" for the Hartman Heritage Redevelopment Project consist of City Reimbursable Project Costs in an amount not to exceed \$12,465,000, plus interest and financing costs and Developer Reimbursable Project Costs in an amount not to exceed \$6,716,000, plus interest and financing costs. Reimbursable Redevelopment Costs not paid from the proceeds of the Bonds (currently estimated at not less than \$12,366,240.43) will be reimbursed (i) from the proceeds of Additional Bonds secured on a parity with the Bonds, or (ii) on a "pay-as-you-go" basis with the proceeds of Incremental Tax Revenues which are not needed to pay the debt service on the Bonds. The Hartman Heritage Centre Public Project consists of the following improvements: (a) the acquisition of the right-of-way for and the construction of: (i) Jackson Drive from 39th Street south across the Little Blue River through the Redevelopment Area and east of Little Blue Parkway; (ii) necessary improvements to the intersections of Jackson Drive and 39th Street and Jackson Drive and Little Blue Parkway; (iii) landscaping the median of and the lighting of the Little Blue Expressway from I-70 to 39th Street, and (iv) any other improvements which are to be located in right-of-way or easements along the aforementioned portions of Jackson Drive; (b) improvements to the Little Blue Trace Park adjacent to the Redevelopment Area; (c) acquisition of right-of-way for and construction of sanitary sewer and water line improvements east of the Little Blue Expressway to serve a new Blue Springs elementary school; and (d) as the City determines to be necessary and appropriate, acquisition of right-of-way for and construction of improvements to the Little Blue Expressway north of 39th Street to the northern boundary of the Blue Springs School District.

Status of the Hartman Heritage Centre Redevelopment Project Improvements. Similar to the Eastland Redevelopment Project, the public project components of the Hartman Heritage Redevelopment Project are substantially complete except for off-site traffic improvements, which for this project consist of the extension of Little Blue Parkway. Many of the private improvements associated with the Hartman Heritage Redevelopment Project have been developed, although only one hotel has been completed.

Hartman Heritage Centre Tax Increment Revenues. The City's audited financial statements for the years ended June 30, 2005, and June 30, 2006 indicate that for those two fiscal years the City has deposited Incremental Tax Revenues from the Hartman Heritage Redevelopment Project into the Special Allocation Fund in the amounts of \$1,660,244 and \$1,748,250, respectively. Scheduled principal and interest payments on bonds payable from the Hartman Heritage Special Allocation Fund in FY 2005 was \$1,525,981 and \$1,561,981 in FY 2006, providing annual debt service coverage of approximately 1.08x in FY 2005 and 1.11x in FY 2006. Net maximum annual debt service on the bonds issued for the Hartman Heritage Redevelopment Project that are not being refunded and the Series 2007B Bonds will be \$1,937,250, which would have resulted in coverage of 0.85 in FY 2005 and 0.90 in FY 2006.

Santa Fe Redevelopment Project

The Santa Fe Redevelopment Area. The Santa Fe Redevelopment Area consists of approximately 29 acres of existing retail, commercial and residential buildings located along the west side of Noland Road and south of South Side Boulevard in the City of Independence. Similar to the Hartman Heritage Centre Redevelopment Area, the Santa Fe Redevelopment Area is located within two miles of Jackson County's two fastest growing cities, Lee's Summit and Blue Springs.

Approval of Santa Fe Redevelopment Plan. Following public hearings by the TIF Commission of the City, the City Council adopted the TIF Ordinances approving the Santa Fe Redevelopment Plan and the Santa Fe Redevelopment Project and designating the Santa Fe Redevelopment Area as a "blighted area" under the TIF Act, and adopting tax increment financing for the Santa Fe Redevelopment Area.

The Santa Fe Redevelopment Project. The Santa Fe Redevelopment Plan provides for the construction of a redevelopment project within the Santa Fe Redevelopment Area (the “Area”) in order to cure the blighted conditions that exist in the Area. As noted above, the Area consists of 29 acres of existing retail, commercial and residential buildings located along the west side of Noland Road and south of South Side Boulevard in the City of Independence. The developer of the redevelopment project is McProperties L.L.C., a Missouri limited liability company based in Independence, Missouri (the “Developer”). The Redevelopment Plan calls for the construction of 220,000 square feet of new retail/commercial space, renovation of the existing restaurant, eight new owner-occupied residential units and related off-site improvements. Total redevelopment costs are estimated to be \$25,567,017, which includes approximately \$7,500,000 in Developer on-site reimbursable project costs, payable from the loan to the City funded with the proceeds of the Series 2001 Bonds.

Status of the Santa Fe Redevelopment Project Improvements. The Redevelopment Area has been cleared of buildings and debris and is ready for construction. To date, no tenants have been secured which would allow for commencement of construction.

Santa Fe Tax Increment Revenues. The City’s audited financial statements for the years ended June 30, 2005, and June 30, 2006 indicate that for those two fiscal years the City has deposited Incremental Tax Revenues from the Santa Fe Redevelopment Project into the Special Allocation Fund in the amounts of \$28,697 and \$12,970, respectively. Scheduled principal and interest payments on bonds payable from the Santa Fe Special Allocation Fund in FY 2005 was \$692,091 and \$719,873 in FY 2006. The Developer of the Santa Fe Project has voluntarily made payments to the City to make up shortfalls in debt service payments through May 1, 2007, and has delivered a letter to the City signifying an intent to the same during Fiscal Year 2008. There can be no assurance that the Developer will continue to make such payments. Tax Increment Financing for the Santa Fe Redevelopment Area terminates in the year 2023.

Drumm Farm Redevelopment Project

The Drumm Farm Redevelopment Area and Plan. In 1999 the City adopted a Tax Increment Financing Plan for the redevelopment of a 320 acre tract of land and the subdividing of such tract and construction of certain public improvements to provide for the development of 143 residential lots and a public golf course, known as Drumm Farm. The Developer is Golf Strategies, L.L.C. and the real estate is owned by Drumm Farm Associates, LLC. The Drumm Farm Institute, a nonprofit organization that provides residential facilities and social services support for disadvantaged youths, sold the property to the Developer. The Drumm Farm Institute receives a \$1,000 donation when a lot is sold.

The proceeds of the Series 2005 Drumm Farm Bonds and Series 2006 Drumm Farm Bonds were loaned by the Board to reimburse the City for a portion of the cost of certain public improvements for the Drumm Farm development, including the construction of the following improvements: filling, grading and drainage, storm water retention, sewers, traffic related, utilities, paving and landscaping, professional fees and interest.

The City expects to issue approximately \$2,500,000 of Additional Bonds to finance other redevelopment project costs relating to the Drumm Farm Project. The proposed Additional Bonds will be secured on a parity with the Series 2005 Bonds and the Series 2006 Bonds previously issued with respect to the Drumm Farm Redevelopment Project and the Series 2007D Bonds and therefore will share an equal claim on the Incremental Tax Revenues derived by the City with respect to the Drumm Farm Project, all as more fully described herein.

Status of the Drumm Farm Redevelopment Project Improvements. Except for street improvements, the public project components of the Drumm Farm Redevelopment Project have been completed. According to information listed on the Developer's website, 86 lots in Phase I are sold. Home prices start at \$210,000. The golf course opened in 2002 and has an 18-hole course and a nine-hole executive course.

Drumm Farm Tax Increment Revenues. The City's audited financial statements for the years ended June 30, 2005, and June 30, 2006 indicate that for those two fiscal years the City has deposited Incremental Tax Revenues from the Drumm Farm Redevelopment Project into the Special Allocation Fund in the amounts of \$181,736 and \$292,119, respectively.

THE BONDS

The following is a summary of certain terms and provisions of the Bonds. Reference is hereby made to the Bonds and the provisions with respect thereto in the Indenture and the Financing Agreement relating to each Series of Bonds for the detailed terms and provisions thereof.

General Terms

The Bonds are being issued in the principal amounts shown on the cover page, are dated May 1, 2007, will bear interest from the date thereof or from the most recent interest payment date to which interest has been paid at the rates per annum set forth on the inside cover pages, payable semi-annually on April 1 and October 1 of each year, and will mature on April 1 in the years as set forth on the inside cover pages. The Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The principal of the Bonds are payable at the principal corporate trust office of the Trustee. The interest on the Bonds is payable (a) by check or draft mailed by the Trustee to the persons who are the registered owners of the Bonds as of the close of business on the 15th day of the month preceding the respective interest payment dates, as shown on the bond registration books maintained by the Trustee, or (b) at the expense of the registered owner, by electronic transfer of immediately available funds at the written request of any registered owner of \$1,000,000 or more in aggregate principal amount of Bonds, if such written notice specifying the electronic transfer instructions is provided to the Trustee not less than 15 days prior to the Interest Payment Date. Purchases of the Bonds will be made in book-entry only form (as described immediately below), in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. If the specified date for any payment on the Bonds is a date other than a Business Day, such payment may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payments.

Book-Entry Only System

General. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry only system (the "Book-Entry Only System") maintained by The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Initially, the Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate for each maturity of the Bonds will be issued, in the aggregate principal amount of such maturity, and will be deposited with DTC or the Trustee as its "FAST" agent. The following discussion will not apply to any Bonds issued in certificate form due to the discontinuance of the DTC Book-Entry Only System, as described below.

DTC and its Participants. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of

Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation ("NSCC," "GSCC," "FICC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants" and, collectively with the Direct Participants, the "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is, in turn, to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

So long as Cede & Co., as nominee of DTC, is the registered owner of any of the Bonds, the Beneficial Owners of such Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Bonds.

Transfers. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Voting. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal and Interest. So long as any Bond is registered in the name of DTC's nominee, all payments of principal of, premium, if any, and interest on such Bond will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the Board, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Discontinuation of Book-Entry Only System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered as described in the Indenture.

The use of the system of book-entry transfers through DTC (or a successor securities depository) may be discontinued as described in the Indenture. In that event, bond certificates will be printed and delivered as described in the Indenture.

None of the Underwriter, the Trustee, the City nor the Board will have any responsibility or obligations to any Direct Participants or Indirect Participants or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, or interest on the Bonds; (iii) the delivery by any such Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Indenture to be given to owners of the Bonds; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

The information above concerning DTC and DTC's book-entry system has been obtained from sources that the Board and the City believe to be reliable, but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Board, the City, the Trustee or the Underwriter. The Board, the City, the Trustee and the Underwriter make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners will act in accordance with the procedures described above or in a timely manner.

Redemption

Series 2007A Bonds

The Series 2007A Bonds are subject to redemption and payment prior to maturity as follows:

Optional Redemption - Series 2007A Bonds. The Series 2007A Bonds maturing on April 1, 2018 and thereafter are subject to redemption and payment prior to maturity, at the option of the Board, which shall be exercised upon written direction from the City, on and after April 1, 2017, in whole or in part at any time at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the redemption date.

Extraordinary Optional Redemption - From Excess Tax Revenues - Series 2007A Bonds. The Series 2007A Bonds maturing on April 1, 2018 and thereafter are also subject to redemption and payment prior to the stated maturity thereof, at the option of the Board, which shall be exercised upon written direction from the City, in whole or in part at any time on April 1, 2017 and thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium from the proceeds of Excess Tax Revenues. "Excess Tax Revenues" means the amount of Incremental Tax Revenues collected by the City (in increments of \$5,000) which the City determines are in excess of the amounts needed to make Loan Payments under the Series 2007A Financing Agreement relating to regularly scheduled payments of principal and interest on the Series 2007A Bonds and any Additional Bonds issued on a parity with the Series 2007A Bonds. Series 2007A Bonds redeemed pursuant to this paragraph shall be redeemed in inverse order of maturity.

Series 2007B Bonds

The Series 2007B Bonds are subject to redemption and payment prior to maturity as follows:

Optional Redemption - Series 2007B Bonds. The Series 2007B Bonds maturing on April 1, 2018 and thereafter are subject to redemption and payment prior to maturity, at the option of the Board, which shall be exercised upon written direction from the City, on and after April 1, 2017, in whole or in part at any time at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the redemption date.

Extraordinary Optional Redemption - From Excess Tax Revenues - Series 2007B Bonds. The Series 2007B Bonds maturing on April 1, 2018 and thereafter are also subject to redemption and payment prior to the stated maturity thereof, at the option of the Board, which shall be exercised upon written direction from the City, in whole or in part at any time on April 1, 2017 and thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium from the proceeds of Excess Tax Revenues. "Excess Tax Revenues" means the amount of Incremental Tax Revenues collected by the City (in increments of \$5,000) which the City determines are in excess of the amounts needed to make Loan Payments under the Series 2007B Financing Agreement relating to regularly scheduled payments of principal and interest on the Series 2007B Bonds and any Additional Bonds issued on a parity with the Series 2007B Bonds. Series 2007B Bonds redeemed pursuant to this paragraph shall be redeemed in inverse order of maturity.

Series 2007C Bonds

The Series 2007C Bonds are subject to redemption and payment prior to maturity as follows:

Optional Redemption - Series 2007C Bonds. The Series 2007C Bonds will be redeemable at any time on or after April 1, 2009, at the option of the Board, which shall be exercised upon written direction from the City, as a whole or from time to time in part, at a redemption price equal to the greater of (i) 100% of the principal amount of such Bonds or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Discount Rate, plus in each case accrued interest thereon to the date of redemption. The redemption price shall be calculated by the Independent Investment Banker.

"Discount Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue plus 0.25%, assuming a price for the

Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the Series 2007C Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities” or (ii) if such release (or any successor release) is not published or does not contain such prices on such business day, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

“Independent Investment Banker” means an independent investment banking institution of national standing appointed by the City; provided, that if the City fails to make such appointment, or if the institution so appointed is unable to make such calculation, such calculation will be made by Piper Jaffray Inc. or, if such firm is unable to make such calculation, by an independent investment banking institution of national standing appointed by the Trustee.

“Reference Treasury Dealer” means any primary U.S. Government securities dealer in New York City, other than the Independent Investment Banker, selected by the Independent Investment Banker.

Mandatory Sinking Fund Redemption- Series 2007C Bonds. The Series 2007C Bonds maturing on April 1, 2023 are subject to mandatory redemption and payment prior to maturity pursuant to the mandatory redemption requirements of the Indenture on each April 1 on the dates and in the amounts set forth below, at 100% of the principal amount thereof plus accrued interest to the redemption date, without premium:

<u>Date</u>	<u>Principal Amount</u>
2018	\$625,000
2019	665,000
2020	705,000
2021	750,000
2022	795,000
2023*	1,795,000

*Final Maturity

Series 2007D Bonds

The Series 2007D Bonds are subject to redemption and payment prior to maturity as follows:

Optional Redemption - Series 2007D Bonds. The Series 2007D Bonds maturing on April 1, 2018 and thereafter are subject to redemption and payment prior to maturity, at the option of the Board, which shall be exercised upon written direction from the City, on and after April 1, 2017, in whole or in part at any time at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the redemption date.

Extraordinary Optional Redemption - From Excess Tax Revenues - Series 2007D Bonds. The Series 2007D Bonds maturing on April 1, 2018 and thereafter are also subject to redemption and payment prior to the stated maturity thereof, at the option of the Board, which shall be exercised upon written direction from the City, in whole or in part at any time on April 1, 2017 and thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium from the proceeds of Excess Tax Revenues. "Excess Tax Revenues" means the amount of Incremental Tax Revenues collected by the City (in increments of \$5,000) which the City determines are in excess of the amounts needed to make Loan Payments under the Series 2007D Financing Agreement relating to regularly scheduled payments of principal and interest on the Series 2007D Bonds and any Additional Bonds issued on a parity with the Series 2007D Bonds. Series 2007D Bonds redeemed pursuant to this paragraph shall be redeemed in inverse order of maturity.

Mandatory Sinking Fund Redemption- Series 2007D Bonds. The Series 2007D Bonds maturing on April 1, 2017 are subject to mandatory redemption and payment prior to maturity pursuant to the mandatory redemption requirements of the Indenture on each April 1 on the dates and in the amounts set forth below, at 100% of the principal amount thereof plus accrued interest to the redemption date, without premium:

<u>Date</u>	<u>Principal Amount</u>
2014	\$80,000
2015	75,000
2016	80,000
2017*	75,000

*Final Maturity

The Series 2007D Bonds maturing on April 1, 2020 are subject to mandatory redemption and payment prior to maturity pursuant to the mandatory redemption requirements of the Indenture on each April 1 on the dates and in the amounts set forth below, at 100% of the principal amount thereof plus accrued interest to the redemption date, without premium:

<u>Date</u>	<u>Principal Amount</u>
2018	\$80,000
2019	80,000
2020*	80,000

*Final Maturity

Redemption of Term Bonds

The Trustee shall, in each year in which the Bonds of any Series are to be redeemed pursuant to the mandatory sinking fund requirements described above ("Term Bonds") make timely selection of such Term Bonds or portions thereof to be so redeemed by lot in \$5,000 units of principal amount in such equitable manner as the Trustee may determine and shall give notice thereof without further instructions from the Board or the City. At the option of the City, to be exercised on or before the 45th day next preceding each mandatory redemption date, the City shall: (1) deliver to the Trustee for cancellation Term Bonds of the same maturity in the aggregate principal amount desired; or (2) furnish to the Trustee funds, together with appropriate

instructions, for the purpose of purchasing any of said Term Bonds of the same maturity from any owner thereof in the open market at a price not in excess of 100% of the principal amount thereof, whereupon the Trustee shall use its best efforts to expend such funds for such purposes to such extent as may be practical; or (3) elect to receive a credit in respect to the mandatory redemption obligation under the applicable sinking fund requirements set forth above for any Term Bonds of the same maturity which prior to such date have been redeemed (other than through the operation of the requirements of this subsection) and cancelled by the Trustee and not theretofore applied as a credit against any redemption obligation under this subsection. Each Term Bond so delivered or previously purchased or redeemed shall be credited at 100% of the principal amount thereof on the obligation of the Board to redeem Term Bonds of the same maturity on the next mandatory redemption date that is at least 45 days after receipt by the Trustee of such instructions from the City any excess of such amount shall be credited on future mandatory redemption obligations for Term Bonds of the same maturity in chronological order or such other order as the City may designate, and the principal amount of Term Bonds of the same maturity to be redeemed on such future mandatory redemption dates by operation of the requirements of this paragraph shall be reduced accordingly. If the City intends to exercise any option granted by the provisions of clauses (1), (2) or (3) of this paragraph, the City will, on or before the 45th day next preceding the applicable mandatory redemption date, furnish the Trustee an Officer's Certificate indicating to what extent the provisions of said clauses (1), (2) and (3) are to be complied with, and the Term Bonds of the same maturity and Series, in the case of its election pursuant to clause (1), in respect to such mandatory redemption payment.

Election to Redeem; Notice to Trustee

The Board shall elect to redeem Bonds subject to optional redemption upon receipt of a written direction of the City. In case of any redemption at the election of the Board, the Board shall, at least 45 days prior to the redemption date fixed by the Board (unless a shorter notice shall be satisfactory to the Trustee) give written notice to the Trustee directing the Trustee to call Bonds for redemption and give notice of redemption and specifying the redemption date, the principal amount and maturities of Bonds to be called for redemption, the applicable redemption price or prices and the provision or provisions of the Indenture pursuant to which such Bonds are to be called for redemption.

The foregoing paragraph shall not apply in the case of any mandatory redemption of Term Bonds, and the Trustee shall call Term Bonds for redemption and shall give notice of redemption pursuant to such mandatory redemption requirements without the necessity of any action by the Board or the City whether or not the Trustee shall hold in the Debt Service Fund moneys available and sufficient to effect the required redemption.

Notice of Redemption

Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Trustee on behalf of the Board by mailing a copy of an official redemption notice by first class mail, at least 30 days and not more than 60 days prior to the redemption date to each registered owner of the Bonds to be redeemed at the address shown on the bond register or at such other address as is furnished in writing by such registered owner to the Trustee.

All official notices of redemption shall be dated and shall state: (1) the redemption date; (2) the redemption price; (3) the principal amount of Bonds to be redeemed; (4) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and (5) the place where the Bonds to be redeemed are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office of the Trustee or other Paying Agent.

The failure of any owner of Bonds to receive notice given as provided herein, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Bonds. Any notice mailed as

provided herein shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any owner receives such notice.

For so long as DTC is effecting book-entry transfers of the Bonds, the Trustee shall provide the notices specified in this Section to DTC. It is expected that DTC will, in turn, notify its Participants and that the Participants, in turn, will notify or cause to be notified the beneficial owners. Any failure on the part of DTC or a Participant, or failure on the part of a nominee of a beneficial owner of a Bond (having been mailed notice from the Trustee, DTC, a Participant or otherwise) to notify the beneficial owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.

Selection by Trustee of Bonds to be Redeemed

Bonds may be redeemed only in the principal amount of \$5,000 or any integral multiple thereof. If less than all Bonds are to be redeemed and paid prior to maturity pursuant to the Indenture, the particular Bonds to be redeemed shall be selected by the Trustee from the Bonds of such maturity which have not previously been called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions equal to \$5,000 of the principal of Bonds of a denomination larger than \$5,000; provided, however, Bonds redeemed from Excess Tax Revenues shall be redeemed in inverse order of maturity.

The Trustee shall promptly notify the Board and the City in writing of the Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

Deposit of Redemption Price

Prior to any redemption date, the Board shall deposit with the Trustee or with a Paying Agent, from moneys provided by the City, an amount of money sufficient to pay the redemption price of all the Bonds which are to be redeemed on that date. Such money shall be held in trust for the benefit of the Persons entitled to such redemption price and shall not be deemed to be part of the Trust Estate.

Bonds Payable on Redemption Date

Notice of redemption having been given as aforesaid, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date (unless the Board shall default in the payment of the redemption price) such Bonds shall cease to bear interest. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Board at the redemption price. Installments of interest with a due date on or prior to the redemption date shall be payable to the owners of the Bonds registered as such on the relevant Record Dates according to the terms of such Bonds.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate prescribed therefor in the Bond.

Bonds Redeemed in Part

Any Bond which is to be redeemed only in part shall be surrendered at the place of payment therefor (with, if the Board or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Board and the Trustee duly executed by, the owner thereof or his attorney or legal representative duly authorized in writing) and the Board shall execute and the Trustee shall authenticate and deliver to the owner of such Bond, without service charge, a new Bond or Bonds of the same series and maturity of any authorized denomination or denominations as requested by such owner in aggregate principal

amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered. If the owner of any such Bond shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, said Bond shall, nevertheless, become due and payable on the redemption date to the extent of the \$5,000 (or other denomination) unit or units of principal amount called for redemption (and to that extent only).

Subject to the approval of the Trustee, in lieu of surrender under the preceding paragraph, payment of the redemption price of a portion of any Bond may be made directly to the registered owner thereof without surrender thereof, if there shall have been filed with the Trustee a written agreement of such owner and, if such owner is a nominee, the Person for whom such owner is a nominee, that payment shall be so made and that such owner will not sell, transfer or otherwise dispose of such Bond unless prior to delivery thereof such owner shall present such Bond to the Trustee for notation thereon of the portion of the principal thereof redeemed or shall surrender such Bond in exchange for a new Bond or Bonds for the unredeemed balance of the principal of the surrendered Bond.

So long as DTC is effecting book-entry transfers of the Bonds, the Trustee shall provide the notices specified above to DTC. It is expected that DTC will, in turn, notify the DTC Participants and that the DTC Participants, in turn, will notify or cause to be notified the Beneficial Owners. Any failure on the part of DTC or a DTC Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond (having been mailed notice from the Trustee, a DTC Participant or otherwise) to notify the Beneficial Owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.

Transfer Outside Book-Entry Only System

If the book-entry only system is discontinued, the following provisions would apply. The Bonds are transferable only upon the registration books of the Trustee upon surrender of the Bonds duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his attorney or legal representative in a form satisfactory to the Trustee. Bonds may be exchanged for other Bonds of any denomination authorized by the Indenture in the same aggregate principal amount, series and maturity, upon presentation to the Trustee, subject to the terms, conditions and limitations set forth in the Indenture. The Trustee may make a charge for every such transfer or exchange sufficient to reimburse the Trustee for any tax or other governmental charge required to be paid with respect to any such exchange or transfer.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds, nor any error in the printing of such numbers, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds will be issued under and will be equally and ratably secured under four separate and distinct Indentures, each of which will assign and pledge to the Trustee (1) certain rights of the Board under the applicable Financing Agreement, including the right to receive Loan Payments with respect to such Series of Bonds thereunder, and (2) the funds and accounts, including the money and investments in them, which the Trustee holds under the terms of the applicable Indenture.

Special, Limited Obligations

The Bonds and the interest thereon are special, limited obligations of the Board, payable solely from certain payments to be made by the City under the applicable Financing Agreement and certain other funds held by the Trustee under the applicable Indenture and not from any other fund or source of the Board, and are secured under the applicable Indenture and the applicable Financing Agreement as described herein. Except as provided in the following paragraph, all Loan Payments and Additional Payments by the City under each Financing Agreement are subject to annual appropriation.

As more fully described herein, the City's obligation to make Loan Payments under the Financing Agreements will be secured by Incremental Tax Revenues, a portion of which described herein as the Payment in Lieu of Taxes, are not subject to annual appropriation. The portion described herein as the Economic Activity Taxes are subject to annual appropriation by the City.

The Bonds are not an indebtedness of City, the State of Missouri or any other political subdivision thereof within the meaning of any provision of the constitution or laws of the State of Missouri. Neither the full faith and credit nor the taxing powers of the City, the State or any other political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The issuance of the Bonds shall not, directly, indirectly or contingently, obligate the City, the State or any other political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment, except as otherwise described herein. The Board has no taxing power.

Prospective investors should not rely upon the City's collection of Incremental Tax Revenues (PILOTS and EATS) as a source of repayment of the Bonds, but should instead evaluate the likelihood that the City will continue to appropriate moneys sufficient to make Loan Payments under the Financing Agreements. The City's decision to budget and appropriate is a separate and independent decision for each Series of Bonds.

The Financing Agreements

Under each Financing Agreement, the City is required to make Loan Payments to the Trustee for deposit into the applicable Debt Service Fund in amounts sufficient to pay the principal of and interest on the Series of Bonds to which such Financing Agreement relates when due. The City's obligations to pay the Loan Payments and Additional Payments shall be limited, special obligations of the City payable solely from, subject to annual appropriation by the City as herein, all general fund revenues of the City. The taxing power of the City is not pledged to the payment of Loan Payments either as to principal or interest.

City Annual Appropriation Obligation

Each Financing Agreement contains the following provisions with respect to the City's annual appropriation obligation:

Annual Appropriation. The City intends, on or before the last day of each Fiscal Year, to budget and appropriate moneys sufficient to pay all Loan Payments and reasonably estimated Additional Payments for the next succeeding Fiscal Year. The City shall deliver written notice to the Trustee no later than 15 days after the commencement of its Fiscal Year stating whether or not the City Council has appropriated funds sufficient for the purpose of paying the Loan Payments and Additional Payments reasonably estimated to become due during such Fiscal Year. If the City Council shall have made the appropriation necessary to pay the Loan Payments and reasonably estimated Additional Payments to become due during such Fiscal Year, the failure of the City to deliver the foregoing notice on or before the 15th day after the commencement of its Fiscal Year shall not constitute an Event of Nonappropriation and, on failure to receive such notice 15 days after the commencement of the City's Fiscal Year, the Trustee shall make independent inquiry of the fact of whether or not such appropriation has been made. If the City Council shall not have made the appropriation necessary to

pay the Loan Payments and Additional Payments reasonably estimated to become due during such succeeding Fiscal Year, the failure of the City to deliver the foregoing notice on or before the 15th day after the commencement of its Fiscal Year shall constitute an Event of Nonappropriation.

Annual Budget Request. The City Manager or other officer of the City at any time charged with the responsibility of formulating budget proposals shall include in the budget proposals submitted to the City Council, in each Fiscal Year in which each Financing Agreement shall be in effect, an appropriation for all payments required for the ensuing Fiscal Year; it being the intention of the City that the decision to appropriate or not to appropriate under each Financing Agreement shall be made solely by the City Council and not by any other official of the City. The City intends, subject to the provisions above respecting the failure of the City to budget or appropriate funds to make Loan Payments and Additional Payments, to pay the Loan Payments and Additional Payments under each Financing Agreement. The City reasonably believes that legally available funds in an amount sufficient to make all Loan Payments and Additional Payments during each Fiscal Year can be obtained. The City further intends to do all things lawfully within its power to obtain and maintain funds from which the Loan Payments and Additional Payments may be made, including making provision for such Loan Payments and Additional Payments to the extent necessary in each proposed annual budget submitted for approval in accordance with applicable procedures of the City and to exhaust all available reviews and appeals in the event such portion of the budget is not approved. The City's Director of Finance and Administration is directed to do all things lawfully within his or her power to obtain and maintain funds from which the Loan Payments and Additional Payments may be paid, including making provision for such Loan Payments and Additional Payments to the extent necessary in each proposed annual budget submitted for approval or by supplemental appropriation in accordance with applicable procedures of the City and to exhaust all available reviews and appeals in the event such portion of the budget or supplemental appropriation is not approved. Notwithstanding the foregoing, the decision to budget and appropriate funds is to be made in accordance with the City's normal procedures for such decisions.

Loan Payments to Constitute Current Expenses of the City. The Board and the City acknowledge and agree that the Loan Payments and Additional Payments under each Financing Agreement shall constitute currently budgeted expenditures of the City, and shall not in any way be construed or interpreted as creating a liability or a general obligation or debt of the City in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, nor shall anything contained in the Financing Agreement constitute a pledge of the general credit, tax revenues, funds or moneys of the City. The City's obligations to pay Loan Payments and Additional Payments under each Financing Agreement shall be from year to year only, and shall not constitute a mandatory payment obligation of the City in any ensuing Fiscal Year beyond the then current Fiscal Year. Neither the Financing Agreements nor the issuance of the Bonds shall directly or indirectly obligate the City to levy or pledge any form of taxation or make any appropriation or make any payments beyond those appropriated for the City's then current Fiscal Year, but in each Fiscal Year Loan Payments and Additional Payments shall be payable solely from the amounts budgeted or appropriated therefor out of the income and revenue provided for such year, plus any unencumbered balances from previous years; provided, however, that nothing in the Financing Agreements shall be construed to limit the rights of the owners of the Bonds or the Trustee to receive any amounts which may be realized from the Trust Estate pursuant to the Indenture for each Series of Bonds. Failure of the City to budget and appropriate said moneys on or before the last day of any Fiscal Year shall be deemed an Event of Nonappropriation.

Tax Increment Financing

As more fully described herein, the City's obligation to make Loan Payments with respect to the each Series of Bonds under the related Financing Agreement will be secured by Incremental Tax Revenues, a portion of which described herein as the Payment in Lieu of Taxes, are not subject to annual appropriation. The portion described herein as the Economic Activity Taxes are subject to annual appropriation by the City.

The Redevelopment Agreements for each Project provide for disbursements of Incremental Tax Revenues for purposes other than making payments related to the Bonds and Additional Bonds issued on a parity therewith for each project.

Prospective investors should not rely upon the City's collection of Incremental Tax Revenues (PILOTS and EATS) as a source of repayment of the Bonds, but should instead evaluate the likelihood that the City will continue to appropriate moneys sufficient to make Loan Payments under the Financing Agreement.

Debt Service Reserve Fund

Pursuant to the each Indenture, the Board will establish a Debt Service Reserve Fund for the Series of Bonds issued under such Indenture, except for the Series 2007D Bonds. Each Debt Service Reserve Fund will be fully funded at the time of the issuance of the Bonds from the proceeds of the applicable Series of Bonds in an amount equal to the "Debt Service Reserve Requirement." The Debt Service Reserve Requirement is an amount equal to, calculated at the date of original issuance and delivery of the applicable Series of Bonds, the least of (A) 10% of the original aggregate principal amount of such Bonds, (B) the maximum annual debt service on such Bonds, or (C) 125% of the average future annual debt service on such Bonds. Moneys in the Debt Service Reserve Fund shall only be available to fund a deficiency in the Debt Service Fund with respect to related Series of Bonds and not any Additional Bonds. The Debt Service Reserve Funds are not available to pay debt service on any Series of Bonds other than the Series to which such fund relates. The three separate Debt Service Reserve Funds are not cross collateralized. Amounts in the Debt Service Reserve Fund are to be used to pay principal of and interest on the related Series of Bonds to the extent of any deficiency in the Debt Service Fund and to retire the last Outstanding Bonds of such Series.

The Debt Service Reserve Fund for the Series 2007A Bonds is subject to partial release in the amount of \$304,000 in the year 2012 and in the amount of \$1,325,500 in the year 2021.

The Indentures

Under each Indenture, the Board will pledge and assign to the Trustee, for the benefit of the owners of the applicable Series of Bonds, all of its rights under the applicable Financing Agreement, including all Loan Payments and other amounts payable under such Financing Agreement (except for certain fees, expenses and advances and any indemnity payments payable to the Board) as security for the payment of the principal of and interest on the applicable Series of Bonds. See "SUMMARY OF THE INDENTURE" in *Appendix C* hereto.

Additional Bonds

The Board from time to time may, in its sole discretion, at the written request of the City, authorize the issuance of Additional Bonds on a parity with a particular Series of Bonds for the purposes and upon the terms and conditions provided in the related Indenture; provided that (1) the terms of such Additional Bonds, the purchase price to be paid therefor and the manner in which the proceeds thereof are to be disbursed shall have been approved by resolutions adopted by the Board, the City; (2) the Board and the City shall have entered into a Supplemental Financing Agreement to acknowledge that Loan Payments are revised to the extent necessary to provide for the payment of the principal of, redemption premium, if any, and interest on the Additional Bonds and to extend the term of the related Financing Agreement if the maturity of any of the Additional Bonds would otherwise occur after the expiration of the term of the related Financing Agreement; and (3) the Board, the City shall have otherwise complied with the provisions of the related Financing Agreement and the related Indenture with respect to the issuance of such Additional Bonds.

The sole economic test for the issuance of Additional Bonds on a parity with any Series of Bonds is whether the City is willing to commit its annual appropriation obligation to the repayment of the Loan

Payments with respect to such Additional Bonds. This means that the City may issue or cause to be issued Additional Bonds on a parity with any Series even if the Incremental Tax Revenues related to such Series are not sufficient to provide for the Loan Payments on such Bonds, without regard to the proposed Additional Bonds. For this reason prospective investors should not rely upon the Incremental Tax Revenues as a source of repayment of the Bonds, but should instead evaluate the likelihood that the City will continue to appropriate moneys sufficient to make Loan Payments under the applicable Financing Agreement.

Pursuant to the Eastland Center Redevelopment Agreement the City is obligated to reimburse the Developer for an additional \$7.57 million in redevelopment project costs relating to the project. Approximately \$7 million of this amount will only be incurred upon the development of the office buildings and if certain other conditions are satisfied. Approximately \$570,000 of this amount is currently due the Developer, subject to certain final conditions on payment. The City expects to issue Additional Bonds to finance these costs if and when such additional costs are incurred. If and when issued, such bonds will qualify as Additional Bonds and will be secured on a parity with the Series 2007A Bonds as to Incremental Tax Revenues from the Eastland Center Redevelopment Project.

The City expects to issue approximately \$2,500,000 of Additional Bonds to finance other redevelopment project costs relating to the Drumm Farm Project. The proposed Additional Bonds will be secured on a parity with the Series 2005 Bonds and the Series 2006 Bonds previously issued with respect to the Drumm Farm Redevelopment Project and the Series 2007D Bonds and therefore will share an equal claim on the Incremental Tax Revenues derived by the City with respect to the Drumm Farm Project, all as more fully described herein.

BONDOWNERS' RISKS

The following is a discussion of certain risks that could affect payments to be made by the City with respect to the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein and in Appendix C, copies of which are available as described herein.

General

The Bonds are limited obligations of the Board payable by the Board solely from payments to be made by the City pursuant to the applicable Financing Agreement and from certain other funds held by the Trustee under the applicable Indenture. No representation or assurance can be given that the City will realize revenues in amounts sufficient to make such payments under the Financing Agreement relating to each Series of Bonds.

Risk Factors Relating to the City's Obligations to Make Loan Payments

General. Except as provided herein with respect to PILOTS pledged to secure each applicable series of Bonds, all payments by the City under each applicable Financing Agreement are subject to annual appropriation.

Risk of Non-Appropriation. The City's obligation to make Loan Payments under each of the Financing Agreements is subject to annual appropriation. Although the City has covenanted to request annually that the appropriation of the Loan Payments be included in the budget submitted to the City Council for each fiscal year, there can be no assurance that such appropriation will be made, and the City is not legally obligated to do so.

No Pledge, Lease or Mortgage of any Project or any other Facilities of the City. Payment of the principal of and interest on the Bonds is **not** secured by any deed of trust, mortgage or other lien on any Project, or any other facilities or property of the City or any developer. Except as provided herein, the Bonds are payable solely from annual appropriation by the City.

Risk Factors Relating to the Collection of Incremental Tax Revenues

As noted herein the payment by the City of Loan Payments under each Financing Agreement is secured by a pledge of Incremental Tax Revenues (PILOTS and EATS) derived from the applicable Redevelopment Project.

Prospective investors should not rely upon the City's collection of Incremental Tax Revenues (PILOTS and EATS) as a source of repayment of the Bonds, but should instead evaluate the likelihood that the City will continue to appropriate moneys sufficient to make Loan Payments under the applicable Financing Agreement.

Although prospective investors should not rely upon the City's collection of Incremental Tax Revenues (PILOTS and EATS) as a source of repayment of the, prospective investors should evaluate factors which could cause such Incremental Tax Revenues to be below the City's estimate in order to determine the capacity of the City's General Fund to provide for the Loan Payments with respect to the Bonds in the event such Incremental Tax Revenues are not sufficient to make such payments.

There are a variety of reasons the collection of Incremental Tax Revenues may not be realized as expected by the City, including but not limited to the following:

Proposed Additional Bonds. The sole economic test for the issuance of Additional Bonds on a parity with any Series of Bonds is whether the City is willing to commit its annual appropriation obligation to the repayment of the Loan Payments with respect to such Additional Bonds. This means that the City may issue or cause to be issued Additional Bonds on a parity with such Bonds even if the Incremental Tax Revenues are not sufficient to provide for the Loan Payments relating to such Bonds, without regard to the proposed Additional Bonds. The City expects to cause Additional Bonds to be issued as described above under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds."

Risk of Failure to Maintain Levels of Assessed Valuations. There can be no assurance that the assessed value of property within each Redevelopment Project will equal or exceed the expected assessed value. Even if the assessed value is initially determined as expected, there can be no assurance that such assessed value will be maintained throughout the term of the applicable Series of Bonds. The property owner has the ability to appeal all assessed value determinations.

Changes in State and Local Tax Laws. The City's internal estimates of Incremental Tax Revenues assume no substantial change in the basis of extending, levying and collecting real property taxes, sales taxes, PILOTS and Economic Activity Tax Revenues. Any change in the current system of collection and distribution of real property taxes, sales taxes, PILOTS or Economic Activity Tax Revenues in the County or the City, including without limitation the reduction or elimination of any such tax, judicial action concerning any such tax or voter initiative, referendum or action with respect to any such tax, could adversely affect the availability of revenues to pay the principal of and interest on the Bonds.

Reduction in State and Local Tax Rates. Any taxing district authorized to impose sales taxes or levy real property taxes on any real estate included within the Redevelopment Area could lower its tax rate, which would have the effect of reducing the Economic Activity Taxes and/or PILOTS derived from the Redevelopment Area.

Risk of Non-Appropriation of Economic Activity Taxes. The application of Economic Activity Tax Revenues in the Special Allocation Fund established for each Redevelopment Project is subject to annual appropriation by the City. Although the City has covenanted to request annually that the appropriation of the Economic Activity Tax Revenues in the Special Allocation Fund be included in the budget submitted to the City Council for each fiscal year, there can be no assurance that such appropriation will be made by the City Council, and the City Council is not legally obligated to do so.

Changes in Market Conditions. The estimates of Incremental Tax Revenues used in the City's internal projections are based on the current status of the national and local business economy and assume a future performance of the real estate market similar to the historical performance of such market in the Independence area. However, changes in the market conditions for the City, as well as changes in general economic conditions, could adversely effect the rate of appreciation and/or inflation of the property in the Redevelopment Area and, consequently, the amount of PILOTS and Economic Activity Tax Revenues collected for deposit into the Special Allocation Fund.

Risk of Damage or Destruction. The partial or complete destruction of improvements within the Redevelopment Area, as a result of fire, natural disaster or similar casualty event, would adversely impact the collection of Economic Activity Taxes.

Risk of Development in Santa Fe Redevelopment Area. To date there has no redevelopment in the Santa Fe Redevelopment Area, other than the acquisition of land and clearing and grading. There can be no assurance that the Santa Fe Developer will be able to develop any projects within the Redevelopment Area.

Loss of Premium Upon Early Redemption

Purchasers of the those maturities of the Bonds sold at a price in excess of their principal amount should consider the fact that the Bonds are subject to redemption at a redemption price equal to their principal amount plus accrued interest under certain circumstances. See **"THE BONDS – Redemption."**

Determination of Taxability

The interest rates on all Series of the Bonds are not subject to adjustment in the event of a determination by the Internal Revenue Service or a court of competent jurisdiction that the interest paid or to be paid on any Bond is or was includible in the gross income of the Owner of a Bond for federal income tax purposes. Such determination may, however, result in a breach of the Board's tax covenants set forth in the applicable Indenture which may constitute an event of default under such Indenture. ***It may be that Bondowners would continue to hold their Bonds, receiving principal and interest as and when due, but would be required to include such interest payments in gross income for federal income tax purposes.***

Enforcement of Remedies

The enforcement of the remedies under each Indenture and each Financing Agreement may be limited or restricted by federal or state laws or by the application of judicial discretion, and may be delayed in the event of litigation to enforce the remedies. State laws concerning the use of assets of political subdivisions and federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors may affect the enforcement of remedies. Similarly, the application of general principles of equity and the exercise of judicial discretion may preclude or delay the enforcement of certain remedies. The legal opinions to be delivered with the delivery of the Bonds will be qualified as they relate to the enforceability of the various legal instruments by reference to the limitations on enforceability of those instruments under (1) applicable bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights, (2) general principles of equity, and (3) the exercise of judicial discretion in appropriate cases.

Amendment of Indentures

Certain amendments to the Indentures and the Financing Agreements may be made without the consent of or notice to the registered owners of the Bonds. Such amendments may adversely affect the security for the Bonds.

LITIGATION

The Board

There is not now pending or, to the knowledge of the Board, threatened any litigation against the Board seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the validity of the Bonds or the proceedings of the Board under which they are to be issued, or which in any manner questions the right of the Board to enter into the Indentures or the Financing Agreements or to secure the Bonds in the manner provided in the Indentures or the Act.

The City

There is not now pending or, to the knowledge of the City, threatened any litigation against the City seeking to restrain or enjoin the issuance or delivery of the Bonds by the Board, or questioning or affecting the validity of the Bonds or the proceedings of the Board under which they are to be issued, or which in any manner questions the right of the Board's right to enter into the Indentures or the Financing Agreements or to secure the Bonds in the manner provided in the Indentures, the Act or the City's right to enter into the Financing Agreements. See "**TAX INCREMENT FINANCING IN MISSOURI - TIF Act Legal Challenge**" for a description of certain litigation that could impact the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Series 2007A, 2007B and 2007C Bonds will be subject to delivery by Robert Thomas CPA, LLC, Shawnee Mission, Kansas, certified public accountants, of a report verifying the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amounts of the securities held in the separate Escrow Funds, interest earned thereon and certain uninvested cash to pay the principal and redemption price of, and interest on, the applicable Series of Refunded Bonds (as described under "**PLAN OF FINANCE**") as such principal and redemption price and interest become due and payable, and (b) the mathematical computations supporting the conclusion that the Series 2007A, 2007B and 2007C Bonds are not "arbitrage bonds" under Section 148 of the Code.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Board are subject to the approval of Gilmore & Bell, P.C., Kansas City, Missouri, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Board by its counsel, Gilmore & Bell, P.C., Kansas City, Missouri. Certain legal matters relating to the Official Statement will be passed upon for the City and the Underwriter by Gilmore & Bell, P.C., Kansas City, Missouri. Certain legal matters will be passed upon for the City by its counsel, Allen Garner, City Counselor.

TAX MATTERS

General

The following is a summary of the material federal and state income tax consequences of holding and disposing of the Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of holders subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Missouri, does not discuss the consequences to an owner under state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Bonds in the secondary market at a premium or a discount. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Bonds. For this discussion, the Series 2007A Bonds, the Series 2007B Bonds and the Series 2007D Bonds are referred to as the "Tax-Exempt Bonds," and the Series 2007C Bonds are referred to as the "Taxable Bonds."

Tax-Exempt Bonds

Opinion of Bond Counsel. In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the Tax-Exempt Bonds (including any original issue discount properly allocated to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the Board and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds, in order that interest thereon be, or continue to be excluded from gross income for federal income tax purposes. The Board and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes retroactive to the date of issuance of such Tax-Exempt Bonds.

Tax-Exempt Bonds Purchased at a Discount. In the opinion of Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Series 2007A Bond maturing in the years 2013, 2014, 2015 and 2022, each Series 2007B Bond maturing in the years 2011, 2012, 2013, 2014, 2015, 2016 and 2017 and each Series 2007D Bond maturing in the years 2010, 2011, 2012, 2013, 2017 and 2020 (referred to herein as the "Tax-Exempt OID Bonds"), to the extent properly allocable to each owner of such Tax-Exempt Bond, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of a Tax-Exempt OID Bond over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the Tax-Exempt OID Bonds were sold. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. For an owner who acquires a Tax-Exempt OID Bond in this offering, the amount of original issue discount that accrues during any accrual period generally equals (i) the issue price of such Tax-Exempt OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity on such Tax-Exempt OID Bond (determined on the basis of

compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Tax-Exempt OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Tax-Exempt OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an Tax-Exempt OID Bond would be treated as gain from the sale or exchange of such Bond. Owners of Tax-Exempt OID Bonds should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for State and local income tax purposes, an amount of interest on the Tax-Exempt OID Bonds as income even though no corresponding cash interest payment is actually received during the tax year.

Tax-Exempt Bonds Purchased at a Premium. Certain of the Tax-Exempt Bonds have initial offering prices that exceed the stated redemption prices of such Tax-Exempt Bonds at maturity. The excess of the purchase price of a Tax-Exempt Bond over its stated redemption price at maturity constitutes premium on the Tax-Exempt Bond, and such Tax-Exempt Bonds are referred to hereafter as a "Premium Bond." Under Section 171 of the Code, the purchaser of a Premium Bond may elect to amortize any premium over the Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. For a holder of Premium Bond, the amortization of bond premium has no impact on the tax-exempt treatment of the interest on such Premium Bond. But the purchaser's adjusted tax basis in the Premium Bond is reduced by the amount of bond premium amortized. Such reduction in adjusted tax basis will increase the gain (or decrease loss) realized for federal income tax purposes upon a sale, exchange, redemption, or other disposition of such Premium Bond.

Bonds Not Bank-Qualified. The Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code.

Other Tax Consequences. Prospective purchasers of the Tax-Exempt Bonds should be aware that there may be tax consequences of purchasing the Tax-Exempt Bonds other than those discussed under "Opinion of Bond Counsel," including the following:

(1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Tax-Exempt Bonds or, in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Tax-Exempt Bonds.

(2) With respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Tax-Exempt Bonds.

(3) Interest on the Tax-Exempt Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.

(4) Passive investment income, including interest on the Tax-Exempt Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

(5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Tax-Exempt Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Tax-Exempt Bonds should consult their own tax advisors as to the applicability of these tax consequences.

Taxable Bonds

Opinion of Bond Counsel. In the opinion of Gilmore & Bell, P.C., Bond Counsel, stated interest on the Taxable Bonds is *included* in gross income as interest for federal income tax purposes. For federal income tax purposes, interest payments on the Taxable Bonds will be includable in an owner's gross income as interest in accordance with such owner's method of accounting for tax purposes. A cash basis owner will include interest in income when received (or when made available for receipt, if earlier). An accrual basis owner will generally include interest in income when all events necessary to establish the right to receive such interest have occurred.

Tax Matters Applicable to All Bonds

Sale, Exchange or Retirement of Bonds. Upon the sale, exchange or retirement (including redemption) of a Bond, an owner of the Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Bond. To the extent the Bonds are held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on Bonds, and to the proceeds paid on the sale of Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Missouri Income Tax Exemption. In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the Bonds is exempt from Missouri income taxes.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF THE TAXABLE BONDS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUERS IN THIS OFFICIAL STATEMENT, RELATING TO THE TAXABLE BONDS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY HOLDERS OF THE TAXABLE BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF THE TAXABLE BONDS UNDER THE INTERNAL REVENUE CODE; (B) THE DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF THE TAXABLE BONDS SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR BASED ON THEIR PARTICULAR UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE TAXABLE BONDS.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., has given the each Series of Bonds the rating shown on the cover page of this Official Statement. Such rating reflects only the view of Standard & Poor's, and any further explanation of the significance of such rating may be obtained only from the rating agency. The rating does not constitute a recommendation by the rating agency to buy, sell or hold any bonds, including the Bonds. There is no assurance that any rating when assigned to each Series of the Bonds will continue for any period of time or that it will not be revised or withdrawn. A revision or withdrawal of the rating when assigned to the Bonds may have an adverse affect on the market price of the Bonds.

FINANCIAL STATEMENTS

Audited financial statements of the City for the fiscal year ended June 30, 2006 excerpted from the City's Comprehensive Annual Financial Report are included in *Appendix B* to this Official Statement. These financial statements have been audited by Cochran, Head & Co., P.C., independent certified public accountants, to the extent and for the periods indicated in their report which is also included in *Appendix B* hereto.

CONTINUING DISCLOSURE

The City will execute Continuing Disclosure Agreements with respect to ongoing disclosure which will constitute the written understanding for the benefit of the holders of the Bonds required by Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. A summary of the Continuing Disclosure Agreement is included in *Appendix C*.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds pursuant to a bond purchase agreement entered into by and among the Board, the City and the Underwriter. The bond purchase agreement provides that the Underwriter will purchase the Series 2007A Bonds at a purchase price of \$19,634,759 (which represents the principal amount of the Series 2007A Bonds, \$19,390,000, plus a net reoffering premium of \$459,797.50, less an underwriter's discount of \$290,850, plus accrued interest in the amount of \$75,811.83). The bond purchase agreement provides that the Underwriter will purchase the Series 2007B Bonds at a purchase price of \$10,263,681.68 (which represents the principal amount of the Series 2007B Bonds, \$10,330,000, plus a net reoffering premium of \$52,291.05, less an underwriter's discount of \$154,950.00, plus accrued interest in the amount of \$36,340.63). The bond purchase agreement provides that the Underwriter will purchase the Series 2007C Bonds at a purchase price of \$9,931,404.24 (which represents the principal amount of the Series 2007C Bonds, \$10,060,000, less an underwriter's discount of \$176,050, plus accrued interest in the amount of \$47,454.24). The bond purchase agreement provides that the Underwriter will purchase the Series 2007D Bonds at a purchase price of \$972,304.11 (which represents the principal amount of the Series 2007D Bonds, \$995,000, less a net original issue discount of \$13,623.60, less an underwriter's discount of \$12,437.50, plus accrued interest in the amount of \$3,365.21). In addition, the bond purchase agreement provides, among other things, that the Underwriter will purchase all of the Bonds, including all Series of the Bonds, if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The City has agreed in the bond purchase agreement to indemnify the Underwriter against certain liabilities. The obligations of the Underwriter to accept delivery of the Bonds are subject to various conditions contained in the bond purchase agreement.

MISCELLANEOUS

The references herein to the Act, the Indentures, the Financing Agreements and the Continuing Disclosure Agreement are brief outlines of certain provisions thereof and do not purport to be complete. For full and complete statements of the provisions thereof, reference is made to the Act, the Indentures, the Financing Agreements and the Continuing Disclosure Agreement. Copies of such documents are on file at the offices of the Underwriter and following delivery of the Bonds will be on file at the office of the Trustee.

The agreement of the Board with the owners of the Bonds is fully set forth in the Indentures, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. Statements made in this Official Statement involving estimates, projections or matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact.

The Cover Page hereof and the Appendices hereto are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The execution and delivery of this Official Statement has been duly authorized by the City, and its use has been approved by the Board.

CITY OF INDEPENDENCE, MISSOURI

By: /s/ Robert Heacock
City Manager

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APPENDIX A

INFORMATION CONCERNING THE CITY OF INDEPENDENCE, MISSOURI

APPENDIX A

INFORMATION CONCERNING THE CITY OF INDEPENDENCE, MISSOURI

TABLE OF CONTENTS

	<u>Page A-</u>
THE CITY	1
General Information.....	1
Employee Retirement System	1
Insurance	1
Payment Record	2
ECONOMIC INFORMATION CONCERNING THE CITY	2
Commerce and Industry.....	2
General and Demographic Information	3
Income Statistics	4
Housing Structures.....	4
Building Construction.....	4
FINANCIAL INFORMATION CONCERNING THE CITY.....	5
Accounting, Budgeting and Auditing Procedures	5
Tax Revenues.....	6
Property Valuations	6
Obligations of the City.....	8
Capital Leases	15
Overlapping or Underlying Indebtedness Debt	15

THE CITY

General Information

Incorporated in 1849, the City is the county seat of Jackson County and adjoins Kansas City, Missouri to the west. The City is the fourth largest City in Missouri.

The City is organized under the laws of the State of Missouri and operates under a Constitutional Charter approved by the voters in October 1961. The City is governed according to a Council-Manager Plan. The City Council, which consists of seven members, including the Mayor, is the legislative governing body of the City. Non-partisan elections are held every two years to provide for staggered terms of office. The Mayor and two at-large council members are elected to four-year terms and, in alternating elections, the four district council members are elected to four-year terms.

The present Mayor and members of the Council, their occupations and terms are listed below:

<u>Councilmembers</u>	<u>Occupation</u>	<u>District</u>	<u>Expiration of Term</u>
Don B. Reimal, Mayor	Retired	n/a	2010
Marcie Gragg	Church leader	District 1	2008
Will Swoffer	Retired	District 2	2008
Renee Paluka	Commodity buyer	District 3	2008
Jim Page	Retired	District 4	2008
Jim Schultz	Insurance agent	At-Large	2010
Lucy Young	Secretary	At-Large	2010

The City Council appoints a City Manager who is the chief executive and administrative officer of the City. Robert Heacock is the City Manager. The Director of Finance, who is appointed by the City Manager, acts as the chief financial officer of the City. This position is currently held by James C. Harlow, appointed in March, 1984. The City Manager appoints the City Counselor who acts as the chief legal advisor to the City.

Historically, the character of the City has been viewed as predominantly residential. In recent years industrial and commercial expansion in the City has accompanied the growth in population. The City has several industrial sites which have been set aside to assure orderly development in light of anticipated increases in industrial activity.

Employee Retirement System

The City participates in the Missouri Local Government Employees Retirement System (LAGERS) which is a statewide multi-employer retirement system and covers all City employees. The City makes all required contributions to this plan. The total pension expense for the years ended June 30, 2005 and 2006 was \$4,849,276 and \$5,432,144, respectively.

Insurance

The City self-insures for workers' compensation claims up to \$500,000 per accident and purchases excess worker's compensation insurance coverage from Midwest Employers Casualty Company for claims exceeding the \$500,000 retention limit per accident.

The City purchases all-risk property insurance from Hartford Steam Boiler Insurance Company, Liberty International Insurance Company, and Zurich American Insurance Company that provides coverage for all real and personal property owned by the City. The replacement cost property insurance policy has a blanket loss limit of \$200 million. Risk covered include property damage, flood, debris removal, ordinance/laws coverage, property in transit, earthquake, extra expense, pollution clean-up, and expediting repairs. The all-risk property

insurance coverage is subject to a \$50,000 per occurrence deductible, except for a \$1,000,000 per occurrence deductible at the Blue Valley and Missouri City Power Stations and all other power generating facilities.

The City purchases replacement cost boiler and machinery insurance coverage from Hartford Steam Boiler, Liberty International Insurance Company, and Zurich American that provides for \$75 million in coverage per occurrence. Boiler and machinery insurance provides coverage for sudden breakdown of insured equipment and it also provides coverage for expediting expenses, ammonia contamination, water damage and hazardous material clean-up. The boiler and machinery insurance coverage is subject to a \$50,000 per occurrence deductible, a \$1,000,000 per occurrence deductible for electrical injury and various deductibles for power generating facilities.

The City purchases general liability, public officials' liability, and third party automobile liability insurance coverage from the Missouri Public Entity Risk Management Fund (MOPERM). The MOPERM policies provide \$2 million in coverage per occurrence, subject to a \$10,000 general liability deductible, a \$10,000 public officials deductible and a \$100,000 deductible for third party automobile liability. The City self-insures its fleet of vehicles for collision and comprehensive coverages.

The City purchases excess liability insurance coverage from Self-Insured Retention Programs, Inc. (SIRPRO). The SIRPRO policy provides an additional \$5 million in liability insurance above the insurance coverage provided by MOPERM for claims that are not subject to the State's Sovereign Immunity Statute.

Payment Record

The City has never defaulted on any financial obligations.

ECONOMIC INFORMATION CONCERNING THE CITY

Commerce and Industry

Some major employers in Independence, Missouri, include:

<u>Employer</u>	<u>Product/Service</u>	<u>Number of Employees</u>
1. Alliant Tech Systems	Small Arms Ammunition	2,100
2. Independence School District	Education	1,800
3. City of Independence	Government	1,176
4. Independence Reg. Health Center	Medical Care	1,035
5. Medical Center of Independence	Medical Care	565
6. Burd & Fletcher	Paper cartons	350
7. GEHA	Medical Insurance Service Center	350
8. Unilever (Thomas J. Lipton)	Tea, Salad Dressings, Seasonings	330
9. Jackson County Circuit Court	Government	274
10. Mid-Continent Library	Library Services	248

Source: Independence Council for Economic Development.

General and Demographic Information

The following tables set forth certain population information.

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2006*</u>
City of Independence	111,797	112,301	113,867	115,953
Jackson County	629,266	633,232	654,880	661,695
State of Missouri	4,916,776	5,116,901	5,595,211	5,810,759

Source: U.S. Census Bureau.

*Estimate: Source – Claritas, Inc.

Population Distribution by Age

<u>Age</u>	<u>City of Independence</u>	<u>Jackson County</u>	<u>State of Missouri</u>
Under 5	6.92%	7.43%	6.37%
5-9 years	6.42	6.81	6.36
10-14 years	6.33	6.86	6.77
15-20 years	7.40	8.01	8.86
21-24 years	4.82	5.12	5.73
25-34 years	12.67	13.44	12.80
35-44 years	13.96	14.88	14.19
45-54 years	14.63	14.63	14.56
55-59 years	6.23	5.82	5.93
60-64 years	5.24	4.54	4.84
65-74 years	7.74	6.31	6.98
75-84 years	5.59	4.40	4.74
85 and older	2.06	1.74	1.87
Median Age	38.91	36.56	37.19
Average Age	39.15	37.12	37.94

Source: Claritas, Inc.

The following table sets forth unemployment figures for the last five years for the Kansas City MSA, Jackson County and the State of Missouri. These data are considered provisional and may be subject to change.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Kansas City MSA</u>						
Total Labor Force	1,009,012	1,129,779	1,024,408	1,027,329	1,032,952	1,072,119
Unemployed	44,160	664,450	61,703	57,874	58,290	53,850
Unemployment Rate	4.4%	5.3%	6.0%	5.6%	5.6%	5%
<u>Jackson County</u>						
Total Labor Force	371,514	363,912	372,046	368,649	347,803	341,598
Unemployed	18,737	23,717	25,206	24,803	21,942	19,248
Unemployment Rate	5.0%	6.5%	6.8%	6.7%	6.3%	5.6%
<u>State of Missouri</u>						
Total Labor Force	2,970,118	2,954,307	3,020,592	3,028,076	3,024,642	3,032,434
Unemployed	139,715	147,588	170,126	161,096	163,555	146,577
Unemployment Rate	4.7%	5.0%	5.6%	5.3%	5.4%	4.8%

Source: MERIC

Income Statistics

The following table sets forth income figures from the 2000 census and an estimate for 2006.

	<u>Per Capita</u>		<u>Median Household</u>	
	<u>2000</u>	<u>2006</u>	<u>2000</u>	<u>2006</u>
City of Independence	\$19,384	\$22,701	\$45,876	\$54,258
Jackson County	20,788	24,325	48,435	57,900
State of Missouri	19,936	23,472	37,934	54,916

Source: U.S. Census Bureau and Claritas, Inc.

Housing Structures

The following table sets forth statistics regarding housing structures by type in the City for 2006:

<u>Housing type</u>	<u>Number of Units</u>	<u>Percentage of Units</u>
Single Detached	35,697	70.93%
Single Attached	1,767	3.51
Double	2,216	4.40
3 to 19 Units	6,531	12.98
20 to 49 Units	1,038	2.06
50 + Units	1,529	3.04
Mobile Home	1,526	3.03
All Other	24	0.05
Total Units	50,328	100.00%

Source: Claritas, Inc.

The median value of owner occupied housing units in the area of the City and related areas was, according to the 2000 census and an estimate for 2006 by Claritas, Inc., as follows:

	<u>Median Value</u>	
	<u>2000</u>	<u>2006</u>
City	\$77,000	\$ 99,608
Jackson County	85,000	116,298
State of Missouri	89,900	120,136

Source: U.S. Census Bureau and Claritas, Inc.

Building Construction

The following table indicates the number of building permits and total estimated valuation of these permits issued within the City over a five-year period. These numbers reflect permits issued either for new construction or for major renovation.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>Residential</i>					
Number of Permits	596	744	657	737	567
Estimated Cost	\$39,941,328	\$51,015,505	\$47,280,932	\$66,838,976	\$40,861,800
<i>Non-Residential</i>					
Number of Permits	158	204	186	188	150
Estimated Cost	\$47,467,165	\$78,904,822	\$50,594,507	\$32,069,290	\$52,568,560

Source: City's Community Development Department

FINANCIAL INFORMATION CONCERNING THE CITY

Accounting, Budgeting and Auditing Procedures

The City currently produces financial statements that are in conformity with generally accepted accounting principles. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. The City has implemented the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*.

An annual budget is prepared under the direction of the City Manager and submitted to the City Council for consideration prior to the fiscal year commencing on July 1. The operating budget includes proposed expenditures and revenue sources. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through the adoption of an ordinance. The primary basis of budgetary control is at the departmental level. The City Manager is authorized to transfer budgeted amounts between programs within any department; however, any revisions that alter the total expenditures of any department must be approved by the City Council. Formal budgetary integration is employed as a management control device during the year for all funds. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

The financial records of the City are audited annually by a firm of independent certified public accountants in accordance with generally accepted governmental auditing standards. The annual audit for the fiscal year ending June 30, 2005 was performed by Cochran, Head & Co., P.C., Kansas City, Missouri. Copies of the audit reports for the past 5 years are on file in the City Manager's Office and are available for review.

Tax Revenues

The following table shows General Governmental Tax Revenues by Source received by the City including General, Special Revenue and TIF funds for the last ten years.

<u>Year</u>	<u>Total</u>	<u>Real Estate Tax</u>	<u>Railroad Utilities Tax</u>	<u>Cigarette Tax</u>	<u>Transient Guest Tax</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>In Lieu of Taxes</u>
1996	\$31,417,798	\$4,974,581	\$56,733	\$513,102	\$ 366,246	\$12,497,734	\$5,525,140	\$ 7,484,262
1997	33,392,131	6,063,867	60,981	472,758	396,654	12,609,492	6,246,845	7,541,534
1998	36,672,503	6,388,695	55,405	600,206	419,719	15,500,936	5,711,768	7,995,774
1999	40,251,255	6,747,561	39,291	579,968	424,286	18,479,114	5,662,192	8,318,843
2000	46,629,545	7,157,444	38,824	634,169	432,564	24,240,691	5,695,790	8,430,063
2001	53,226,616	7,639,179	39,169	595,259	443,670	27,997,519	7,004,453	9,507,367
2002	54,521,441	7,251,844	45,912	594,665	471,450	30,800,658	6,545,093	8,811,819
2003	56,496,560	8,155,079	45,144	583,785	680,605	30,926,980	6,718,262	9,386,705
2004	58,836,592	8,876,875	38,401	622,835	859,643	31,484,590	7,241,436	9,712,812
2005*	57,539,568	6,523,970	40,720	604,872	887,450	31,802,883	7,500,356	10,179,317
2006*	64,920,638	6,865,462	29,861	596,603	1,000,809	36,157,440	7,645,602	12,624,861

* Change in presentation from years prior to the 2005 fiscal year. Does not include component unit/Tax Increment Financing as in prior years.

Property Valuations

Assessment Procedure:

All taxable real and personal property within the City is assessed annually by the County Assessor. Missouri law requires that real property be assessed at the following percentages of true value:

Residential real property	19%
Agricultural and horticultural real property	12%
Utility, industrial, commercial, railroad and all other real property	32%

A general reassessment of real property occurred statewide in 1985. In order to maintain equalized assessed valuations following this reassessment, the Missouri General Assembly adopted a maintenance law in 1986. Beginning January 1, 1987, and every odd-numbered year thereafter, each County Assessor must adjust the assessed valuation of all real property located within his or her county in accordance with a two-year assessment and equalization maintenance plan approved by the State Tax Commission.

The assessment ratio for personal property is generally 33-1/3% of true value. However, subclasses of tangible personal property are assessed at the following assessment percentages: grain and other agricultural crops in an unmanufactured condition, 1/2%; livestock, 12%; farm machinery, 12%; historic motor vehicles, 5%; and poultry, 12%.

The County Assessor is responsible for preparing the tax roll each year and for submitting the tax roll to the Board of Equalization. The County Board of Equalization has the authority to adjust and equalize the values of individual properties appearing on the tax rolls.

Current Assessed Valuation:

The following table shows the total assessed valuation, by category, of all taxable tangible property situated in the City according to the assessment of January 1, 2006 (the last completed assessment):

	<u>Assessed Valuation*</u>	<u>Assessment Rate</u>	<u>Actual Valuation</u>
Real Estate:			
Residential	\$ 789,999,343	19%	\$4,157,891,279
Commercial	255,766,766	32	799,271,144
Agricultural	<u>1,132,567</u>	12	<u>9,438,058</u>
Real Estate Sub-Total	\$1,046,898,676		\$4,966,600,481
Railroad and Utilities	6,349,801	32 or 33-1/3	20,643,891
Personal Property	<u>266,654,033</u>	33-1/3*	<u>771,117,532</u>
Total	\$1,319,902,510		\$5,787,206,471

* Assumes all personal property is assessed at 33-1/3%; because certain subclasses of tangible personal property are assessed at less than 33-1/3%, the estimated actual valuation for personal property would likely be greater than that shown above. See "Assessment Procedure" discussed above.

History of Property Valuation:

The total assessed valuation of all taxable tangible property situated in the City, including state assessed railroad and utility property, according to the assessments of January 1 in each of the following years, has been as follows:

<u>Year</u>	<u>Assessed Valuation</u>	<u>Percent Change</u>
2006	\$1,319,902,510	2.0%
2005	1,294,345,907	8.1
2004	1,197,742,533	2.1
2003	1,172,491,869	3.7
2002	1,075,178,240	3.7
2001	1,037,117,752	6.1
2000	977,928,272	1.3
1999	965,098,107	8.0
1998	893,405,364	0.9

Source: Jackson and Clay Counties Assessor's Office

Major Property Taxpayers:

The following table sets forth the ten largest real property taxpayers in the City based upon assessed valuation as of June 30, 2005.

<u>Name of Taxpayer</u>	<u>Type</u>	<u>Local Assessed Valuation</u>	<u>Percentage of Total Local Assessed Valuation</u>
Simon Property Group LP	Retail Center	\$19,238,350	1.46%
DDR MDT Independence Commons	Retail Center	9,611,830	0.73
Geospace	Warehouse	8,848,360	0.67
Bradley Operating LTD PTP	Retail Center	7,661,437	0.58
Noland Fashion Square	Retail	5,103,999	0.39
Southern Union Railroad	Utility	4,257,589	0.32
Sprint Spectrum	Communications	4,166,300	0.32
Burd & Fletcher	Paper Cartons	3,814,618	0.29
Southwestern Bell	Communications	3,635,212	0.28
Independence Regional Health	Hospital	3,353,692	0.25
Total		\$69,691,387	3.84%

Source: Jackson County Collection Department

Obligations of the City

General Obligation Debt

The State Constitution permits a city, by vote of two-thirds of the voting electorate, to incur general obligation indebtedness for "City purposes" not to exceed 10% of the assessed value of taxable tangible property. The State Constitution also permits a city, by vote of two-thirds of the voting electorate under a special election or four-sevenths under a general election, to incur additional general obligation indebtedness not exceeding, in the aggregate, an additional 10% of the assessed value of taxable tangible property. The additional indebtedness is allowed for the purpose of acquiring rights-of-way, constructing, extending and improving streets and avenues and/or sanitary or storm sewer systems, and purchasing or constructing waterworks, electric or other light and plants, provided that the total general obligation indebtedness of the city does not exceed 20% of the assessed valuation of taxable property.

The City had no General Obligation debt outstanding as of April 1, 2007. However, as of that date the City did have the following Neighborhood Improvement District bonds outstanding:

(i) \$99,000 of its Neighborhood Improvement District Bonds (Fall Drive Sanitary Sewer Project) Series 2004B, issued in the original principal amount of \$111,000, and

(ii) \$825,000 of its Neighborhood Improvement District Bonds (Noland Road and Englewood Projects) Series 2004, issued in the original principal amount of \$995,000.

Neighborhood Improvement District bonds are payable from special assessments on certain real property within the district. If not so paid, such bonds are then payable from any reserve fund established for the bonds and then, pursuant to a full faith and credit pledge of the City, from any available funds. However, the City is not authorized nor obligated to levy taxes for the repayment of such bonds. Such bonds do count against the constitutional general obligation bond limitations described above.

Revenue Debt. The following is a summary of the City's Revenue Bond debt:

	<u>Balance Payable</u>
<u>Power and Light Fund:</u>	
\$23,520,000 1998 Electric Utility Refunding Bonds, due in annual installments of \$700,000 to \$2,040,000 through June 1, 2014, interest at 4.00% to 4.8%, callable at par after June 1, 2003, less Deferred Loss on Refunding of \$1,560,444 (as of 05/01/2007)	\$12,414,556
\$5,975,000 2003 Electric Utility Refunding Revenue Bonds, due in annual installments of \$435,000 to \$660,000 through June 1, 2014, interest at 2.0% to 3.65%, callable at par after June 1, 2012. less Deferred Loss on Refunding \$853,377 (as of 05/01/2007)	\$3,691,623
<u>Water Fund:</u>	
\$36,000,000 Water Utility Revenue Bonds, Series 1986, principal due in annual installments of \$850,000 to \$5,010,000 through November 1, 2016, interest at approximately 3.25% to 5% callable at par (as of 05/01/2007)	\$26,755,000
\$14,785,000 Missouri Development Finance Board ("MDFB" or the "Board") Infrastructure Facilities Revenue Bonds, Series 2004, principal due in annual installments of \$490,000 to \$1,105,000, interest at approximately 3.375% to 5.00% callable at par (as of 05/01/2007)	\$13,795,000
<u>Bonds Secured by the City's Annual Appropriation Powers</u>	
On June 16, 1999, at the request of the City, MDFB issued \$7,240,000 in Infrastructure Facilities Revenue Bonds, Series 1999A, due in annual installments of \$270,000 to \$835,000 through June 1, 2011 and bearing interest rate at 4.00% to 5.25%. The proceeds of the bonds were loaned by MDFB to the City and are to be used for reimbursement of redevelopment costs related to the Bolger Square project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City, which loan payments are secured by a pledge of certain tax increment revenues, and if not paid from such tax revenues, from the City's general fund, subject to annual appropriation. (as of 05/01/2007)	\$3,105,000
On June 28, 2000, at the request of the City, MDFB issued \$530,000 in Infrastructure Facilities Revenue Bonds, Series 2000A, due in annual installments of \$40,000 to \$65,000 through June 1, 2010 and bearing interest at rates ranging from 5.00% to 6.25%. The proceeds of the bonds were loaned by MDFB to the City and are to be used to pay for various capital improvement projects in buildings owned by the City. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)	\$245,000

Balance Payable

On August 22, 2001, at the request of the City, MDFB issued \$1,635,000 in Infrastructure Facilities Revenue Bonds, Series 2001, due in annual installments of \$160,000 to \$215,000 through June 1, 2010 and bearing interest at rates ranging from 4.20% to 4.40%. The proceeds of the bonds were loaned by MDFB to the City and used to pay for various capital improvement to City buildings and to provide the City with additional capitalized interest in the amount of \$500,000 which was used to pay a portion of the City's loan payment to the Board in connection with the Hartman Heritage Center redevelopment project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)

\$800,000

On September 25, 2003, at the request of the City, MDFB issued \$8,715,000 in Infrastructure Facilities Revenue Bonds, Series 2003, due in annual installments of \$135,000 to \$455,000 through April 1, 2021 and bearing interest at rates ranging from 2.00% to 5.00%. The proceeds of the bonds were loaned by MDFB to the City and are to be used for reimbursement of redevelopment costs related to Hartman Heritage Phase II project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City, which loan payments are secured by a pledge of certain tax increment revenues, and if not paid from such tax revenues, from the City's general fund, subject to annual appropriation. (as of 05/01/2007)

\$8,205,000

On May 26, 2004, at the request of the City, MDFB issued \$1,245,000 in Infrastructure Facilities Revenue Bonds, Series 2004, due in annual installments of \$230,000 to \$270,000 through June 1, 2009 and bearing interest at the rates ranging from 2.25% to 4.25%. The proceeds of the bonds were loaned by MDFB to the City to refund a prior series of bonds issued by MDFB in 2001 to pay for various capital improvement to the Truman Memorial Building. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)

\$780,000

On October 1, 2004, at the request of the City, MDFB issued \$6,175,000 in Infrastructure Facilities Revenue Bonds, Series 2004, due in annual installments of \$300,000 to \$450,000 through April 1, 2013 and bearing interest at the rates ranging from 3.00% to 4.50%. The proceeds of the bonds were loaned by MDFB to the City to construct a new aquatics center. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)

\$4,845,000

On March 9, 2005, at the request of the City, MDFB issued \$8,225,000 in Infrastructure Facilities Revenue Bonds, Series 2005A, due in annual installments of \$670,000 to \$1,010,000 through April 1, 2015 and bearing interest at the rates ranging from 4.00% to 5.25% The proceeds of the bonds were loaned by MDFB to the City to construct public safety projects. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007) \$6,860,000

On March 9, 2005, at the request of the City, MDFB issued \$1,030,000 in Infrastructure Facilities Revenue Bonds, Series 2005B, due in annual installments of \$50,000 to \$90,000 through April 1, 2020 and bearing interest at the rates ranging from 3.00% to 4.50% The proceeds of the bonds were loaned by MDFB to the City to be used for reimbursement of redevelopment costs related to the Drumm Farm project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of certain tax increment revenues, and if not paid from such revenues from the City's general fund, subject to annual appropriation. (as of 05/01/2007) \$925,000

On March 9, 2005, at the request of the City, MDFB issued \$11,325,000 in Infrastructure Facilities Revenue Bonds, Series 2005C, due in annual installments of \$185,000 to \$1,270,000 through April 1, 2026 and bearing interest at the rates ranging from 4.00% to 5.25% The proceeds of the bonds were loaned by MDFB to the City to be used for reimbursement of redevelopment costs related to Crackerneck Creek project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of certain tax increment revenues, and if not paid from such revenues from the City's general fund, subject to annual appropriation. (as of 05/01/2007) \$11,325,000

On May 21, 2005, at the request of the City, MDFB issued \$4,970,000 in Infrastructure Facilities Revenue Bonds, Series 2005, due in annual installments of \$595,000 to \$665,000 through April 1, 2009 and bearing interest at the rates ranging from 3.25% to 4.0% The proceeds of the bonds were loaned by MDFB to the City to be used for various street projects. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007) \$2,575,000

On March 30, 2006, at the request of the City, MDFB issued \$34,340,000 in Infrastructure Facilities Revenue Bonds, Series 2006A, due in annual installments of \$340,000 to \$5,385,000 from April 1, 2009 through April 1, 2024 and bearing interest at rates ranging from 5.30% to 6.00%. The proceeds of the bonds were loaned by MDFB to the City to be used for reimbursement of redevelopment costs related to Crackerneck Creek project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of lease payments to be made by Bass Pro Shops Outdoor World and by a subordinate pledge of certain tax increment revenues, and if not paid from such payments and revenues, from the City's general fund, subject to annual appropriation. (as of 05/01/2007). \$34,340,000

On March 30, 2006, at the request of the City, MDFB issued \$14,030,000 in Infrastructure Facilities Revenue Bonds, Series 2006B, due in annual installments of \$1,340,000 to \$8,225,000 from April 1, 2024 through April 1, 2026 and bearing interest at the rate of 5.79%. The proceeds of the bonds were loaned by MDFB to the City to be used for reimbursement of redevelopment costs related to Crackerneck Creek project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of lease payments to be made by Bass Pro Shops Outdoor World and by a subordinate pledge of certain tax increment revenues, and if not paid from such payments and revenues, from the City's general fund, subject to annual appropriation. (as of 05/01/2007).	\$14,030,000
On March 30, 2006, at the request of the City, MDFB issued \$12,790,000 in Infrastructure Facilities Revenue Bonds, Series 2006C, due in annual installments of \$3,500,000 to \$5,385,000 from April 1, 2026 through April 1, 2028 and bearing interest at the rate of 5.00%. The proceeds of the bonds were loaned by MDFB to the City to be used for reimbursement of redevelopment costs related to Crackerneck Creek project. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of certain tax increment revenues and a subordinate lien on lease payments to be made by Bass Pro Shops Outdoor World, and if not paid from such revenues from the City's general fund, subject to annual appropriation. (as of 05/01/2007)	\$12,790,000
On May 17, 2006, at the request of the City, MDFB issued \$1,590,000 in Infrastructure Facilities Revenue Bonds, Series 2006, due in annual installments of \$70,000 to \$170,000 through April 1, 2020 and bearing interest at the rates ranging from 4.00% to 4.625%. The proceeds of the bonds were loaned by MDFB to the City to be used to reimburse the City for a portion of the cost of the public improvements for the Drumm Farm development. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by a pledge of certain tax increment revenues, and if not paid from such revenues from the City's general fund, subject to annual appropriation. (as of 05/01/2007)	\$1,520,000
On December 12, 2006, at the request of the City, MDFB issued \$5,485,000 in Infrastructure Facilities Revenue Bonds, Series 2006D, due in annual installments of \$1,010,000 to \$1,190,000 through April 1, 2013 and bearing interest at the rate of 4.25%. The proceeds of the bonds were loaned by MDFB to the City to be used to pay the costs of the Parks Facilities Project, consisting of construction of the Independence Athletic Complex and Community Park. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)	\$5,485,000

On December 12, 2006, at the request of the City, MDFB issued \$2,770,000 in Infrastructure Facilities Revenue Bonds, Series 2006E, due on April 1, 2009 and bears interest at the rate of 4.25% The proceeds of the bonds were loaned by MDFB to the City to be used to pay the costs street improvements. These bonds are payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments are secured by an annual appropriation pledge of the City's general fund. (as of 05/01/2007)	\$2,770,000
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On December 12, 2006, at the request of the City, MDFB issued \$4,980,000 in Infrastructure Facilities Revenue Bonds, Series 2006F, due in annual installments of \$120,000 to \$445,000 through April 1, 2028 and bearing interest at the rates ranging from 4.00% to 4.25% The proceeds of the bonds were loaned by MDFB to the City to be used to fund the Public Safety Facility, the Building Rehabilitation Fund and the Public Road Improvements and to fund Developer Reimbursable Project Costs. These bonds are payable solely from, and secured by tax increment revenues, a portion of Payment in Lieu of Taxes, are not subject to annual appropriation. (as of 05/01/2007)	\$4,980,000
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Future Obligations

On October 18, 2004 the City approved an ordinance that approved the tax increment financing plan, established the redevelopment area, designated the redevelopment area as blighted, and designated Crackerneck Creek, L.L.C. as the developer for all projects in the redevelopment area. The Crackerneck Creek Tax Redevelopment Project includes the development and construction of a proposed 450,000 square foot commercial retail center. The Crackerneck Creek project will include an approximately 150,000 square foot Bass Pro Shops Outdoor World retail store, and is expected to include a minimum of 300,000 square feet of additional retail space and a hotel. Under a lease with the City, Bass Pro will be required to operate its retail store for a twenty (20) year period and will make lease payments to the City equal to approximately 2% of gross sales. MDFB has passed a resolution expressing its intent to issue one or more series of bonds to finance the City's costs associated with this development. The bonds are expected to be issued in an approximate principal amount of \$90,000,000. Proceeds of the bonds will fund reimbursable redevelopment project costs that are currently estimated to be approximately \$73,600,000, plus all financing costs, capitalized interest, credit enhancement costs, if any, and adequate reserves. The City expects that these bonds will be payable solely from, and secured by, an assignment and a pledge of loan payments made by the City pursuant to a financing agreement between the Board and the City. The City's loan payments will be secured by a pledge of the Bass Pro lease payments, certain tax increment revenues (local and state sales taxes and property taxes), and if not paid from such lease payments and tax revenues, from the City's general fund, subject to annual appropriation. As noted above, MDFB issued the first series of these bonds on March 9, 2005 in the principal amount of \$11,325,000. The second, third and fourth series of bonds were issued on March 30, 2006, in the aggregate principal amount of \$61,160,000.

In addition to bonds expected to be issued for the Drumm Farm Project and the Crackerneck Creek Project, the City expects to issue additional bonds secured by the City's annual appropriation authority.

Capital Leases

Capital leases payable at June 30, 2005 consist of the following:

Emergency One, Inc., interest at 6.31%, annual installments through October 2007. A lease to purchase an Emergency One Model V803 Commercial Pumper Fire Apparatus.	\$41,820
IBM Corporation, interest at 5.77% to 6.37% annual installments through April 2007. A lease to purchase computer equipment.	37,888

IBM Corporation, interest at 2.64% to 6.10%, monthly installments through 2008 for computer equipment	34,841
Sun Trust Leasing, interest at 4.19%, annual installments through July 2013; a lease to purchase a fire truck	<u>622,821</u>
TOTAL	\$737,370

Overlapping or Underlying Indebtedness Debt

The following table sets forth overlapping and underlying general obligation and lease indebtedness of political subdivisions with boundaries overlapping the City as of June 30, 2005, and the percent attributable (on the basis of assessed valuation figures) to the City. The table was compiled from information furnished by the jurisdictions responsible for the debt, and the City has not independently verified the accuracy or completeness of such information. Furthermore, political subdivisions may have ongoing programs requiring the issuance of substantial additional bonds, the amounts of which cannot be determined at this time.

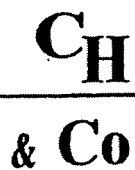
<u>Jurisdiction</u>	<u>General Obligation Bond Issues Outstanding*</u>	<u>Percentage Applicable to City of Independence</u>	<u>Amount Applicable to City of Independence</u>
City of Independence	\$ 0	-	\$ 0
Jackson County	0	-	0
Jackson County School Districts:			
Metropolitan Junior College	0	-	0
Independence	71,573,358	100.0%	71,573,358
Kansas City	0	-	0
Raytown	65,675,000	6.0	3,940,500
Blue Springs #4	110,894,988	20.0	22,178,998
Fort Osage #1	<u>23,279,674</u>	12.5	<u>2,909,959</u>
TOTAL	\$271,423,020		\$100,602,815

* Does not include amounts available in certain debt service funds

APPENDIX B

**ACCOUNTANTS' REPORT AND AUDITED FINANCIAL STATEMENTS
OF THE CITY OF INDEPENDENCE, MISSOURI
FOR FISCAL YEAR ENDED JUNE 30, 2006**

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COCHRAN, HEAD & CO., P.C.

Certified Public Accountants

10034 NW Ambassador Dr.
Kansas City, MO 64153
(816) 584-9955
Fax (816) 584-9958

Independent Auditors' Report

**The Honorable Mayor and Members of the City Council
City of Independence, Missouri**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Independence, Missouri, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flow, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Offices

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Kansas City, KS 66102
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information and schedules of funding progress and employer contributions, which appear as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City. The introductory section, combining and individual fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, schedules and budgetary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 27, 2006

Coding, Hand Hb PC

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

This section of the City of Independence's comprehensive annual financial report presents our review of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

The City's total net assets increased over \$49.7 million. \$40 million or 80% was from the City's 'governmental-type activities' and the balance was from 'business activities'. The City is recording infrastructure assets acquired prior to fiscal year 2002, in conformance with GASB Statement No. 34, this is further explained in the 'Notes to the Financial Statements' section 15.

Growth in sales tax revenue was 13.4%. Most of this increase can be attributed to the new public safety sales taxes, which were collected for twelve months this fiscal year compared to only 6 months in the prior fiscal year. The growth in sales tax revenue for other Funds has improved over the previous several years.

The State authorized legislation that is intended to settle the dispute between cell phone providers and local jurisdictions concerning franchise fees was implemented on July 1, 2006. It was subsequently over-turned by the Missouri Supreme Court in August. The City's Code allowed for this possibility and the business license fee reverted to the pre-July 1st rate of 9.08%. The impact of this decision is yet to be determined.

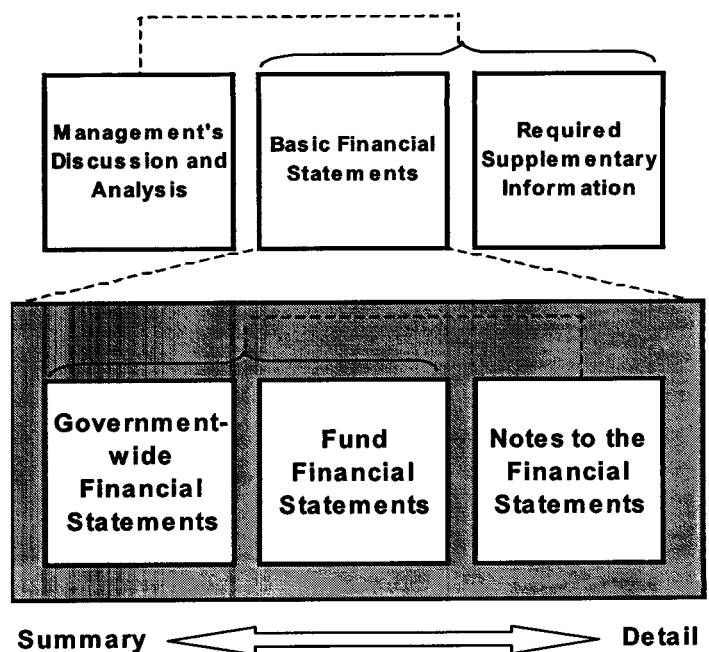
Site work continues on the tax increment financing project for a retail development of almost 700,000 square feet that includes a Bass Pro Shops Outdoor World store and theme hotel.

Construction is continuing on Centerpoint hospital. This is the new \$250,000,000 state of the art medical center that will consolidate the two medical facilities in the City. The medical office building is complete and the hospital is expected to open during early 2007.

The City has completed the installation of a 700 MHz inter-operative communications system. This project received significant funding from Homeland Security with the intent of allowing multiple departments and jurisdictions to communicate with each other.

The City is participating with the Kansas City Area Transportation Authority to develop a transit center at the corner of Noland and Truman Roads.

Figure MD-1
Required Components of City of Independence's
Annual Financial Report



CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

Overview Of The Financial Statements

This annual report consists of four parts, management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operation in more detail than the government-wide statements:
 - The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as, what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like a business, such as the electric, water and sanitary sewer systems.
 - Fiduciary fund statements provide information about financial relationships for which the City acts solely as a trustee or agent for the benefit of others, to whom the underlying resources belong, such as the Seniors Travel Fund, and Flexible Benefit Plan Fund.

The financial statements also include notes that provide additional explanatory information to the financial statements. The statements are followed by a section of required supplementary information, which explains and supports the information in the financial statements. Figure MD-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure MD-2
Major Features of the City of Independence's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: electric, water, and sanitary sewer	Instances in which the City is the trustee or agent for someone else's resources
Required financial Statements	* Statement of net assets	* Balance Sheet	* Statement of net assets	* Statement of fiduciary net assets
	* Statement of activities	* Statement of revenues, expenditures, and changes in fund balances	* Statement of revenues, expenses, and changes in net assets * Statement of cash flows	* Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Figure MD-2 summarizes the components of the City's financial statements, including the portion of the City government, which each covers and the types of information each contain. The remainder of this section explains the structure and content of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. The term "Net assets" refers to the difference between the City's assets and liabilities and is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To further assess the overall health of the City additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads, should be considered.

The government-wide financial statements of the City can be divided into two categories:

- Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, as well as, general administration. Property taxes, sales taxes, and state and federal grants finance most of these activities.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's electric, water, and sanitary sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by the City's Charter, State Statutes, and bond covenants.

The Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

The City has three kinds of funds:

- **Governmental funds** – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds** – Business operations for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - The City's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - We use internal service funds to report activities that provide supplies and services for the City's other programs and activities. The City has two internal service funds. These are the self-funded health insurance fund and central garage fund.
- **Fiduciary funds** – Periodically, the City may be responsible for other assets that have been given to the City under the terms of a trust agreement initiated by an outside third party. Generally these funds are limited in use for the benefit of the designated trust beneficiary. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Currently, the City is the trustee, or fiduciary, for the following funds: Vaile Mansion/Anderson Trust Fund, Susie Paxton Block Trust Fund, Seniors Travel Fund, and the Flexible Benefit Plan Fund. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The following Table (MD-1) reflects the condensed Statement of Net Assets:

Table MD-1
City of Independence's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 43,148,805	48,322,270	88,078,459	91,595,637	131,227,264	139,917,907
Capital assets	184,284,767	142,573,609	304,223,793	295,496,956	488,508,560	438,070,565
Total assets	227,433,572	190,895,879	392,302,252	387,092,593	619,735,824	577,988,472
Long-term debt outstanding	24,829,051	27,706,503	59,780,727	63,500,700	84,609,778	91,207,203
Other liabilities	16,037,352	16,645,919	15,638,203	16,447,742	31,675,555	33,093,661
Total liabilities	40,866,403	44,352,422	75,418,930	79,948,442	116,285,333	124,300,864
Net assets						
Invested in capital assets, net of related debt	165,333,646	126,148,386	246,080,008	233,908,193	411,413,654	360,056,579
Restricted	25,262,407	26,147,417	731,652	500,000	25,994,059	26,647,417
Unrestricted	(4,028,884)	(5,752,346)	70,071,662	72,735,958	66,042,778	66,983,612
Total net assets	\$ 186,567,169	\$ 146,543,457	316,883,322	307,144,151	503,450,491	453,687,608

(Amounts for 2005 have been restated.)

The City's combined net assets increased 11% to \$503.4 million from \$453.6 million. Net assets of the City's governmental activities increased 80.4% to \$186.5 million. Governmental assets increased \$36.5 million and liabilities decreased \$3.5 million. Governmental long-term debt decreased \$2.8 million. Included in the increase in governmental net assets is \$7.1 million for land and improvements which debt has been issued and is recorded in the tax increment financing component unit. (Assets for roads, bridges and other governmental infrastructure acquired prior to fiscal year 2002 are included and this is further explained in the 'Notes to the Financial Statements' section 15. The City is including infrastructure assets acquired prior to fiscal year 2002 in response to GASB Statement No. 34.)

Total unrestricted net assets were \$66.0 million with the business-type activities being \$70.1 million. The City's unrestricted net assets (deficit) for governmental activities were (\$4.0) million.

Unrestricted net assets for business activities were \$70.1 million and decreased \$2.6 million from the previous year. Net assets invested in capital assets, net of related debt were \$246.1 million and increased \$12.2 million from the previous year.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

Changes In Net Assets

The following Table (MD-2) reflects the revenues and expenses from the City's activities:

Table MD-2
City of Independence's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 14,719,971	12,863,554	130,955,239	113,648,124	145,675,210	126,511,678
Operating grants and contributions	9,199,332	9,336,061	-	-	9,199,332	9,336,061
Capital grants and contributions	26,417,977	7,242,924	2,964,925	3,491,383	29,382,902	10,734,307
General revenues						
Property taxes	6,895,323	6,564,690	-	-	6,895,323	6,564,690
Sales taxes	37,754,853	33,295,203	-	-	37,754,853	33,295,203
Other taxes	7,667,782	7,537,505	-	-	7,667,782	7,537,505
Interest	1,385,126	922,701	2,449,623	1,567,536	3,834,749	2,490,237
Other	714,149	1,143,207	436,132	1,022,417	1,150,281	2,165,624
Total revenues	104,754,513	78,905,845	136,805,919	119,729,460	241,560,432	198,635,305
Expenses						
Administrative services	7,363,102	7,148,065	-	-	7,363,102	7,148,065
Public works	12,817,343	10,595,793	-	-	12,817,343	10,595,793
Public safety	36,796,996	35,069,866	-	-	36,796,996	35,069,866
Culture & recreation	5,161,139	4,247,735	-	-	5,161,139	4,247,735
Community development	3,809,726	3,372,610	-	-	3,809,726	3,372,610
Health & welfare	2,638,369	2,421,255	-	-	2,638,369	2,421,255
Electric	-	-	84,564,657	73,531,757	84,564,657	73,531,757
Water	-	-	17,097,507	16,394,488	17,097,507	16,394,488
Sanitary sewer	-	-	12,236,654	11,995,774	12,236,654	11,995,774
Storm water	1,641,992	1,493,534	-	-	1,641,992	1,493,534
General government	6,678,208	6,290,782	-	-	6,678,208	6,290,782
Interest	991,856	536,124	-	-	991,856	536,124
Total expenses	77,898,731	71,175,764	113,898,818	101,922,019	191,797,549	173,097,783
Excess (deficiency) of revenues or expenses before special item and transfers	26,855,782	7,730,081	22,907,101	17,807,441	49,762,883	25,537,522
Transfers - In (Out)	13,167,930	10,038,823	(13,167,930)	(10,038,823)	-	-
Increase in net assets	40,023,712	17,768,904	9,739,171	7,768,618	49,762,883	25,537,522
Net assets, beginning of year	146,543,457	128,774,553	307,144,151	299,375,533	453,687,608	428,150,086
Net assets, end of year	\$186,567,169	\$146,543,457	\$316,883,322	\$307,144,151	\$503,450,491	\$453,687,608

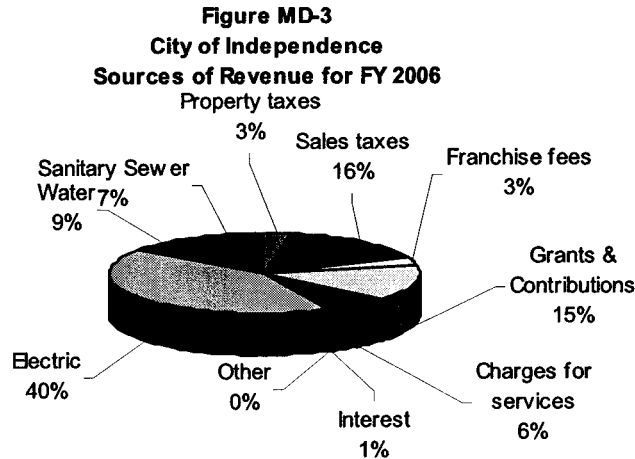
Total revenues increased 21.6% or \$42.9 million and Governmental revenues increased 32.7% or \$25.8 million. This increase can be attributed mostly to the increase in charges for services and capital grants. Of significance is the growth of taxes, particularly sales tax. This is a reflection of the general economy.

Total expenses increased 10.8% or \$18.6 million and Governmental expenses increased 9.4% or \$6.7 million. This increase can be attributed to costs associated with electric production and capital projects. The change in the business-type activities is attributable to normal operations; some of the changes are related to the effect of weather on electric and water sales.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

Revenues

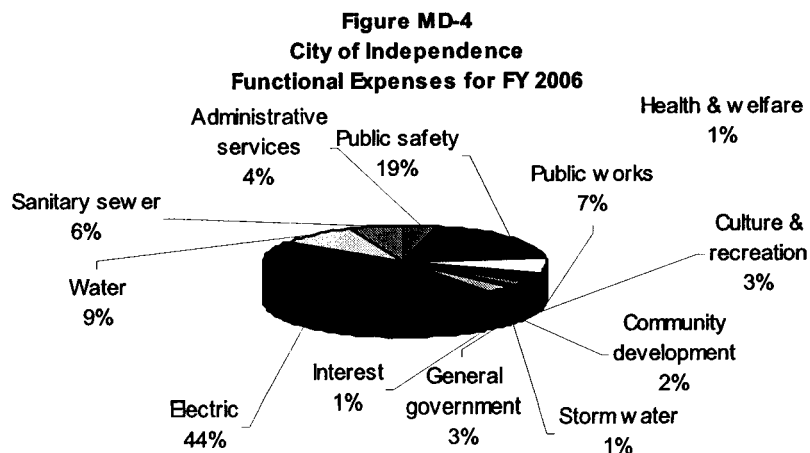
For the fiscal year ending June 30, 2006 revenues totaled \$241.5 million. Of this amount charges for services (governmental and business type) was \$145.6 million or 60.3% of the total. Revenue from business-type activities represents \$136.8 million or 56.6% of the total City revenues (Figure MD-3).



Revenues from governmental activities were \$104.7 million. Sales taxes, the largest governmental category, were \$37.7 million or 36.0%. All taxes represents \$52.3 million or 50% of governmental revenue. Operating and capital grants were \$35.6 million or 34% of governmental revenues. Charges for services at \$14.7 million were 14.1% of the total.

Expenses

For the fiscal year ending June 30, 2006 expenses totaled \$191.8 million. Of this amount the electric utility was \$84.5 million or 44.1% of the total. Business-type expenses represents \$113.9 million or 59.4% of the total City expenses (Figure MD-4).



CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

Expenses from governmental activities were \$77.9 million. Public safety expenses, the largest governmental category, were \$36.8 million or 47.2% of the total. Public Works is the next largest category at \$12.8 million, which is 16.4% of the total.

Governmental Activities

Table MD-3
Net Cost of City of Independence's Governmental Activities

	Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Administrative services	\$ 7,363,102	7,148,065	1,780,742	1,679,216
Public works	12,817,343	10,595,793	(5,749,084)	(1,357,597)
Public safety	36,796,996	35,069,866	23,918,073	28,790,210
Culture & Recreation	5,161,139	4,247,735	3,862,454	3,446,492
Community development	3,809,726	3,372,610	121,030	76,288
Health & Welfare	2,638,369	2,421,255	1,638,417	1,399,455
Storm water	1,641,992	1,493,534	1,420,121	1,049,731
General government	7,670,064	6,826,906	569,698	6,624,707
Total	<u><u>\$ 77,898,731</u></u>	<u><u>71,175,764</u></u>	<u><u>27,561,451</u></u>	<u><u>41,708,502</u></u>

As noted in Table MD-3 expenses from governmental activities for fiscal year 2006 were \$77.9 million. However, the net costs of these services were \$27.5 million. The difference represents direct revenues received from charges for services of \$14.7 million, operating grants and contributions of \$9.2 million, and capital grants and contributions of \$26.4 million. Taxes and other revenues of \$54.4 million were collected to cover these net costs.

Business-type Activities

Revenues of the City's business-type activities increased \$17.0 million or 14.3% and expenses increased \$11.9 million or 11.7%. This change is primarily the result of increased customer consumption caused by growth and weather conditions. Fluctuations in weather for both the electric and water utilities impact both the revenues and expenses of these utilities.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$32.2 million. The fund balance of the General Fund increased \$2,937,390 during fiscal year 2006. The unrestricted portion of the General Fund's fund balance increased \$1,495,568. This increase was greater than expected when the budget was prepared. Fund balance was impacted by several of the financial highlights pointed out earlier, as well as the following:

Position vacancies were managed with the intent of managing termination and recruitment costs and filling these only when necessary.

Sales tax revenue growth is improving and beginning to trend in a positive direction with the economy.

The fund balance of the Street Improvements Fund was a deficit of \$1.1 million. The Fund has a receivable from other governments in the amount of \$6.6 million. Operating capital, for projects that have matching agreements from other governmental units, is primarily provided by other City funds.

General Fund Budgetary Highlights

Resources available for appropriation increased \$144.5 thousand from the original estimate. Actual revenues at the end of the year were greater than projected by \$1 million. The largest positive variance was in the area of Charges for Services accounting for \$763 thousand of the revenue increase.

Over the course of the fiscal year, the Council revised the City budget several times. Appropriations were increased \$1.3 million in the General Fund. These budget amendments generally fall into the following categories:

- Re-appropriation of \$970 thousand that is designated by Council action.
- Approval of new grants or the extension of current grants that were not previously included in the approved budget. These adjustments generally also include offsetting revenues.
- Transfer of previously approved salary and benefit appropriations to operating departments where expenditures occur when the actual distribution of the expenditure could not be anticipated at the time that the appropriation was originally approved.
- Increase or decrease appropriations for unanticipated events, including overtime costs, which may arise throughout the fiscal year.

Actual expenditures were \$2.0 million less than the amount appropriated representing a reduction of less than 1 percent. This was largely the result of an intentional under-spending of the budget by means of delaying capital expenditures and the filling of vacant positions to offset projected declining revenues and fund balance reserves.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the City had invested \$488.5 million in a broad range of capital assets, including police and fire equipment, buildings, park facilities, and electric, water and sewer systems. Assets for roads, bridges and other governmental infrastructure acquired prior to fiscal year 2002 are now included and this is further explained in the 'Notes to the Financial Statement' section 15. The City included infrastructure assets acquired prior to fiscal year 2002 in response to GASB Statement No. 34. Assets increased \$50.4 million or 11.5% during the period.

Table MD-4
City of Independence's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land & land imp	\$ 18,893,941	11,811,365	5,443,122	5,442,985	24,337,063	17,254,350	41.0%
Buildings & Improvements	28,409,276	15,904,063	-	-	28,409,276	15,904,063	78.6%
Office furniture & equipment	21,735	31,444	-	-	21,735	31,444	-30.9%
Computer equipment	413,194	349,854	-	-	413,194	349,854	18.1%
Mobile equipment	7,085,351	5,740,615	-	-	7,085,351	5,740,615	23.4%
Other equipment	1,312,394	1,066,673	26,014	26,014	1,338,408	1,092,687	22.5%
Infrastructure	74,894,400	61,019,617	274,750,652	254,739,760	349,645,052	315,759,377	10.7%
Construction in progress	53,254,476	46,649,978	24,004,005	35,288,197	77,258,481	81,938,175	-5.7%
Total	\$ 184,284,767	142,573,609	304,223,793	295,496,956	488,508,560	438,070,565	11.5%

The budget for fiscal year 2007 projects the City will spend an additional \$69.4 million for capital projects.

Additional information regarding capital assets can be found in the 'Notes to Financial Statements', section (6), of this report.

CITY OF INDEPENDENCE, MISSOURI
Management's Discussion and Analysis
June 30, 2006

Debt Administration

Table MD-5
City of Independence's Outstanding Debt

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Loans Payable	\$ 18,590,023	21,498,153	59,361,323	62,969,608	77,951,346	84,467,761	-7.71%
Capital lease obligations	737,370	1,015,831	-	-	737,370	1,015,831	-27.41%
Neighborhood Improvemt District	982,044	1,039,990	-	-	982,044	1,039,990	-5.57%
Total	\$ 20,309,437	23,553,974	59,361,323	62,969,608	79,670,760	86,523,582	-7.92%

The City at the end of fiscal year 2006 had a total of \$79.6 million of outstanding obligations. This was a decrease of \$6.8 million or 7.9% from the previous fiscal year. None of these amounts relate to general obligations of the City and \$59.3 million or 74.5% are obligations of the business-type activities.

Additional information regarding debt can be found in the 'Notes to Financial Statements', section (7), of this report.

Economic Factors

In the last five years the City, as a community, lost 1,335 jobs, with current total employment at 57,398 jobs. Unemployment by mid-2006 was 5.3%, and while this is lower than Jackson County at 5.7% and it is greater than the State at 4.8%. As with most of the rest of the country the City's unemployment rate has remained steady during the last two years. Median income for 2006 is estimated to be \$43,875, compared to \$44,769 for the State as a whole.

Contacting The City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customer, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to James C. Harlow, Director of Finance & Administration, City of Independence, P.O. Box 1019, Independence, MO 64051.

CITY OF INDEPENDENCE, MISSOURI

Statement of Net Assets

June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Tax Increment Financing
Assets:				
Current assets:				
Pooled cash and investments	\$ 25,159,904	48,280,112	73,440,016	6,132,440
Receivables:				
Taxes	6,103,064	—	6,103,064	436,610
Accounts	395,602	10,053,238	10,448,840	30
Unbilled revenue	—	9,042,303	9,042,303	—
Special assessment principal and accrued interest	2,063,692	73,906	2,137,598	—
Accrued interest	320,421	1,007,737	1,328,158	—
Other	—	124,108	124,108	—
Internal balances	(5,437,135)	5,437,135	—	—
Due from component unit	897,751	102,300	1,000,051	—
Due from other governments	12,869,955	238,502	13,108,457	292,841
Inventory	24,566	8,609,061	8,633,627	—
Prepaid items	—	82,727	82,727	—
Restricted cash and investments	212,612	1,766,732	1,979,344	—
Total current assets	42,610,432	84,817,861	127,428,293	6,861,921
Noncurrent assets:				
Capital assets:				
Nondepreciable	71,939,214	29,447,127	101,386,341	—
Depreciable, net	112,345,553	274,776,666	387,122,219	—
Deferred debt issue costs	220,157	1,217,537	1,437,694	861,648
Other deferred charges	—	1,506,392	1,506,392	—
Restricted cash and investments	318,216	536,669	854,885	66,338,719
Total noncurrent assets	184,823,140	307,484,391	492,307,531	67,200,367
Total assets	\$ 227,433,572	392,302,252	619,735,824	74,062,288
Liabilities and Net Assets				
Current liabilities:				
Accounts and contracts payable	\$ 4,188,094	6,687,330	10,875,424	150,682
Accrued items	1,557,520	724,240	2,281,760	1,682,131
Other current liabilities	609,776	284,095	893,871	35,300
Due to primary government	—	—	—	1,000,051
Unearned revenue	103,454	—	103,454	—
Current portion of long-term obligations	7,976,794	5,738,384	13,715,178	2,651,622
Medical self-insurance claims	1,389,102	—	1,389,102	—
Liabilities payable from restricted assets	212,612	1,766,732	1,979,344	—
Total current liabilities	16,037,352	15,200,781	31,238,133	5,519,786
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	24,829,051	59,780,727	84,609,778	136,571,358
Advances for construction	—	437,422	437,422	—
Total noncurrent liabilities	24,829,051	60,218,149	85,047,200	136,571,358
Total liabilities	40,866,403	75,418,930	116,285,333	142,091,144
Net assets:				
Invested in capital assets, net of related debt	165,333,646	246,080,008	411,413,654	—
Restricted for:				
Special revenue	23,752,176	—	23,752,176	—
Debt service	1,496,011	731,652	2,227,663	—
Permanently restricted	14,220	—	14,220	—
Unrestricted (deficit)	(4,028,884)	70,071,662	66,042,778	(68,028,856)
Total net assets (deficit)	186,567,169	316,883,322	503,450,491	(68,028,856)
Total liabilities and net assets (deficit)	\$ 227,433,572	392,302,252	619,735,824	74,062,288

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary government:					
Governmental activities:					
Administrative services	\$ 7,363,102	5,512,413	46,508	23,439	(1,780,742)
Public safety	36,796,996	4,588,766	2,038,447	6,251,710	(23,918,073)
Public works	12,817,343	1,003,761	4,669,594	12,893,072	5,749,084
Health and welfare	2,638,369	435,775	564,177	—	(1,638,417)
Culture and recreation	5,161,139	975,889	178,796	144,000	(3,862,454)
Community development	3,809,726	2,203,367	1,479,939	5,390	(121,030)
Storm water	1,641,992	—	221,871	—	(1,420,121)
General government	6,678,208	—	—	7,100,366	422,158
Interest on long-term debt	991,856	—	—	—	(991,856)
Total governmental activities	77,898,731	14,719,971	9,199,332	26,417,977	(27,561,451)
Business-type activities:					
Power and light	84,564,657	98,278,354	—	112,433	13,826,130
Water	17,097,507	18,312,720	—	1,105,167	2,320,380
Sewer	12,236,654	14,364,165	—	1,747,325	3,874,836
Total business-type activities	113,898,818	130,955,239	—	2,964,925	20,021,346
Total primary government	\$ 191,797,549	145,675,210	9,199,332	29,382,902	(7,540,105)
Component unit:					
Tax increment financing	\$ 23,663,663	10,000	—	—	(23,653,663)
		Governmental Activities	Business-Type Activities	Total	Component Unit
Changes in net assets:					
Net (expense) revenue	\$	(27,561,451)	20,021,346	(7,540,105)	(23,653,663)
General revenues:					
Property taxes		6,895,323	—	6,895,323	3,939,672
Sales and use taxes		37,754,853	—	37,754,853	4,412,912
Franchise taxes		7,645,601	—	7,645,601	—
Financial institutions tax		22,181	—	22,181	—
Investment earnings		1,385,126	2,449,623	3,834,749	1,323,512
Miscellaneous		714,149	436,132	1,150,281	103,567
Transfers		13,167,930	(13,167,930)	—	—
Total general revenue and transfers		67,585,163	(10,282,175)	57,302,988	9,779,663
Change in net assets		40,023,712	9,739,171	49,762,883	(13,874,000)
Net assets (deficit), beginning (as restated)		146,543,457	307,144,151	453,687,608	(54,154,856)
Net assets (deficit), ending	\$	186,567,169	316,883,322	503,450,491	(68,028,856)

See accompanying notes to financial statements

CITY OF INDEPENDENCE, MISSOURI

Balance Sheet
Governmental Funds
June 30, 2006

Assets	General	Street Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Pooled cash and investments	\$ 3,681,726	—	18,957,478	22,639,204
Receivables:				
Taxes	2,975,397	—	3,127,667	6,103,064
Accounts	312,586	3,126	23,262	338,974
Special assessment principal and accrued interest	404,992	257,370	1,401,330	2,063,692
Accrued interest	42,077	—	270,611	312,688
Due from other funds	2,693,015	—	4,622,496	7,315,511
Due from component unit	—	881,251	16,500	897,751
Due from other governments	809,972	6,633,326	5,426,657	12,869,955
Restricted assets	436,608	—	94,220	530,828
Total assets	<u>\$ 11,356,373</u>	<u>7,775,073</u>	<u>33,940,221</u>	<u>53,071,667</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts and contracts payable	\$ 1,214,505	1,284,909	1,639,541	4,138,955
Due to other funds	—	7,250,431	5,212,774	12,463,205
Accrued items	1,194,268	—	50,772	1,245,040
Other current liabilities	544,951	53,009	11,816	609,776
Deferred revenue	404,992	257,370	1,504,477	2,166,839
Liabilities payable from restricted assets:				
Deposits and court bonds	212,612	—	—	212,612
Total liabilities	<u>3,571,328</u>	<u>8,845,719</u>	<u>8,419,380</u>	<u>20,836,427</u>
Fund balances:				
Reserved for:				
Encumbrances	1,257,926	7,476,210	13,310,190	22,044,326
Domestic violence	16,113	—	—	16,113
Other purposes	482,000	—	220	482,220
Unreserved, reported in:				
General fund	6,029,006	—	—	6,029,006
Special revenue funds	—	—	14,250,375	14,250,375
Debt service fund	—	—	86,300	86,300
Capital projects funds	—	(8,546,856)	(2,140,464)	(10,687,320)
Permanent funds	—	—	14,220	14,220
Total fund balance (deficit)	<u>7,785,045</u>	<u>(1,070,646)</u>	<u>25,520,841</u>	<u>32,235,240</u>
Total liabilities and fund balance	<u>\$ 11,356,373</u>	<u>7,775,073</u>	<u>33,940,221</u>	<u>53,071,667</u>

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2006

Fund balances – total governmental funds	\$ 32,235,240
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	301,261,658
Less accumulated depreciation	<u>(117,073,620)</u>
	184,188,038
Interest on long-term debt is not accrued in governmental funds but, rather, is recognized as expenditure when due	(305,383)
Adjustment of deferred revenue	2,063,385
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the statement of net assets	910,664
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	
Loans payable/NID payable	(19,407,488)
Capital lease obligations	(737,371)
Compensated absences	(12,435,495)
Discounts (premiums)	<u>(164,578)</u>
	(32,744,932)
Deferred debt costs	<u>220,157</u>
Net assets of governmental activities (exhibit 1)	<u><u>\$ 186,567,169</u></u>

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2006

	General	Street Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 31,651,693	—	20,644,084	52,295,777
Licenses and permits	4,530,988	—	542,956	5,073,944
Intergovernmental	5,429,540	6,183,675	10,149,499	21,762,714
Charges for services	2,056,165	12,392	858,243	2,926,800
Interfund charges for support services	2,949,682	—	—	2,949,682
Fines, forfeitures, and court costs	4,023,981	—	—	4,023,981
Investment income	213,670	2,914	1,092,985	1,309,569
Other	413,662	39,717	39,748	493,127
Total revenues	51,269,381	6,238,698	33,327,515	90,835,594
Expenditures:				
Current:				
Administrative services	6,850,839	—	46,507	6,897,346
Public safety	33,326,164	—	5,650,296	38,976,460
Public works	6,586,771	—	—	6,586,771
Health and welfare	2,052,107	—	562,450	2,614,557
Culture and recreation	1,980,406	—	2,647,822	4,628,228
Community development	2,356,808	—	1,355,646	3,712,454
Storm water	295,038	—	846,557	1,141,595
General government	6,557,048	—	121,160	6,678,208
Capital outlay	630,440	7,373,003	25,293,257	33,296,700
Debt service:				
Principal	447,099	—	2,783,000	3,230,099
Interest and fiscal agent fees	86,558	—	910,042	996,600
Total expenditures	61,169,278	7,373,003	40,216,737	108,759,018
Deficiency of revenues over expenditures	(9,899,897)	(1,134,305)	(6,889,222)	(17,923,424)
Other financing sources (uses):				
Transfers in – utility payments in lieu of taxes	12,624,861	—	—	12,624,861
Transfers in	16,122	189,390	1,519,136	1,724,648
Transfers out	(106,951)	(106,122)	(968,506)	(1,181,579)
Sale of property, plant, and equipment	303,255	—	—	303,255
Total other financing sources	12,837,287	83,268	550,630	13,471,185
Net change in fund balances	2,937,390	(1,051,037)	(6,338,592)	(4,452,239)
Fund balances (deficit), beginning	4,847,655	(19,609)	31,859,433	36,687,479
Fund balances (deficit), ending	\$ 7,785,045	(1,070,646)	25,520,841	32,235,240

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances – total governmental funds	\$ (4,452,239)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	48,988,573
Depreciation expense	(7,233,244)
	<u>41,755,329</u>
The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the assets and depreciation is removed from the capital assets account in the statement of net assets and offset against the proceeds, resulting in a gain on the sale of capital assets in the statement of activities. More revenue is reported in the governmental funds than gain in the statement of activities.	
Book value of assets disposed	(40,660)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	(126,335)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:	
Principal payments	3,230,099
Debt issuance costs amortization	(41,451)
Debt premiums and discounts	14,439
	<u>3,203,087</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Compensated absences	(748,898)
Accrued interest	4,744
	<u>(744,154)</u>
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and garage charges, to individual funds. The net expense of the internal service funds is reported with the governmental activities	428,684
Change in net assets of governmental activities (Exhibit 2)	\$ <u><u>40,023,712</u></u>

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Balance Sheet

Proprietary Funds

June 30, 2006

Assets	Enterprise funds				Internal Service Funds
	Power and Light	Water	Sanitary Sewer	Total	
Current assets:					
Pooled cash and investments	\$ 33,730,151	5,554,854	8,995,107	48,280,112	2,520,700
Receivables:					
Accounts (net of allowance of \$851,389)	6,652,261	1,819,644	1,581,333	10,053,238	56,628
Unbilled revenue	7,065,880	1,014,155	962,268	9,042,303	—
Special assessment principal and accrued interest	6,267	—	67,639	73,906	—
Accrued interest	641,116	171,729	194,892	1,007,737	7,733
Other	—	124,108	—	124,108	—
Due from other funds	—	4,649,995	497,699	5,147,694	—
Due from component unit	102,300	—	—	102,300	—
Due from other governments	238,502	—	—	238,502	—
Inventory	7,933,954	616,657	58,450	8,609,061	24,566
Prepaid items	82,727	—	—	82,727	—
Restricted cash and investments	1,005,158	580,054	181,520	1,766,732	—
Total current assets	57,458,316	14,531,196	12,538,908	84,528,420	2,609,627
Noncurrent assets:					
Capital assets:					
Nondepreciable	15,313,087	3,539,978	10,594,062	29,447,127	93,979
Depreciable, net	127,091,046	95,207,665	52,477,955	274,776,666	2,750
Deferred debt issue costs	315,849	901,688	—	1,217,537	—
Other deferred charges	99,500	1,406,892	—	1,506,392	—
Restricted cash and investments	301,730	206,172	28,767	536,669	—
Total noncurrent assets	143,121,212	101,262,395	63,100,784	307,484,391	96,729
Total assets	\$ 200,579,528	115,793,591	75,639,692	392,012,811	2,706,356
Liabilities and Net Assets					
Current liabilities:					
Accounts and contracts payable	\$ 4,972,265	1,382,448	332,617	6,687,330	49,139
Accrued items	313,794	208,464	201,982	724,240	7,097
Other current liabilities	—	236,712	47,383	284,095	—
Current portion of long-term obligations	3,079,320	2,424,533	234,531	5,738,384	23,887
Medical self-insurance claims	—	—	—	—	1,389,102
Liabilities payable from restricted assets	1,005,158	580,054	181,520	1,766,732	—
Total current liabilities	9,370,537	4,832,211	998,033	15,200,781	1,469,225
Noncurrent liabilities:					
Revenue bonds payable	14,776,323	40,550,000	—	55,326,323	—
Compensated absences – long-term	3,060,887	860,120	533,397	4,454,404	37,026
Advances for construction	292,270	145,152	—	437,422	—
Total noncurrent liabilities	18,129,480	41,555,272	533,397	60,218,149	37,026
Total liabilities	27,500,017	46,387,483	1,531,430	75,418,930	1,506,251
Net assets:					
Invested in capital assets, net of related debt	125,948,660	57,059,331	63,072,017	246,080,008	96,729
Restricted for:					
Debt service	231,652	500,000	—	731,652	—
Unrestricted	46,899,199	11,846,777	11,036,245	69,782,221	1,103,376
Total net assets	173,079,511	69,406,108	74,108,262	316,593,881	1,200,105
Total liabilities and net assets	\$ 200,579,528	115,793,591	75,639,692	392,012,811	2,706,356
Adjustment to reflect the consolidation of internal service fund activities related to proprietary funds				289,441	
Net assets of business-type activities				\$ 316,883,322	

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year ended June 30, 2006

	Enterprise funds				Internal Service Funds
	Power and Light	Water	Sanitary Sewer	Total	
Operating revenues:					
Charges for services	\$ 97,113,727	18,061,227	14,230,702	129,405,656	13,231,905
Miscellaneous	1,164,627	251,493	133,463	1,549,583	—
Total operating revenues	98,278,354	18,312,720	14,364,165	130,955,239	13,231,905
Operating expenses:					
Personal services	14,215,644	6,232,908	4,020,124	24,468,676	546,517
Other services	10,880,036	3,261,195	5,773,376	19,914,607	11,520,642
Supplies	44,429,278	1,319,318	532,240	46,280,836	878,176
Other expenses	5,844,519	2,745,132	75,061	8,664,712	—
Depreciation and amortization	9,192,811	2,119,896	2,190,048	13,502,755	3,511
Total operating expenses	84,562,288	15,678,449	12,590,849	112,831,586	12,948,846
Operating income	13,716,066	2,634,271	1,773,316	18,123,653	283,059
Nonoperating revenues (expenses):					
Interest revenue	1,527,845	469,404	452,374	2,449,623	75,558
Miscellaneous revenue	448,429	1,912,548	33,905	2,394,882	297,795
Interest expense	(1,108,581)	(2,145,129)	—	(3,253,710)	—
Total nonoperating revenue (expenses)	867,693	236,823	486,279	1,590,795	373,353
Income before contributions and transfers	14,583,759	2,871,094	2,259,595	19,714,448	656,412
Capital contributions	112,433	1,105,167	1,747,325	2,964,925	—
Transfers out – utility payments in lieu of taxes	(9,637,661)	(1,610,773)	(1,376,427)	(12,624,861)	—
Transfers in	—	—	105,357	105,357	—
Transfers out	(216,142)	(216,142)	(216,142)	(648,426)	—
Change in net assets	4,842,389	2,149,346	2,519,708	9,511,443	656,412
Total net assets:					
Beginning of the year (as restated)	168,237,122	67,256,762	71,588,554		543,693
End of the year	\$ 173,079,511	69,406,108	74,108,262		1,200,105
Adjustment to reflect the consolidation of internal service fund activities related to proprietary funds				227,728	
Change in net assets of business-type activities.				\$ 9,739,171	

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2006

	Enterprise funds			Internal Service Funds
	Power and Light	Water	Sanitary Sewer	Total
Cash flows from operations:				
Receipts from customers and others	\$ 97,231,051	20,005,695	14,381,988	131,618,734
Payments to suppliers	(60,712,008)	(7,590,654)	(6,258,426)	(74,561,088)
Payments to employees	(14,661,401)	(6,332,706)	(4,130,531)	(25,124,638)
Other receipts	—	—	(10,161)	(10,161)
Net cash provided by operating activities	21,857,642	6,082,335	3,982,870	31,922,847
Cash flows from noncapital financing activities:				
Transfers in/(out)	(216,142)	(216,142)	(110,785)	(543,069)
Transfers out – payments in lieu of taxes	(9,637,661)	(1,610,773)	(1,376,427)	(12,624,861)
Advances to other funds	—	(4,649,995)	(482,344)	(5,132,339)
Net cash provided by (used in) noncapital financing activities	(9,853,803)	(6,476,910)	(1,969,556)	(18,300,269)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(11,874,908)	(4,586,765)	(3,079,025)	(19,540,698)
Interest paid on revenue bonds and equipment contracts	(855,983)	(2,013,619)	—	(2,869,602)
Debt expense paid on revenue bonds	—	(12,750)	—	(12,750)
Disposal costs from disposition of equipment	(346,699)	(49,387)	—	(396,086)
Redemption of revenue bonds	(1,925,000)	(1,905,000)	—	(3,830,000)
Interest received on special assessment	—	—	5,485	5,485
Net cash used in capital and related financing activities	(15,002,590)	(8,567,521)	(3,073,540)	(26,643,651)
Cash flows from investing activities:				
Purchases of investments	(42,352,456)	(6,053,393)	762,787	(47,643,062)
Proceeds from sales and maturities of investments	43,507,302	13,383,526	—	56,890,828
Interest on investments	1,267,045	397,560	382,312	2,046,917
Net cash provided by (used in) investing activities	2,421,891	7,727,693	1,145,099	11,294,683
Net increase (decrease) in cash and cash equivalents	(576,860)	(1,234,403)	84,873	(1,726,390)
Cash and cash equivalents at beginning of year	1,680,925	1,522,090	781,646	3,984,661
Cash and cash equivalents at end of year	1,104,065	287,687	866,519	2,258,271
Investments with original maturities greater than 90 days	33,932,974	6,053,393	8,338,875	48,325,242
Pooled cash and investments	\$ 35,037,039	6,341,080	9,205,394	50,583,513
Noncash capital and related financing activities:				
Contributed capital	\$ 221,458	1,105,167	—	1,326,625
Components of cash and short-term investments at end of fiscal year:				
Unrestricted assets	\$ 33,730,151	5,554,854	8,995,107	48,280,112
Restricted assets	1,306,888	786,226	210,287	2,303,401
Total pooled cash and investments	\$ 35,037,039	6,341,080	9,205,394	50,583,513
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 13,716,066	2,634,271	1,773,316	18,123,653
Adjustments not affecting cash:				
Depreciation and amortization	9,192,811	2,119,896	2,190,048	13,502,755
Nonoperating revenues	448,429	1,912,548	33,905	2,394,882
Change in assets and liabilities				
Accounts receivable	(1,914,040)	67,696	(30,032)	(1,876,376)
Inventory	295,953	7,601	10,110	313,664
Prepaid items	20,085	—	—	20,085
Loans to other funds	—	—	—	—
Unbilled revenue	418,308	(156,867)	(29,662)	231,779
Special assessments receivable	—	106,312	43,612	149,924
Other deferred charges	72,500	—	—	72,500
Advance receivable	—	—	(10,161)	(10,161)
Accounts and contracts payable	(4,915)	(312,516)	113,282	(204,149)
Accrued liabilities	(512,065)	(151,219)	(164,129)	(827,413)
Other current liabilities	—	(178,968)	6,090	(172,878)
Deferred revenue	—	(35,669)	—	(35,669)
Customer deposits	58,202	18,196	12,363	88,761
Compensated absences	66,308	51,054	34,128	151,490
Total adjustments	8,141,576	3,448,064	2,209,554	13,799,194
Net cash provided by operating activities	\$ 21,857,642	6,082,335	3,982,870	31,922,847

See accompanying notes to financial statements

CITY OF INDEPENDENCE, MISSOURI

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Pooled cash and investments	\$ 62,200	60,777
Accrued interest receivable	—	494
Total assets	<u>62,200</u>	<u>61,271</u>
Liabilities:		
Accounts and contracts payable	—	25
Funds held in escrow	—	49,747
Flexible benefit payable	—	11,499
Total liabilities	<u>—</u>	<u>\$ 61,271</u>
Net assets:		
Held in trust	<u>\$ 62,200</u>	

See accompanying notes to financial statements.

CITY OF INDEPENDENCE, MISSOURI

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2006

	Private- Purpose Trust Funds
Additions:	
Charges for services	\$ 20,639
Interest	2,589
Other	1,500
Total additions	<u>24,728</u>
Deductions:	
Capital outlay	<u>17,558</u>
Total deductions	<u>17,558</u>
Change in net assets	7,170
Net assets, beginning	<u>55,030</u>
Net assets, ending	<u><u>\$ 62,200</u></u>

See accompanying notes to financial statements.



CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Independence, Missouri (the City) was incorporated in 1849 and covers an area of approximately 79 square miles in Jackson County, Missouri. The City is a charter city and operates under the City Council/City Manager form of government. The City Manager is the chief administrative officer of the City. The City provides services to residents in many areas, including law enforcement, fire protection, electrical, water and sewer services, community enrichment and development, recreation and various social services. Elementary, secondary and junior college education services are provided by various school districts, all of which are separate governmental entities.

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local governments. The following is a summary of the more significant accounting and reporting policies and practices of the City.

(a) *The Financial Reporting Entity*

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. Component units are separate legal entities for which are included in the primary government's financial report. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not only, criterion for including a potential component unit within the reporting entity is the City's financial accountability for the potential component unit. An entity is considered a component unit if City officials appoint a voting majority of the component unit's governing body and the City is able to impose its will upon the component unit. Additionally, if the entity provides specific financial benefits to or imposes specific financial burdens on the City, it may be considered a component unit.

This report includes the financial statements of the City (the primary government) and its component unit, the Tax Increment Financing (TIF) Commission of the City of Independence, Missouri (the Commission). The Commission is considered to be a discretely presented component unit and is presented in a separate column on the government-wide financial statements to emphasize that it is a separate entity from the City.

The Commission is governed by an 11-member board, of which six members are appointed by the City Council. The remaining five members (two from the county, two from the local school district and one from other taxing jurisdictions) are appointed by the respective taxing districts' boards. Financial transactions of the Commission are processed by the Finance Department of the City on the Commission's behalf. No separate financial statements are issued by the Commission.

(b) *Basis of Presentation*

Government-wide Statements. The statement of net assets and the statement of activities display information about the City. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations of internal charges and interfund balances have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or functions and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Improvements Fund – This fund is used to account for major street improvement construction projects.

The City reports the following major enterprise funds:

Power and Light Fund – This fund accounts for the acquisition, operation, and maintenance of the City's power and light utility facilities and services.

Water Fund – This fund accounts for the acquisition, operation, and maintenance of the City's water utility facilities and services.

Sanitary Sewer Fund – This fund accounts for the acquisition, operation, and maintenance of the City's sanitary sewer utility facilities and services.

The City reports the following fund types of nonmajor funds:

Special Revenue Funds – These funds account for specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds – These funds account for the expenditures and relating financing sources of major City projects.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Debt Service Funds – These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Permanent Funds – These funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Internal Service Funds – These funds account for the costs of fleet maintenance, the Staywell healthcare program, and other benefits provided to other departments on a cost-reimbursement basis.

Trust Funds – These funds account for monies held in trust by the City for preservation and maintenance of the Vaile Mansion.

Agency Funds – These funds account for monies held on behalf of the Flexible Benefits Plan for contributions made by employees to the City's cafeteria plan, monies held for the Susie Paxton Block Distinguished Public Service Award, and monies held for the Seniors Travel Program.

(c) ***Basis of Accounting***

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues related to exchange transactions are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental activities, business-type activities and all enterprise funds of the City follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins unless those pronouncements conflict with GASB pronouncements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Property taxes, sales taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual under this definition. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Proceeds of general long-term debt and acquisitions under capital lease are reported as other financing sources.

Agency Funds. Agency funds report assets and liabilities and use the accrual basis of accounting to recognize receivables and payables.

Under the terms of grant agreements, the City funds programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

(d) *Accounts Receivable*

Accounts receivable result primarily from sales of electricity, water and sewer services accounted for in the Power and Light, Water, and Sanitary Sewer (Enterprise) Funds, respectively. An estimated amount has been recorded for services rendered, but not yet billed, as of the close of the fiscal year.

(e) *Investments*

Investments with original maturities of less than one year are reported at amortized cost, which approximates fair value. Investments with original maturities of greater than one year are recorded at fair value.

(f) *Inventory*

Inventory of the enterprise funds consists of the coal supply and electric, water and sanitary sewer utility materials and is valued at average cost. Inventory of the Internal Service Fund consists of vehicle and equipment parts and materials and is valued at the lower of cost or market. The City determines the cost of its inventories using a first in, first out (FIFO) cost-flow assumption.

(g) *Prepaid Items*

Certain payments to vendors reflecting costs applicable to future accounting periods have been recorded as prepaid items in both the government-wide and fund financial statements.

(h) *Interfund Activity*

The City has the following types of interfund activity:

Loans – amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e., due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds.

Services provided and used – sales and purchases of goods and services between funds for a price approximating their fair value. Interfund services provided and used are reported as revenues in funds providing the good or service and expenditures or expenses in the fund purchasing the good or service. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

(i) **Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are stated at cost or estimated historical cost. For property acquired from another utility, the difference between the net cost of plant assets recorded by the selling entity and the purchase price is recorded as an acquisition adjustment. Contributions of capital assets received from federal, state, or local sources are recorded as assets and contributed capital at fair value at the time of receipt. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

Depreciation has been provided over the estimated useful lives using the composite and straight-line methods. Depreciation on utility vehicles and heavy equipment is charged to clearing accounts and redistributed to various operating, construction, and other accounts. The estimated useful lives are as follows:

	<u>Years</u>
Governmental activities:	
Buildings and improvements	20-40
Improvements other than buildings	20
Roads	20
Bridges	40
Drainage systems	35
Office equipment and furniture	7
Mobile equipment – vehicles	5
Mobile equipment – heavy equipment	10
Fire trucks	15
Other equipment	10
Computer equipment	5

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	<u>Years</u>
Business-type activities:	
Power and Light Fund:	
Production plant	25-45
Transmission plant	28-40
Distribution plant	25-40
Transportation equipment	7
General plant	19-40
Water Fund:	
Source of supply	15-50
Pumping	20-50
Water treatment	40-50
Transmission and distribution system	20-100
General plant	5-50
Acquisition adjustment	30
Nonutility property	10
Sanitary Sewer Fund:	
Equipment	5-25
Sewer system	40-100
Plant	25

Fully depreciated capital assets are included in the capital assets accounts until their disposal. For business-type activities, units retired plus the cost of removal, less salvage, are charged against accumulated depreciation, with no gain or loss recognized.

Property, plant, and equipment financed by capital leases are reflected as assets and corresponding liabilities, and the related depreciation expense is provided on the same basis as assets financed with other resources. General capital assets financed by capital leases are reported as expenditures and other financing sources in the governmental funds.

As part of GASB Statement No. 34, there is a new reporting requirement regarding the local government's infrastructure. This requirement permits an optional delay for reporting certain infrastructure assets acquired prior to the year of implementing GASB No. 34. During the year ended June 30, 2006, the City fully implemented the infrastructure reporting requirements of GASB No. 34 which resulted in a restatement of beginning governmental capital assets balances.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(j) Bond Premiums, Discounts, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) Compensated Absences

Under the terms of the City's personnel policy, City employees are granted vacation based upon length of service. Sick leave is granted at the rate of eight hours per month. Sick leave may be accumulated without limitation. Upon termination, compensation for accrued sick leave is paid up to the equivalent of six months' regular earnings at the employee's current rate of pay and compensation for vacation is paid up to a maximum of 400 hours.

The liability for compensated absences reported in the government-wide and proprietary fund statements has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(l) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balances represent tentative City plans that are subject to change. Detailed information on the City's reservations and designations of fund balance may be found at Note 14 in the financial statements.

(m) Permanent Fund

The City receives from time to time endowments from outside donors. The nature of these endowments is that the principal of the gift is to remain intact and the interest is to be spent on certain activities of the City. These donations are accounted for in the Permanent Fund. During the year ended June 30, 2006, the Permanent Fund had \$9,220 net appreciation on assets available for expenditure which is reported as unreserved fund balance. The State of Missouri requires that recipients of endowment gift maintain the original principal intact at the original donation value.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(n) Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(o) Statement of Cash Flows

For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, are considered cash equivalents.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Reclassifications of Account Balances

Certain line items have been reclassified to conform to the presentation of the financial statements in the current year. These reclassifications had no net effect on the City’s net assets or changes there in for the current year.

(r) New Accounting Pronouncements

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit “other postemployment benefit” (OPEB) plan. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City also is required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employer’s contributions to a plan, including the OPEB liability or asset at transition, if any. The City is currently evaluating the impact of adopting Statement No. 45, but cannot determine the impact that this standard will have on the financial statements when adopted. The City will implement Statement No. 45 beginning with the year ended June 30, 2008.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(2) Deposits and Investments

At June 30, 2006, the carrying values of deposits and investments are summarized as follows:

Investments:	
Short-term investments held in trust	\$ 66,762,935
U.S. government securities	26,652
U.S. agency securities	67,741,500
Total investments	134,531,087
Deposits and repurchase obligations	14,326,298
Petty cash	10,996
Total	\$ 148,868,381

Deposits and investments of the City are reflected in the government-wide financial statements as follows:

	Government-wide statement of net assets	Fiduciary funds statement of net assets	Primary Government Total	Component Unit	Grand Total
Pooled cash and investments	\$ 73,440,016	\$ 122,977	\$ 73,562,993	\$ 6,132,440	\$ 79,695,433
Restricted cash and investments	2,834,229	-	2,834,229	66,338,719	69,172,948
	<u>\$ 76,274,245</u>	<u>\$ 122,977</u>	<u>\$ 76,397,222</u>	<u>\$ 72,471,159</u>	<u>\$148,868,381</u>

Investment Policy

Missouri state statutes authorize the City, with certain restrictions, to deposit or invest in open accounts, time deposits, U.S. Treasury notes, and certificates of deposit. Statutes also require that collateral pledged must have a fair value equal to 100% of the funds on deposit, less insured amounts. Collateral securities must be held by the City or a disinterested third party and must be of the kind prescribed by state statutes and approved by the State of Missouri.

The City maintains a cash and investment pool, which is available for use by most funds. Substantially all excess cash is invested in U.S. Treasury securities and money market funds. Each fund's portion of this pool is displayed as pooled cash and investments or in restricted assets. Interest earned is allocated to the funds on the basis of average monthly cash and investment balances. Only enterprise funds with overdrawn balances are charged for interest. Cash and investments are held separately by some of the City's funds. Additionally, certain restricted assets, related to bond ordinances and indentures and capital lease certificates, are held in escrow by financial institutions' trust departments.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Credit Risk

The credit risk for deposits and investments is the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. It is the City's policy to limit its investments to Certificates of Deposit and Bonds or other obligations of the United States. Presented below is the actual rating by Moody's Investor Service as of year end for each investment type:

Investment Type	Fair Value	Rating As of June 30, 2006
Federal Home Loan Mortgage Corporation	\$ 50,716,314	AAA
Federal National Mortgage Association	11,852,656	AAA
Federal Home Loan Bank	5,979,601	AAA
U.S. Treasury Bond	26,652	Exempt from rating requirement
Total	<u>\$ 68,575,223</u>	

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's policy is to collateralize the demand deposits and repurchase agreements with securities held by the financial institution's agent and in the City's name.

At June 30, 2006, the City's deposits and repurchase obligations were insured by Federal depository insurance and uninsured deposits and repurchase obligations were fully collateralized by securities held in the City's name by their financial institution's agent. The City's securities were registered and held by the City's financial institution in the City's name. Accordingly, management has determined that none of the City's deposits or investments was exposed to custodial credit risk as of June 30, 2006.

Interest Rate Risk

The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2006, all of the City's securities had maturities of less than one year with the exception of a U.S. treasury bond with a fair value of \$26,652 that will mature in 2027.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Concentration of Credit Risk

The City's investment policy does not specify maximum or minimum investment concentrations by investment type. As of June 30, 2006, the following table lists the issuers of securities, and the respective fair value of those securities, that represent 5% or more of total City's investments:

Issuer	Investment Type	Total Fair Value	Percentage
Fed. Home Loan Mtg.	U.S. agency securities	\$ 50,716,314	74%
Fed. Natl. Mtg.	U.S. agency securities	11,852,656	17%
Fed. Home Loan Banks	U.S. agency securities	5,979,601	9%

(3) Tax Revenue

Tax revenue, including interest and penalties, by fund type for the year ended June 30, 2006 is as follows:

	General	Nonmajor governmental funds
Real estate tax	\$ 6,844,875	\$ 20,586
Railroad utilities tax	29,861	-
Cigarette tax	596,603	-
Transient guest tax	-	1,000,809
Sales tax	16,534,752	19,622,689
Franchise tax	7,645,602	-
	<u>\$ 31,651,693</u>	<u>\$ 20,644,084</u>

The City's real estate tax is levied each November 1 on the assessed value as of the prior January 1 for all real property located in the City. Real estate taxes are due on December 31 following the levy date. On January 1, a lien attaches to all property for which taxes are unpaid. Jackson County bills and collects all real estate taxes for the City and charges a 1.5% to 1.6% commission on all taxes collected.

Assessed values are established by the Clay and Jackson County assessors, subject to review by the Jackson County Board of Equalization and State Tax Commission. The assessed value for real property, including railroad and utility properties, located in the City as of January 1, 2005, on which the fiscal 2006 levy was based, was \$1,294,345,097.

The City is permitted by Missouri state statutes to levy taxes up to \$1.00 per \$100 of assessed valuation for general governmental services, other than payment of principal and interest on long-term debt, up to \$0.40 per \$100 of assessed valuation for public health and recreation, and in unlimited amounts for the payment of principal and interest on long-term debt. Property tax levies per \$100 assessed valuation for the year ended June 30, 2006 were \$0.4506 for the General Fund, \$0.2121 for Public Health and Recreation, and \$0.4112 for the Independence Square Benefit District Fund.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(4) Intergovernmental Revenue and Receivables

Intergovernmental revenue during fiscal year 2006 consisted of the following:

	General Fund	Street Improvements Fund	Nonmajor Governmental Funds
Federal			
Department of Agriculture			
Summer Food Service Program	\$ -	\$ -	\$ 490
Department of Housing & Urban Development			
Community Development Block Grant	-	-	802,830
Emergency Shelter Grant	-	-	70,000
Home Improvement Partnership	-	-	570,166
Department of Justice			
Drug Enforcement Administration			
Crime Lab Upgrade	-	-	14,040
Violence Against Women Grant Office			
Grants to Encourage Arrest Policies	-	-	300,383
Supervised Visitation & Safe Exchange Program	-	-	96,676
Institute for Law and Justice	-	-	22,930
Office of Community Oriented Policing Services			
Homeland Security Overtime Programs	-	-	75,272
Cops in Shops	-	-	14,896
Secure our Schools	-	-	19,339
Office of Justice Programs			
Stop Violence Against Women	-	-	53,426
Local Law Enforcement Block Grant	-	-	13,774
National Office of Weed and Seed	-	-	70,424
Bullet Proof Vest Partnership	-	-	1,015
Project Safe Neighborhoods	-	-	55,673
Project Safe Neighborhoods Task Force	-	-	47,866
Project Ceasefire Task Force	-	-	7,432
Justice Assistance Grant	-	-	74,897
Office of National Drug Control Policy			
High Intensity Drug Trafficking Area			
Hidta - ONDCP	-	-	150,476
Hidta - KBI	-	-	85,200
Department of Transportation			
Highway Planning & Construction			
Surface Transportation Program	-	3,617,591	-
Urban Mass Transportation Assistance			
Dial A Ride	25,393	-	-
Missouri Division of Highway Safety			
Missouri Highway Safety Program	-	-	27,925
DWI Enforcement	-	-	66,723
Red Light Running and Aggressive Driving	-	-	36,585
Hazardous Moving Violations	-	-	77,587
Youth Alcohol Enforcement	-	-	23,501

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	General Fund	Street Improvements Fund	Nonmajor Governmental Funds
Federal (Continued):			
US Secret Service			
KC Metro Financial Crimes Task Force	-	-	14,897
Environmental Protection Agency			
Brownfield Assessment	-	-	980
Department of Health & Human Services			
Nursing Consultation	716	-	955
Sanitation of Childcare Facilities	-	-	4,580
Maternal & Child Health	90	-	45,031
Senior Nutrition Site	25,000	-	-
Pandemic Preparedness Grant	-	-	1,573
Families at Risk Home Visitation	491	-	23,269
Homeless Challenge	10	-	20,953
Bioterrorism	404	-	170,133
Chronic Disease Primary Prevention	-	-	35,000
West Nile Virus Surveillance	-	-	8,174
Immunization Rate Improvement Project	-	-	7,957
Childhood Lead Poisoning Prevention	-	-	1,500
Department of Homeland Security			
Emergency Management Assistance	307	-	41,877
Community Emergency Response Teams	2,742	-	26,676
Interoperate Communications Grant	-	-	6,191,311
Fire Safety Grant	20,593	-	39,807
Total Federal	75,746	3,617,591	9,414,200
State & Local			
Department of Health & Human Services			
Core Health Services	26	-	115,854
Department of Revenue			
Motor Vehicle Fuel Tax	3,251,035	-	-
Motor Vehicle Sales Tax	734,805	-	-
Motor Vehicle Fees	666,164	-	-
Financial Institutions Tax	22,181	-	-
Division of Tourism			
Cooperative Marketing Agreements	-	-	121,632
Department of Public Safety			
Post Commission Fund	-	-	23,646
Juvenile Accountability Incentive	-	-	12,851
Missouri Highway and Transportation Commission			
Destination S.A.F.E	-	-	9,252
Missouri State Safety Center			
Statewide Traffic Enforcement Program	-	-	7,663
Youth Occupant Protection Initiative	-	-	2,076
Department of Natural Resources			
Land and Water Conservation Fund	-	-	144,000
Blue Mills Detention Basin	-	-	44,241
Spring Branch	-	-	186,826
Jackson County Anti Drug Tax	353,273	-	-
Jackson County Dare	326,310	-	-
Jackson County Urban Road System	-	2,566,084	-
Bundschu Bridge Project	-	-	16,000
Healthcare Foundation of Greater Kansas City	-	-	51,258
Total State and Local	5,353,794	2,566,084	735,299
Grand Total	\$ 5,429,540	\$ 6,183,675	\$ 10,149,499

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Amounts due from other governments at June 30, 2006 are as follows:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund:				
Department of Health and Senior Services				
Marc Senior Site	\$ 4,167	\$ -	\$ -	\$ 4,167
Urban Mass Transit Operating Assistance				
Dial A Ride	25,393	-	-	25,393
Department of Revenue				
Motor Vehicle Fuel Tax	-	560,000	-	560,000
Motor Vehicle Sales Tax	-	70,000	-	70,000
Motor Vehicle License Fees	-	147,000	-	147,000
39th St Transportation Development District	-	-	3,412	3,412
	<u>29,560</u>	<u>777,000</u>	<u>3,412</u>	<u>809,972</u>
Street Improvements Fund:				
Department of Transportation:				
Highway Planning and Construction				
Surface Transportation Program	4,142,592	-	-	4,142,592
Jackson County Urban Road System	-	-	2,488,334	2,488,334
39th Street Transportation Development District	-	-	2,400	2,400
	<u>4,142,592</u>	<u>-</u>	<u>2,490,734</u>	<u>6,633,326</u>
Nonmajor Governmental Funds:				
Department of Agriculture				
Summer Food Service Program	280	-	-	280
Department of Justice				
Violence Against Women Grant Office				
Grants to Encourage Arrest Policies	76,316	-	-	76,316
Institute for Law and Justice	7,145	-	-	7,145
Office of National Drug Control Policy				
High Intensity Drug Trafficking Area - ONDCP	78,547	-	-	78,547
High Intensity Drug Trafficking Area - KBI	23,741	-	-	23,741
Office of Justice Programs				
Stop Violence Against Women	4,341	-	-	4,341
Project Safe Neighborhoods Task Force	16,366	-	-	16,366
Project Ceasefire Task Force	3,986	-	-	3,986
Bulletproof Vest Partnership Act	1,015	-	-	1,015
Office of Community Oriented Policing Services				
Homeland Security Overtime Program	10,603	-	-	10,603

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
Nonmajor Governmental Funds (continued):				
Department of Transportation				
Missouri Division of Highway Safety				
Missouri Highway Safety Program	11,911	-	-	11,911
DWI Enforcement	8,344	-	-	8,344
Hazardous Moving Violations	12,852	-	-	12,852
Red Light Running and Aggressive Driving	6,965	-	-	6,965
Youth Alcohol Enforcement	14,808	-	-	14,808
Core Public Health Services	-	9,523	-	9,523
Missouri Highway and Transportation Commission				
Destination S.A.F.E.	-	6,548	-	6,548
Missouri Highway Safety Center				
Statewide Traffic Enforcement Program	-	4,922	-	4,922
US Secret Service				
KC Metro Financial Crimes Task Force	3,020	-	-	3,020
Environmental Protection Agency				
Brownfield Assessment	980	-	-	980
Department of Health and Human Services				
Families at Risk Home Visitation	3,280	-	-	3,280
Maternal & Child Health Services	3,925	-	-	3,925
Sanitation Inspections of Childcare Facilities	1,035	-	-	1,035
Chronic Disease Primary Prevention	6,902	-	-	6,902
Nursing Consultations with Childcare Facilities	284	-	-	284
Bioterrorism	13,303	-	-	13,303
Pandemic Preparedness Program	1,573	-	-	1,573
Department of Homeland Security				
Emergency Management Assistance	7,669	-	-	7,669
Community Emergency Response Teams	22,257	-	-	22,257
Interoperate Communications Grant	2,493,948	-	-	2,493,948
Law Enforcement Terrorism Prevention Program	235,000	-	-	235,000
Homeland Security Formula Grants	1,976,250	-	-	1,976,250
Department of Housing and Urban Development				
Community Development Block Grant	188,392	-	-	188,392
Home Improvement Partnership	102,295	-	-	102,295
Missouri Division of Tourism				
Cooperative Marketing Agreement	-	68,331	-	68,331
	5,337,333	89,324	-	5,426,657
Totals	\$ 9,509,485	\$ 866,324	\$ 2,494,146	\$ 12,869,955

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(5) Interfund Activity

(a) Interfund Balances

Interfund balances at June 30, 2006 consisted of the following:

	<u>Due from Street Improvements</u>	<u>Due from nonmajor governmental</u>	<u>Total Governmental Activities</u>
Due to:			
Governmental activities:			
General Fund	\$ 1,415,800	\$ 1,277,215	\$ 2,693,015
Nonmajor governmental	1,133,485	3,489,011	4,622,496
Total governmental activities	<u>2,549,285</u>	<u>4,766,226</u>	<u>7,315,511</u>
Business-type activities:			
Water Fund	4,649,995	-	4,649,995
Sanitary Sewer Fund	51,151	446,548	497,699
Total business-type activities	<u>4,701,146</u>	<u>446,548</u>	<u>5,147,694</u>
Total	<u>\$ 7,250,431</u>	<u>\$ 5,212,774</u>	<u>\$ 12,463,205</u>

Interfund payables and receivables represent loans between funds for operating purposes.

(b) Interfund Charges for Support Services

Interfund charges for support services and rent paid to the General Fund during fiscal year 2006 were as follows:

	<u>Interfund charges</u>	<u>Rent</u>
Nonmajor governmental funds	\$ 35,000	\$ 12,426
Power and Light Fund	1,589,919	48,951
Sanitary Sewer Fund	528,220	14,181
Water Fund	796,543	26,110
	<u>\$ 2,949,682</u>	<u>\$ 101,668</u>

Rent charges, which consist of leased office space, are included in other revenue of the General Fund.

Interfund charges for customer service support services and telephone operators were paid to the Water Fund during fiscal year 2006 as follows:

Sanitary Sewer Fund	\$ 201,984
Power and Light Fund	969,521
	<u>\$ 1,171,505</u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Interfund charges for meter reading services were paid to the Power and Light Fund during fiscal year 2006 as follows:

Sanitary Sewer Fund	\$ 119,279
Water Fund	667,966
	<u>\$ 787,245</u>

(c) Payments in Lieu of Taxes

The payments in lieu of taxes of \$9,637,661, \$1,610,772 and \$1,376,427 in fiscal year 2006 by the Power and Light, Water, and Sanitary Sewer (Enterprise) Funds, respectively, to the General Fund approximate franchise taxes and real estate taxes on plant in service. The franchise tax rate, established by City ordinance at 9.08%, is applied to gross billed operating revenues less amounts written off to arrive at the franchise tax due the General Fund. Real estate taxes are charged at a set amount.

(d) Interfund Transfers

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	Transfer from						Total
	General	Street Improvements	Power and Light	Sanitary Sewer	Water	Nonmajor Governmental	
Transfers to:							
General	\$ -	\$ 16,122	\$ -	\$ -	\$ -	\$ -	\$ 16,122
Street Improvements	506	-	-	-	-	188,884	189,390
Sanitary Sewer Fund	105,357	-	-	-	-	-	105,357
Nonmajor governmental	1,088	90,000	216,142	216,142	216,142	779,622	1,519,136
Total Primary Government	<u>\$ 106,951</u>	<u>\$ 106,122</u>	<u>\$ 216,142</u>	<u>\$ 216,142</u>	<u>\$ 216,142</u>	<u>\$ 968,506</u>	<u>\$ 1,830,005</u>

(a) Transfers are the result of payment for capital project expenditures.

(b) Transfers between the General Fund, Power and Light Fund, Sanitary Sewer Fund, Water Fund, represent matching funds required by a federal grant.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(6) Capital Assets

Capital asset activity for the year ended June 30, 2006 is as follows:

	Balance June 30, 2005 (as restated)	Additions	Retirements	Balance June 30, 2006
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 11,591,873	\$ 7,100,366	\$ (7,500)	\$ 18,684,739
Construction work in progress	46,649,978	31,294,914	(24,690,416)	53,254,476
Total nondepreciable capital assets	58,241,851	38,395,280	(24,697,916)	71,939,215
Depreciable capital assets:				
Land improvements	255,647	-	-	255,647
Buildings	9,716,819	3,387,716	(33,000)	13,071,535
Building improvements	9,451,454	7,076	-	9,458,530
Improvements other than buildings	4,623,180	10,042,208	-	14,665,388
Office furniture and equipment	879,553	-	-	879,553
Computer equipment	759,376	178,596	(7,741)	930,231
Mobile equipment	15,637,265	2,668,444	(626,864)	17,678,845
Other equipment	2,708,237	463,695	(99,381)	3,072,551
Infrastructure	154,666,243	18,535,974	(32,459)	173,169,758
Total depreciable capital assets	198,697,774	35,283,709	(799,445)	233,182,038
Less accumulated depreciation for:				
Land improvements	(36,155)	(10,290)	-	(46,445)
Buildings	(5,876,036)	(235,206)	33,000	(6,078,242)
Building improvements	(1,119,442)	(471,574)	-	(1,591,016)
Improvements other than buildings	(891,912)	(225,007)	-	(1,116,919)
Office furniture and equipment	(848,109)	(9,709)	-	(857,818)
Computer equipment	(409,522)	(115,256)	7,741	(517,037)
Mobile equipment	(9,896,650)	(1,291,747)	594,903	(10,593,494)
Other equipment	(1,641,564)	(216,775)	98,182	(1,760,157)
Infrastructure	(93,646,626)	(4,661,191)	32,459	(98,275,358)
Total accumulated depreciation	(114,366,016)	(7,236,755)	766,285	(120,836,486)
Total depreciable capital assets, net	84,331,758	28,046,954	(33,160)	112,345,552
Governmental activities capital assets, net	\$ 142,573,609	\$ 66,442,234	\$ (24,731,076)	\$ 184,284,767

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Depreciation expense was charged to functions as follows:

General government	\$	224,242
Public safety		1,137,186
Public works		4,591,376
Health and welfare		33,890
Culture and recreation		676,115
Community development		60,392
Storm water		<u>510,043</u>
Total		<u>7,233,244</u>

In addition, depreciation on capital assets held by the City's
Central Garage Fund is charged to the various functions
based on their usage of the assets

		<u>3,511</u>
Total depreciation expense	\$	<u><u>7,236,755</u></u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	June 30, 2005	Additions	Retirements	June 30, 2006
Business-type activities:				
Power and Light Fund:				
Nondepreciable capital assets:				
Land	\$ 2,948,206	\$ -	\$ -	\$ 2,948,206
Construction in progress	7,072,456	12,677,631	(7,385,206)	12,364,881
Total nondepreciable capital assets	10,020,662	12,677,631	(7,385,206)	15,313,087
Depreciable capital assets:				
Acquisition adjustment	2,755,568	-	-	2,755,568
Production plant	142,038,612	3,098,338	(165,059)	144,971,891
Transmission plant	21,673,298	204,693	(15,276)	21,862,715
Distribution plant	98,405,113	3,333,874	(594,549)	101,144,438
General plant	16,407,261	748,301	(84,092)	17,071,470
Total depreciable capital assets	281,279,852	7,385,206	(858,976)	287,806,082
Less accumulated depreciation:				
Acquisition adjustment	(2,613,997)	(141,571)	-	(2,755,568)
Production plant	(93,151,874)	(4,680,054)	165,074	(97,666,854)
Transmission plant	(10,611,780)	(602,654)	34,472	(11,179,962)
Distribution plant	(33,790,303)	(3,235,763)	922,058	(36,104,008)
General plant	(11,978,677)	(1,114,059)	84,092	(13,008,644)
Total accumulated depreciation	(152,146,631)	(9,774,101)	1,205,696	(160,715,036)
Total depreciable capital assets, net	129,133,221	(2,388,895)	346,720	127,091,046
Total power and light capital assets	139,153,883	10,288,736	(7,038,486)	142,404,133

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Water Fund:				
Nondepreciable capital assets:				
Land	\$ 2,164,588	\$ 137	\$ -	\$ 2,164,725
Construction in progress	19,359,106	5,054,328	(23,038,181)	1,375,253
Total nondepreciable capital assets	21,523,694	5,054,465	(23,038,181)	3,539,978
Depreciable capital assets:				
Acquisition adjustment	12,547,766	-	-	12,547,766
Nonutility property	40,014	-	-	40,014
Source of supply	7,129,326	-	-	7,129,326
Pumping plant	5,178,996	21,488	(8,866)	5,191,618
Treatment plant	13,806,351	27,150	(26,465)	13,807,036
Transmission plant	57,396,706	22,798,544	(231,331)	79,963,919
General plant	5,699,005	190,862	(83,181)	5,806,686
Total depreciable capital assets	101,798,164	23,038,044	(349,843)	124,486,365
Less accumulated depreciation:				
Acquisition adjustment	(8,551,440)	(371,751)	-	(8,923,191)
Nonutility property	(14,000)	-	-	(14,000)
Source of supply	(3,556,698)	(391,582)	-	(3,948,280)
Pumping plant	(2,007,899)	(166,546)	8,866	(2,165,579)
Treatment plant	(4,307,792)	(345,694)	55,167	(4,598,319)
Transmission plant	(6,540,824)	(691,633)	251,408	(6,981,049)
General plant	(2,435,851)	(295,700)	83,269	(2,648,282)
Total accumulated depreciation	(27,414,504)	(2,262,906)	398,710	(29,278,700)
Total depreciable capital assets, net	74,383,660	20,775,138	48,867	95,207,665
Total water capital assets	95,907,354	25,829,603	(22,989,314)	98,747,643

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Sanitary Sewer Fund:				
Nondepreciable capital assets:				
Land	\$ 330,191	\$ -	\$ -	\$ 330,191
Construction in progress	8,856,635	2,693,731	(1,286,495)	10,263,871
Total nondepreciable capital assets	9,186,826	2,693,731	(1,286,495)	10,594,062
Depreciable capital assets:				
Nonutility property	46,368	-	-	46,368
Collection plant	69,396,269	3,065,769	(6,112)	72,455,926
Pumping plant	4,989,929	-	(38,529)	4,951,400
Treatment plant	14,655,052	52,394	(697,469)	14,009,977
General plant	3,945,410	319,453	(274,807)	3,990,056
Total depreciable capital assets	93,033,028	3,437,616	(1,016,917)	95,453,727
Less accumulated depreciation:				
Nonutility property	(46,368)	-	-	(46,368)
Collection plant	(18,507,468)	(885,037)	6,112	(19,386,393)
Pumping plant	(4,991,272)	(217,560)	38,527	(5,170,305)
Treatment plant	(13,930,680)	(801,321)	697,469	(14,034,532)
General plant	(4,308,351)	(286,130)	256,307	(4,338,174)
Total accumulated depreciation	(41,784,139)	(2,190,048)	998,415	(42,975,772)
Total depreciable capital assets, net	51,248,889	1,247,568	(18,502)	52,477,955
Total sewer capital assets	60,435,715	3,941,299	(1,304,997)	63,072,017
Total business-type activities capital assets	<u>\$ 295,496,952</u>	<u>\$ 40,059,638</u>	<u>\$ 31,332,811</u>	<u>\$ 304,223,793</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Power and light	\$ 9,192,811
Water	2,119,896
Sanitary sewer	2,190,048
Total business-type activities depreciation expense	<u>\$ 13,502,755</u>

Depreciation charged to Power and Light and Water funds are different because certain depreciation related to utility vehicles and heavy equipment are charged to clearing accounts and redistributed to various operating, construction, and other capital accounts.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(7) Long-Term Obligations

The State Constitution permits a city, by vote of two-thirds of the voting electorate, to incur general obligation indebtedness for "city purposes," not to exceed 10% of the assessed value of taxable tangible property. The State Constitution also permits a city, by vote of two-thirds of the voting electorate under a special election or four-sevenths under a general election, to incur additional general obligation indebtedness not exceeding, in the aggregate, an additional 10% of the assessed value of taxable tangible property for the purpose of acquiring rights-of-way, constructing, extending, and improving streets and avenues and/or sanitary or storm sewer systems, and purchasing or constructing waterworks, electric, or other light and plants, provided that the total general obligation indebtedness of the city does not exceed 20% of the assessed valuation of taxable property.

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2006:

	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Governmental activities:					
Loans and notes payable:					
Loans payable	\$ 21,318,126	\$ -	\$ 2,893,637	\$ 18,424,489	\$ 3,028,378
Capital lease obligations	1,015,831	-	278,461	737,370	154,922
Neighborhood Improvement					
District	1,041,000	-	58,000	983,000	59,000
Premium (discount), net	179,017	-	14,439	164,578	-
Total loans and notes payable	<u>23,553,974</u>	<u>-</u>	<u>3,244,537</u>	<u>20,309,437</u>	<u>3,242,300</u>
Other liabilities:					
Compensated absences	<u>11,742,567</u>	<u>5,041,671</u>	<u>4,287,830</u>	<u>12,496,408</u>	<u>4,734,494</u>
	<u>\$ 35,296,541</u>	<u>\$ 5,041,671</u>	<u>\$ 7,532,367</u>	<u>\$ 32,805,845</u>	<u>\$ 7,976,794</u>

The compensated absences liability attributable to governmental activities will be liquidated primarily by the General Fund.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Business-type activities:					
Power and Light Fund:					
Revenue bonds	\$ 20,445,000	\$ -	\$ 1,925,000	\$ 18,520,000	\$ 1,995,000
Less deferred amount on refunding	(1,970,392)	-	(221,715)	(1,748,677)	-
Total revenue bonds	18,474,608	-	1,703,285	16,771,323	1,995,000
Compensated absences	4,078,899	1,660,185	1,593,877	4,145,207	1,084,320
Total Power and Light Fund	22,553,507	1,660,185	3,297,162	20,916,530	3,079,320
Water Fund:					
Revenue bonds	44,495,000	-	1,905,000	42,590,000	2,040,000
Compensated absences	1,193,599	720,200	669,146	1,244,653	384,533
Total Water Fund	45,688,599	720,200	2,574,146	43,834,653	2,424,533
Sanitary Sewer Fund:					
Compensated absences	733,800	60,813	26,685	767,928	234,531
Total Sanitary Sewer Fund	733,800	60,813	26,685	767,928	234,531
Total business-type activities	<u>\$ 68,975,906</u>	<u>\$ 2,441,198</u>	<u>\$ 5,897,993</u>	<u>\$ 65,519,111</u>	<u>\$ 5,738,384</u>

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Discretely-presented component unit:					
TIF loans	\$ 67,170,000	\$ 62,750,000	\$ 2,935,000	\$ 126,985,000	\$ 2,585,000
Loans payable	341,874	-	61,362	280,512	66,622
Premium (discount), net	(387,013)	(954,760)	36,512	(1,305,261)	-
	67,124,861	61,795,240	3,032,874	125,960,251	2,651,622
Developer obligations	8,723,271	6,425,393	1,885,935	13,262,729	-
	<u>\$ 75,848,132</u>	<u>\$ 68,220,633</u>	<u>\$ 4,918,809</u>	<u>\$ 139,222,980</u>	<u>\$ 2,651,622</u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Debt service requirements on long-term debt with schedules maturities at June 30, 2006 are as follows:

	Governmental activities					
	Loans payable		NID Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 3,028,379	\$ 796,128	\$ 59,000	\$ 1,620	\$ 3,087,379	\$ 797,748
2008	3,156,625	672,749	59,000	1,551	3,215,625	674,300
2009	3,284,872	544,246	64,000	1,608	3,348,872	545,854
2010	1,784,612	412,334	64,000	1,615	1,848,612	413,949
2011	1,660,000	323,051	69,000	1,659	1,729,000	324,710
2012-2016	5,510,000	575,491	294,000	7,265	5,804,000	582,756
2017-2021	-	-	347,000	9,175	347,000	9,175
2022-2024	-	-	27,000	793	27,000	793
	<u>\$ 18,424,489</u>	<u>\$ 3,324,000</u>	<u>\$ 983,000</u>	<u>\$ 25,286</u>	<u>\$ 19,407,489</u>	<u>\$ 3,349,286</u>

	Business-type activities					
	Power and Light		Water		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,995,000	\$ 784,823	\$ 2,040,000	\$ 1,937,091	\$ 4,035,000	\$ 2,721,914
2008	2,065,000	708,218	2,200,000	1,852,685	4,265,000	2,560,903
2009	2,155,000	628,693	2,380,000	1,760,459	4,535,000	2,389,151
2010	2,245,000	541,363	2,525,000	1,660,033	4,770,000	2,201,396
2011	2,345,000	445,838	2,765,000	1,548,508	5,110,000	1,994,345
2012-2016	7,715,000	702,538	17,375,000	5,539,835	25,090,000	6,242,373
2017-2021	-	-	9,185,000	1,673,008	9,185,000	1,673,008
2022-2025	-	-	4,120,000	424,500	4,120,000	424,500
	<u>\$ 18,520,000</u>	<u>\$ 3,811,470</u>	<u>\$ 42,590,000</u>	<u>\$ 16,396,118</u>	<u>\$ 61,110,000</u>	<u>\$ 20,207,588</u>

	Discretely-presented component unit					
	TIF loans		Loans payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,585,000	\$ 6,818,352	\$ 66,622	\$ 12,036	\$ 2,651,622	\$ 6,830,388
2008	2,820,000	6,843,689	68,375	9,204	2,888,375	6,852,893
2009	3,660,000	6,703,469	70,128	6,333	3,730,128	6,709,802
2010	4,195,000	6,523,416	75,387	3,317	4,270,387	6,526,733
2011	4,495,000	6,348,697	-	-	4,495,000	6,348,697
2012-2016	24,380,000	27,670,056	-	-	24,380,000	27,670,056
2017-2021	39,300,000	19,689,384	-	-	39,300,000	19,689,384
2022-2026	36,260,000	9,104,708	-	-	36,260,000	9,104,708
2027-2028	9,290,000	733,751	-	-	9,290,000	733,751
	<u>\$ 126,985,000</u>	<u>\$ 90,435,522</u>	<u>\$ 280,512</u>	<u>\$ 30,890</u>	<u>\$ 127,265,512</u>	<u>\$ 90,466,412</u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Governmental activities

(a) Loans Payable

On June 1, 2000, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$530,000, due in annual installments of \$40,000 to \$65,000 through June 1, 2010 and bearing interest at 5.00% to 6.25%. The proceeds of the bond issuance are to be used for improvements, renovations, and other upgrades to various buildings owned by the City.

On August 1, 2001, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$1,635,000, due in annual installments of \$160,000 to \$215,000 through June 1, 2010, and bearing interest at 4.20% to 4.40%. The proceeds of the bond issuance are to be used for improvements, renovations, and other upgrades to various buildings owned by the City, software for the Fire Department, and additional funding for Hartman Heritage Tax Increment Financing Project. The portion of the loan payable related to the Hartman Heritage Tax Increment Financing Project is included in the liabilities of the discretely presented component unit. Restricted assets in the General Fund of \$223,996 consist of funds available for costs related to this debt.

On May 1, 2004, the City refinanced a loan payable with the Missouri Development Finance Board in the amount of \$1,245,000, due in annual installments of \$230,000 to \$270,000 through June 1, 2009, and bearing interest at 2.25% to 4.25%. The proceeds will be used for the restoration of the Truman Memorial Building.

On May 26, 2005, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$4,970,000, due in semiannual installments of \$590,000 to \$665,000 through April 1, 2009, and bearing interest at 3.25% to 4.00%. The proceeds of the bond issuance are to be used for street projects.

On February 1, 2005, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$6,175,000, due in annual installments of \$300,000 to \$450,000 through February 1, 2013, and bearing interest at 3.00% to 5.00%. The proceeds of the bond issuance are to be used for the aquatics facilities project.

On February 25, 2005, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$8,225,000, due in annual installments of \$670,000 to \$1,010,000 through March 1, 2015, and bearing interest at 4.00% to 5.25%. The proceeds of the bond issuance are to be used for public safety facilities projects.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(b) *Neighborhood Improvement District*

The Neighborhood Improvement District Bonds constitute a valid and legally binding indebtedness of the City, payable as to both principal and interest from special assessments to be assessed on certain real property within the District which will be benefited by the improvements and, if not so paid, from moneys in the Bond Reserve Fund and, to the extent required, from first available moneys in the City's general fund or other legally available fund. The full faith and credit of the City are irrevocably pledged for the prompt payment, when due, of the principal and interest on the Bonds; provided, however, the City is not obligated nor authorized to levy taxes for the purpose of paying principal of or interest on the Bonds and the taxing power of the City is not pledged to the payment of the Bonds.

On May 15, 2004, the City issued \$995,000 Neighborhood Improvement Bonds for Noland Road and Englewood Improvements, due in annual installments of \$55,000 to \$85,000 through March 1, 2019 and bearing interest at 4.5% to 5.75%.

On August 17, 2004, the City issued \$111,000 Neighborhood Improvement Bonds for the Fall Drive Sanitary Sewer Project, due in annual installments of \$5,000 to \$6,000 through March 1, 2024 and bearing interest at 5.375% to 5.5%.

(c) *Capital Lease Obligations*

Capital leases payable at June 30, 2006 are comprised of the following:

Governmental funds:

Emergency One, Inc, interest at 6.31%, annual installments through October 2007; a lease to purchase an Emergency One Model V803 Commercial Pumper Fire Apparatus	\$	41,820
IBM Corporation, interest rates ranging from 5.77% to 6.37%, due in monthly installments through April 1, 2007 for computer equipment		37,888
IBM Corporation, interest at 2.64% to 6.10%, monthly installments through 2008 for computer equipment		34,841
Sun Trust Leasing, interest at 4.19%, annual installments through July 2013; a lease to purchase a fire truck		622,821
	\$	<u>737,370</u>

The cumulative amount of assets acquired under the capital leases described above amounted to \$2,032,154 as of June 30, 2006.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006 were as follows:

Year ending June 30:		
2007	\$	185,348
2008		118,899
2009		95,990
2010		93,234
2011		93,234
2012-2014		<u>279,700</u>
		866,405
Less imputed interest		<u>(129,035)</u>
Present value of minimum lease payments	\$	<u><u>737,370</u></u>

Business-type Activities

Revenue Bonds

Revenue bonds payable at June 30, 2006 are comprised of the following individual issues:

Power and light fund:

\$23,520,000 1998 Electric Utility Refunding Bonds, due in annual installments of \$700,000 to \$2,040,000 through June 1, 2014, interest at 4.0% to 4.8%, callable at par after June 1, 2003	\$	13,975,000
\$5,975,000 2003 Electric Utility Refunding Revenue Bonds, due in annual installments of \$435,000 to \$660,000 through June 1, 2014, interest at 2.0% to 3.65%		4,545,000
Less deferred amount on refunding		<u>(1,748,677)</u>
Total power and light fund		<u>16,771,323</u>

Water fund:

\$36,000,000 1986 Water Utility Remarketing Bonds, principal due in annual installments of \$850,000 to \$5,010,000 through June 30, 2017, interest at approximately 3.25% to 5.0%		28,295,000
\$14,785,000 2004 Missouri Development Finance Board Infrastructure Facilities Revenue bonds, principal due in annual installments of \$490,000 to \$1,105,000 from November 1, 2005 through November 1, 2024, interest approximately 3.375% to 5.0%.		<u>14,295,000</u>
Total water fund		<u>42,590,000</u>
Total revenue bonds	\$	<u><u>59,361,323</u></u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

The power and light revenue bond ordinance and the water revenue bond indenture require that the systems be accounted for in separate enterprise funds. They also require that after sufficient current assets have been set aside to operate the systems, all remaining monies held in the funds be segregated and restricted in separate special reserves and accounts in the following sequences:

Account	Restriction
Principal and interest	For the monthly accumulation of monies to meet the maturing revenue bond principal-and-interest requirements
Depreciation and emergency (water only)	For the accumulation of \$500,000 to finance emergency repairs and system improvements

Surplus account monies are reflected as unrestricted cash. The required reserves are reported in the accompanying statement of net assets as restricted assets as follows:

Account	Enterprise funds		
	Power and Light	Water	Sanitary Sewer
Principal and interest	\$ 231,652	\$ -	\$ -
Depreciation and emergency	-	500,000	-
Total revenue bond reserves	231,652	500,000	-
Customer deposits	939,756	250,473	181,520
Workers' compensation	135,480	35,753	28,767
Total	<u>\$ 1,306,888</u>	<u>\$ 786,226</u>	<u>\$ 210,287</u>

Various bond ordinances and indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. The City is in compliance with all such financial limitations and restrictions.

Restricted assets in the General Fund of \$436,608 at June 30, 2006 consist of cash on deposit for a debt service reserve (note 14) and for municipal court bond deposits.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Discretely-presented component unit

(a) Tax Increment Financing Loans

The City's tax increment financing loan indebtedness is recorded as a liability of the TIF Commission to match revenue streams to the related debt for which they have been pledged. The obligation of the City and the Commission to pay principal and interest on these bonds is limited solely to the tax increment financing (TIF) revenues generated from each project. Should TIF revenues not be sufficient to meet the required debt service obligations, neither the City nor the Commission is obligated to make such bond payments from any other sources of its revenues. However, the City intends to annually appropriate funds sufficient to make all payments required by the bonds for the next fiscal year. Management does not anticipate that any of the City's general funds will be required to make up any deficiency in bond payments during the next fiscal year.

The following is a description of the individual TIF loans payable:

On June 1, 1999, the City entered into a \$7,240,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$270,000 to \$835,000 through June 1, 2011 and bearing interest at 4.0% to 5.25%. The proceeds of the loan are to be used for costs related to redevelopment of Bolger Square.

On April 1, 2000, the City issued an \$11,850,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$120,000 to \$1,235,000 through April 1, 2021 and bearing interest at 5.1% to 6.0%. The proceeds of the bond issuance are to be used for costs related to redevelopment of Hartman Heritage area.

On May 1, 2000, the City issued a \$5,595,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$275,000 to \$800,000 through April 1, 2012 and bearing interest at 5.15% to 5.75%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Eastland Center area.

On November 1, 2000, the City issued a \$12,815,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$120,000 to \$1,235,000 through April 1, 2020 and bearing interest at 5.37% to 6%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Eastland Center area.

On August 1, 2001, the City issued a \$10,230,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$165,000 to \$1,865,000 through April 1, 2023 and bearing interest at 4.375% to 5.25%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Santa Fe area.

On November 1, 2001, the City issued a \$1,425,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$15,000 to \$160,000 through April 1, 2021 and bearing interest at 2.4% to 5.25%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Eastland Center area.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

On November 1, 2002, the City issued a \$3,480,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$75,000 to \$845,000 through April 1, 2012 and bearing interest at 3.5% to 5.13%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Eastland Center area.

On September 1, 2003, the City issued a \$8,715,000 loan payable with the Missouri Development Finance Board, due in annual installments of \$135,000 to \$2,675,000 through April 1, 2021 and bearing interest at 2.0% to 5.0%. The proceeds of the bond issuance are to be used for costs related to the redevelopment of the Hartman Heritage area.

On February 25, 2005, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$1,030,000, due in annual installments of \$50,000 to \$85,000 through March 1, 2020, and bearing interest at 3.00% to 4.50%. The proceeds of the bond issuance are to be used for the Drumm Farm Tax Increment Financing Project.

On February 25, 2005, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$11,325,000, due in annual installments of \$185,000 to \$1,270,000 through March 1, 2026, and bearing interest at 4.00% to 5.00%. The proceeds of the bond issuance are to be used for the Crackerneck Creek Tax Increment Financing Project.

On March 30, 2006, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$48,370,000 due in annual installments of \$340,000 to \$8,225,000 through March 1, 2026, and bearing interest at 5.30% to 6.00%. The proceeds of the bond issuance are to be used for the Crackerneck Creek Tax Increment Financing Project.

On March 30, 2006, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$12,790,000 due in annual installments of \$3,500,000 to \$5,385,000 beginning March 1, 2026 through March 1, 2028, and bearing interest at 5.00%. The proceeds of the bond issuance are to be used for the Crackerneck Creek Tax Increment Financing Project.

On May 17, 2006, the City entered into a loan payable with the Missouri Development Finance Board in the amount of \$1,590,000, due in annual installments of \$70,000 to \$170,000 through March 1, 2020, and bearing interest at 4.00% to 4.625%. The proceeds of the bond issuance are to be used for the Drumm Farm Tax Increment Financing Project.

Restricted assets held by the Commission of \$66,338,719 consist of funds available for costs related to the redevelopment of the Bolger Square, Crackerneck Creek, Drumm Farm, Hartman Heritage, Sante Fe, and Eastland Center areas.

(b) *Developer Obligations*

These obligations represent developer project costs that have been certified by the City as eligible for reimbursement from tax increment financing revenues attributable to each respective project. Under tax increment financing plans, the developer may be reimbursed up to the certified cost amount from incremental taxes during a period not to exceed 23 years. Accordingly, certified project costs in excess of amounts reimbursed to date are reflected as a long-term obligation of the Commission. These developer obligations are limited to the amount of incremental taxes received attributable to each respective project; any deficiencies are solely the responsibility of the developer and do not constitute an obligation of the Commission or of the City.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(c) ***Bass Pro Lease***

On October 18, 2004, the City approved the Crackerneck Creek Tax Increment Financing (TIF) Plan. The Crackerneck Creek TIF Plan provides for the development and construction of a proposed 350,000 square foot commercial retail center. The Crackerneck Creek Project (the Project) is scheduled to include (i) the Bass Pro Store described below, (ii) a minimum of 300,000 square feet of additional retail space and (iii) a hotel. Other than the Bass Pro Store none of the retail space is leased as of June 30, 2006.

As part of the Project, the City has entered into the Lease Agreement (as amended from time to time, the "Bass Pro Lease") with Bass Pro Outdoor World L.L.C. ("Bass Pro"). Pursuant to the Bass Pro Lease the City will own a 150,000 square foot Bass Pro retail store (the "Bass Pro Store") and will lease the Bass Pro Store to Bass Pro under the terms and conditions as contained in the Bass Pro Lease. Under the Bass Pro Lease the City is obligated to make \$25,000,000 available to Bass Pro. This amount will be funded from the proceeds of the Series 2006A Bonds. The proceeds of the Series 2006B and 2006C Bonds will be used to fund other costs related to the development of the site. The Bass Pro Store will be located on an approximate 20-acre parcel owned by the City.

The initial term of the Bass Pro Lease is 20 years. Bass Pro has various renewal options under the lease agreement. During the initial 20 year term, Bass Pro is required to pay the City "Percentage Rent" rent equal to 2% of "Gross Sales" as defined in the Bass Pro Lease except that the "Minimum Percentage Rent" will not be less than of \$1,000,000 during each year of the initial term. During any of the nine one-year renewal options, Bass Pro will pay rent equal to \$10 per year provided the TIF bond financing provided by the City in a maximum of \$35,000,000 has been paid in full, or until the expiration of the third one year renewal option (whichever occurs first), Bass Pro shall be obligated to pay \$1,000,000 per year to the City. During any of the three five year renewal options, Bass Pro will pay rent equal to 1% of "Gross Sales" as defined in the lease agreement. .

Under the Bass Pro Lease, Bass Pro has the option to purchase the Bass Pro Store at the expiration of the 20 year initial term and at the expiration of any renewal option for a purchase price equal to 90% of the fair market value thereof as a determined by an appraisal.

The total amount of all bonds to be issued by the Board for this project is expected to be approximately \$90,000,000. Proceeds of the bonds will fund reimbursable redevelopment project costs that are currently estimated to be approximately \$73,600,000, plus all financing costs, capitalized interest, credit enhancement costs, if any, and adequate reserves.

Although grading of the site has commenced, no construction of any buildings has commenced. Construction of the Bass Pro retail store is subject to delivery of the Pad for the Bass Pro store, pursuant to the terms and conditions of the Bass Pro Lease. The City delivered the Pad to Bass Pro concurrently with the delivery of the Bonds. Under the terms of the lease, Bass Pro must begin payments of rent to the City at the end of the Construction Period (a period of 455 days subsequent to delivery of the Pad) which will occur on June 28, 2007.

Also under the Lease the City is required to construct at its cost and expense, concurrently with the construction of the Bass Pro Store an approximate 15-acre lake and an additional wilderness habitat

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

area of approximately 15 acres. The City park will include a waterfall and present a unique natural setting. The City is obligated to complete the lake and park no later than the opening of the Bass Pro Store. The City is also responsible for constructing and making available to Bass Pro 600 parking space adjacent to the Bass Pro Store.

A summary of the minimum rental payments due for this operating lease are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 1,000,000
2008	1,000,000
2009	1,000,000
2010	1,000,000
2011	1,000,000
2012-2015	5,000,000
2016-2020	5,000,000
2021-2025	<u>5,000,000</u>
Total	<u>\$ 20,000,000</u>

(8) Advances for Construction

As new developments are constructed, the Power and Light (Enterprise) Fund requires a nonrefundable cash payment from a customer or developer to be paid toward the cost of extending the distribution system, installation of street lights, and other additions or modifications solely for the benefit of the customer or developer. The advances for construction at June 30, 2006 were \$292,270.

As new additions to the water distribution system are constructed, the Water (Enterprise) Fund requires the developer or wholesaler to advance the estimated cost of the water main extension or improvement. Upon project completion, any excess of the advance over the project cost is refunded to the developer or wholesaler or vice versa. The advances for construction at June 30, 2006 were \$145,152.

(9) Employee Retirement System

Plan Description

The City participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by Statute, Section RSMo. 70.600 – 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax exempt.

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, Missouri 65102 or by calling 1-800-447-4334.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Funding Policy

The City's full-time employees do not contribute to the pension plan. The City is required by Missouri state statute to contribute at an actuarially determined rate; the current rate is 8.7% (general), 8.1% (police), and 13.2% (fire) of annual covered payroll. The contribution requirements of plan members are determined by the City Council. The contribution provisions of the City are established by Missouri state statute.

Annual Pension Cost

For 2006, the City's annual pension cost of \$5,432,144 was equal to the required and actual contribution. The required contribution was determined as part of the February 29, 2004 and/or February 28, 2005 annual actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included:

- (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually;
- (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation;
- (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age, attributable to seniority/merit;
- (d) preretirement mortality based on the RP-2000 Combined Healthy Table, set back 0 years for men and women; and
- (e) postretirement mortality based on the 1971 Group Annuity Mortality table projected to 2000, set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2006 was 15 years.

See Exhibit 11 for Schedule of Funding Progress and Employer Contributions for the years ended 2006, 2005, and 2004.

(10) Postemployment Health Benefits

In addition to the pension benefits described in note 9, the City provides postemployment healthcare benefits to all retiring employees meeting the service criteria. Expenditures for postemployment healthcare benefits are recognized as retirees report their claims. During fiscal year 2006, expenditures of approximately \$3,679,553 were recognized for postemployment healthcare. The City has approximately 553 participants currently eligible to receive benefits.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a result, there are a number of claims and/or lawsuits to which the City is a party as a result of certain law enforcement activities, injuries, and various other matters and complaints arising in the ordinary course of City activities. The City is entitled to the defense of sovereign and official immunity against tort action that provides immunity except in two

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

areas – motor vehicles and the condition of property of governmental entities. The City carries commercial property, boiler and machinery, life, and flood insurance, and settlements have not exceeded insurance coverage for each of the past three fiscal years.

The City is a member of the Missouri Public Entity Risk Management Fund (MOPERM). MOPERM is a body corporate and politic created by the Missouri General Assembly to provide liability protection to participating public entities, their officials, and employees. The City pays annual premiums to MOPERM for law enforcement liability, general liability, public official errors and omissions liability, and automobile liability insurance coverage. The agreement with MOPERM provides that MOPERM will be self-sustaining through member premiums. MOPERM has the authority to assess members for any deficiencies of revenues under expenses for any single plan year. Likewise, MOPERM has the authority to declare refunds to members for the excess of revenues over expenses relating to any single plan year. MOPERM had no deficiencies in any of the past three fiscal years.

The City is self-insured for workers' compensation. An excess coverage insurance policy, limited to \$10,000,000 per occurrence, covers medical claims in excess of \$600,000 per occurrence, except for Power and Light, in which case the policy covers medical claims in excess of \$750,000. In order to maintain this self-insured status for workers' compensation, the State of Missouri requires the City to maintain an escrow account in the amount of \$200,000. This amount is reflected as restricted assets in the Power and Light, Water, and Sanitary Sewer Funds. Estimated workers' compensation claims incurred but not reported are accrued as liabilities in the various funds with worker's compensation expenditures.

The City offers its employees a contributory self-insurance healthcare plan. An excess coverage insurance policy covers the portion of specific claims in excess of \$200,000 and aggregate claims in excess of \$14,000,000. The portion of premiums paid by the City, totaling \$9,985,334 are reflected as expenditures/expenses of the various funds and premium revenue in the Staywell Health Care (Internal Service) Fund. Healthcare estimated claims incurred but not reported are accrued as a liability in the Internal Service Fund.

Changes in the balances of the workers' compensation and health care claims liability during the last two years are as follows:

	Workers' Compensation Claims		Medical Claims	
	2006	2005	2006	2005
Beginning of year	\$ 250,600	\$ 192,371	\$ 1,119,765	\$ 871,093
Incurred	1,665,750	2,184,048	11,240,694	10,787,658
Paid	(1,688,715)	(2,125,819)	(10,971,357)	(10,538,986)
End of year	<u>\$ 227,635</u>	<u>\$ 250,600</u>	<u>\$ 1,389,102</u>	<u>\$ 1,119,765</u>

(12) Commitments

Construction Commitments

At June 30, 2006, the City had commitments of approximately \$27,738,350 to complete construction contracts. Of this amount, \$10,270,840 relates to the enterprise funds.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Purchase/Sales of Capacity and Energy

The City purchases a portion of its power capacity and energy needs under a capacity purchase agreement with Kansas City Power & Light Company (KCPL). Under the agreement, the City purchases 90 MW of capacity and energy for a term through May 31, 2011 at contract-specified pricing for the capacity and associated energy, although the City has the right to reduce or terminate the capacity and energy purchase at any time after June 1, 2007. The annual minimum payment obligations (capacity charges only including the cost of transmission) under the agreement are approximately \$8,500,000.

In January 2004, the City entered into a participation power agreement with Omaha Public Power District (OPPD). Under this agreement, the City will purchase an 8.33% share (approximately 55 megawatts) of a new nominal 663 megawatt coal-fired baseload generating unit to be built at OPPD's existing Nebraska City power station site. The agreement provides that OPPD will be the owner/operator of the unit and OPPD will sell the City's share of the output on a cost-based approach. OPPD will issue tax-exempt bonds to pay for the construction of the unit and the City will be obligated to pay its appropriate share of the debt service on the bonds, the fixed operation and maintenance costs, the variable operating costs including fuel and renewals and replacements of the unit. The unit is currently scheduled to begin commercial operation on May 1, 2009. The term of the agreement is 40 years from the commercial operation date and can be extended by the City for the life of the proposed unit. The estimated annual minimum payment obligations (City's share of the debt service and fixed operation and maintenance expenses only) are approximately \$8,250,000. Payment obligations on this project are not expected to begin until the unit begins commercial operation in 2009.

In June 2006, the City entered into a unit power purchase agreement with the Missouri Joint Municipal Electric Utility Commission (MJMEUC). Under this agreement, the City will purchase a 50% share (approximately 50 megawatts) of MJMEUC's ownership share of a new nominal 850 megawatt Iatan 2 coal-fired generating unit to be built at KCPL's existing power station site in Weston, Missouri. The agreement provides that KCPL will be the owner/operator of the unit. MJMEUC will sell the City's share of the output on a cost-based approach. The City will be responsible for payment of its share of the fixed operation and maintenance costs, the variable operating costs including fuel, renewals and replacements of the unit and related administrative costs incurred by MJMEUC. The unit is currently scheduled to begin commercial operation in 2010. The term of the agreement is 40 years from the commercial operation date and can be extended by the City for the life of the proposed unit. Payment obligations on this project are not expected to begin until the unit begins commercial operation in 2010.

Cooperative Agreement – Jackson County

The City and Jackson County, Missouri have entered into a cooperative agreement of approximately \$4,000,000 to obtain funding under the County's County Urban Road System (CURS) program to be used in conjunction with federal monies to facilitate the maintenance and upkeep of the City's infrastructure. As of June 30, 2006, the City has requested reimbursement from the County of approximately \$2.4 million related to construction project cost reimbursements under this agreement.

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

Litigation

The City is involved in lawsuits arising in the ordinary course of activities, including claims regarding construction contract issues, personal injury and discriminatory personnel practices, property condemnation proceedings, and suits contesting the legality of certain taxes. While these cases may have future financial effect, management, based on advice of counsel, believes that their ultimate outcome will not be material to the basic financial statements.

(13) Deficits

The accumulated deficit in the nonmajor Storm Drainage Fund, in the amount of \$16,155, will be eliminated by future revenues or transfers. The accumulated deficit in the Sterling Village TIF fund, in the amount of \$135, will be eliminated by future tax increment financing revenues.

(14) Fund Equity

Reserved and designated fund balances at year-end are as follows:

	Governmental Funds			Total
	General	Street Improvements	Nonmajor	
Fund balances:				
Reserved for:				
Encumbrances	\$ 1,257,926	\$ 7,476,210	\$ 13,310,190	\$ 22,044,326
Debt service	223,997	-	220	224,217
Protested revenues	258,003	-	-	258,003
Domestic violence	16,113	-	-	16,113
Total fund balances reserved	<u>1,756,039</u>	<u>7,476,210</u>	<u>13,310,410</u>	<u>22,542,659</u>
Unreserved:				
Designated for:				
Police equipment	135,741	-	844	136,585
Capital projects	238,993	-	2,870,650	3,109,643
Strategic goal	633,368	-	-	633,368
TIF distribution	648,293	-	-	648,293
Homeland security	18,582	-	-	18,582
Amoco settlement	54,500	-	-	54,500
Debt service	900,000	-	-	900,000
Permanent fund	-	-	5,000	5,000
Total fund balances designated	<u>2,629,477</u>	<u>-</u>	<u>2,876,494</u>	<u>5,505,971</u>
Undesignated	<u>3,399,529</u>	<u>(8,546,856)</u>	<u>9,333,937</u>	<u>4,186,610</u>
Total fund equity	<u>\$ 7,785,045</u>	<u>\$ (1,070,646)</u>	<u>\$ 25,520,841</u>	<u>\$ 32,235,240</u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Financial Statements

June 30, 2006

(15) Prior Period Adjustment and Change in Financial Presentation

For the year ended June 30, 2006, management determined that the following adjustments were to be made to the opening net assets:

1. The implementation of the infrastructure related reporting requirements of GASB Statement No. 34 resulted in increases to net assets for the governmental activities.
2. Certain amounts due to the City's Sanitary Sewer Fund related to a local intergovernmental project reimbursement agreement had not been recorded.
3. Certain liabilities related to TIF (Tax Increment Financing) developer obligations had not been recorded in prior years.

A summary of these changes is described below:

	Governmental Activities	Business-type Activities	Discretely Presented Component Unit
Beginning net assets (deficit), as originally reported	\$ 122,409,342	\$ 306,552,132	\$ (52,559,877)
Infrastructure capital assets, net of depreciation	24,134,115	-	-
Intergovernmental agreement	-	592,019	-
TIF developer obligations	-	-	(1,594,979)
Beginning net assets (deficit), as restated	<u>\$ 146,543,457</u>	<u>\$ 307,144,151</u>	<u>\$ (54,154,856)</u>

CITY OF INDEPENDENCE, MISSOURI

Notes to Budgetary Comparison Schedules

Year ended June 30, 2006

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the accompanying government-wide financial statements:

- Prior to May 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to June 27, the City Council adopts the budget. If the City Council fails to adopt the budget on or before that date, the budget, as submitted or amended, goes into effect.
- The City Manager is authorized to transfer budgeted amounts between divisions of a department within any fund; however, any revisions that alter the total appropriations within any fund, or that transfer appropriations between departments, must be approved by the City Council. The 2004-2005 budget was amended during the year for transfers and supplemental appropriations. The budget amendments were approved by the City Council.
- Expenditures may not exceed appropriations for any department without City Council approval. Unencumbered appropriations lapse at year-end.
- Formal budgets are used as a control device for all funds; however, there is no requirement to report on the budget. Therefore, the financial statements include a comparison of budget to actual only for the General, Tourism, Community Development Block Grant, Rental Rehabilitation, Street Improvement Sales Tax, Park Sales Tax, Stormwater Sales Tax, Police Public Safety Sales Tax, Fire Public Safety Sales Tax and Grant Funds. Annual operating budgets are not prepared for Capital Projects Funds, although budgets on a project basis are prepared.

The City's policy is to prepare the annual operating budget on a basis which includes encumbrances as the equivalent of expenditures. The budgetary comparison schedules are prepared on this basis. Certain reclassifications between budgeted revenues and transfers have been made to facilitate the comparison with actual operations.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Comparison Schedule

General Fund

Year ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Taxes	\$ 31,604,220	31,604,220	31,651,693	47,473
Licenses and permits	4,581,408	4,581,408	4,530,988	(50,420)
Grants – federal and state	62,393	62,700	72,953	10,253
State and county shared revenue	5,667,974	5,667,974	5,356,587	(311,387)
Charges for current services	1,293,474	1,293,474	2,056,165	762,691
Interfund charges for support services	2,795,350	2,795,350	2,949,682	154,332
Fines and forfeitures	3,736,362	3,736,362	4,023,981	287,619
Other revenue	634,150	778,353	930,587	152,234
Total revenues	50,375,331	50,519,841	51,572,636	1,052,795
Other financing sources:				
Payments in lieu of taxes	11,879,512	11,879,512	12,624,861	745,349
Transfers in	—	—	16,122	16,122
Total other financing sources	11,879,512	11,879,512	12,640,983	761,471
Total revenues and other financing resources	62,254,843	62,399,353	64,213,619	1,814,266
Expenditures:				
City Council	354,366	378,916	378,821	95
City Clerk	417,900	436,100	436,038	62
City Manager	724,173	751,673	751,060	613
National Frontier Trails Center	337,625	338,400	338,386	14
Technology services	1,544,424	1,585,356	1,584,233	1,123
Municipal court	683,459	683,459	679,507	3,952
Law	621,377	623,177	623,158	19
Finance	1,638,272	1,674,071	1,659,205	14,866
Human resources	484,431	484,431	469,697	14,734
Community development	2,547,033	2,562,033	2,461,373	100,660
Police	19,421,996	19,895,744	19,892,356	3,388
Fire	13,478,138	13,636,537	13,617,843	18,694
Health	2,135,105	2,135,105	2,041,426	93,679
Public works	6,607,912	6,607,912	6,607,472	440
Water pollution control	296,739	296,739	295,509	1,230
Parks and recreation	2,052,914	2,052,914	1,980,238	72,676
General government	7,283,910	6,768,753	6,192,951	575,802
City Council strategic goals	350,000	888,796	431,100	457,696
Debt service	91,262	91,262	91,261	1
Capital outlay	1,041,450	1,579,321	930,998	648,323
Total expenditures	62,112,486	63,470,699	61,462,632	2,008,067
Other financing uses – transfers out	142,357	142,357	106,951	35,406
Total expenditures and other financing uses	62,254,843	63,613,056	61,569,583	2,043,473
Excess of revenue and other financing resources over expenditures and other financing uses	\$ —	(1,213,703)	2,644,036	3,877,441
Undesignated fund balance at beginning of year			1,903,961	
Cancellation of prior year encumbrances			191,743	
Decrease in other fund balance components during the year			(1,340,211)	
Undesignated fund balance at end of year			\$ 3,399,529	

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

General Fund

Year ended June 30, 2006

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds does not include encumbrances outstanding at year-end as expenditures because encumbrances are reported as reservations of fund balances in accordance with GAAP for the modified accrual basis of accounting. Adjustments necessary to convert the results of operations under the modified accrual basis to the budget basis are included as reconciling items on the following budget-basis statement:

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 64,213,619
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 64,213,619</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 61,462,632
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget	(1,179,682)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year	<u>886,328</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds (GAAP basis)	<u>\$ 61,169,278</u>

CITY OF INDEPENDENCE, MISSOURI
Schedule of Funding Progress and Employer Contributions
Retirement Plan

Schedule of Funding Progress:

Actuarial valuation date		(a) Actuarial value of assets	(b) Entry-age actuarial accrued liability	(b) – (a) Unfunded (assets in excess of) accrued liability (UAL)	(a)/(b) Funded ratio		(c) Annual covered payroll	(b) – (a)/(c) UAL as a percentage of covered payroll
February 29, 2004	\$	130,616,538	126,971,008	(3,645,530)	103%	\$	51,648,134	-7%
February 29, 2005		133,798,865	132,721,528	(1,077,337)	101%		52,038,918	-2%
February 28, 2006		143,965,379	140,859,132	(3,106,247)	102%		55,394,891	-6%

The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact LAGERS's office in Jefferson City.

Schedule of Employer Contributions:

		Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
Fiscal year ending:				
June 30, 2004	\$	4,192,623	100	—
June 30, 2005		4,849,276	100	—
June 30, 2006		5,432,144	100	—

CITY OF INDEPENDENCE, MISSOURI

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Tourism – This fund is used to account for expenditures for tourism that are financed out of the transient guest tax.

Independence Square Benefit District – This fund is used to account for expenditures to improve the City's downtown business district that are financed by a special property tax levy on those businesses which are benefited.

Community Development Grant Act – This fund is used to account for all projects that are funded by the Federal Community Development Block Grant.

Rental Rehabilitation – This fund is used to account for expenditures to improve rental property within the City that are funded by state and federal grants.

Street Improvement Sales Tax – This fund is used to account for all street projects that are funded by the three-eighths cent street improvement sales tax.

Park Improvement Sales Tax Fund – This fund accounts for all park projects that are funded by the one-quarter cent park improvement sales tax.

Storm Water Sales Tax – This fund is used to account for all storm water projects that are funded by the one-fourth cent storm water sales tax.

Police Sales Tax – This fund is used to account for receipts and expenditures of the City's sales tax for police protection services.

Fire Sales Tax – This fund is used to account for receipts and expenditures of the City's sales tax for fire protection services.

License Surcharge – This fund is used to account for street improvements funded by an excise tax that is based on increased traffic flow relating to new development.

Grant Fund – This fund is used to account for expenditures that are funded by grants.

Capital Projects Funds

Capital Project Funds are used to account for the acquisition and construction of major capital facilities other than those financed by the proprietary funds or trust funds.

Revolving Public Improvements – This fund, which is legally mandated by City Charter, is used to account for the cost of public works or improvements funded by special assessments.

Building and Other Improvements – This fund is used to account for the acquisition, construction, and improvement of nonproprietary buildings and facilities of the City.

Storm Drainage – This fund is used to account for the acquisition and construction of the City's infrastructure to control the run-off surface water.

CITY OF INDEPENDENCE, MISSOURI

Park Improvements – This fund is used to account for the acquisition and construction of the City's parkland.

Debt Service Fund

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Waggoner Memorial – This fund is used to account for citizen donations, the interest on which is used for maintenance for the Memorial Building.

CITY OF INDEPENDENCE, MISSOURI

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

Assets	Special Revenue (Exhibit 14)	Capital Projects (Exhibit 27)	Permanent Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Pooled cash and investments	\$ 18,915,893	27,365	14,220	—	18,957,478
Receivables:					
Taxes	3,127,667	—	—	—	3,127,667
Accounts	22,650	612	—	—	23,262
Special assessment principal and accrued interest	—	—	—	1,401,330	1,401,330
Accrued interest	270,611	—	—	—	270,611
Due from other funds	4,622,496	—	—	—	4,622,496
Due from component unit	16,500	—	—	—	16,500
Due from other governments	721,459	4,705,198	—	—	5,426,657
Restricted assets	220	—	—	94,000	94,220
Total assets	<u>\$ 27,697,496</u>	<u>4,733,175</u>	<u>14,220</u>	<u>1,495,330</u>	<u>33,940,221</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts and contracts payable	\$ 1,635,814	3,727	—	—	1,639,541
Due to other funds	486,528	4,718,239	—	8,007	5,212,774
Accrued items	50,772	—	—	—	50,772
Other current liabilities	11,816	—	—	—	11,816
Deferred revenue	103,454	—	—	1,401,023	1,504,477
Total liabilities	<u>2,288,384</u>	<u>4,721,966</u>	<u>—</u>	<u>1,409,030</u>	<u>8,419,380</u>
Fund balances:					
Reserved for:					
Encumbrances	11,158,517	2,151,673	—	—	13,310,190
Other purposes	220	—	—	—	220
Unreserved, reported in:					
Special revenue funds	14,250,375	—	—	—	14,250,375
Debt service funds	—	—	—	86,300	86,300
Capital projects funds	—	(2,140,464)	—	—	(2,140,464)
Permanent fund	—	—	14,220	—	14,220
Total fund balances	<u>25,409,112</u>	<u>11,209</u>	<u>14,220</u>	<u>86,300</u>	<u>25,520,841</u>
Total liabilities and fund balances	<u>\$ 27,697,496</u>	<u>4,733,175</u>	<u>14,220</u>	<u>1,495,330</u>	<u>33,940,221</u>

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue (Exhibit 15)	Capital Projects (Exhibit 28)	Permanent Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:					
Taxes	\$ 20,644,084	—	—	—	20,644,084
Licenses and permits	542,956	—	—	—	542,956
Intergovernmental	3,958,800	6,190,699	—	—	10,149,499
Charges for services	754,857	—	—	103,386	858,243
Investment income	1,087,378	784	604	4,219	1,092,985
Other	39,136	612	—	—	39,748
Total revenues	27,027,211	6,192,095	604	107,605	33,327,515
Expenditures:					
Current:					
Administrative services	46,507	—	—	—	46,507
Public safety	5,650,296	—	—	—	5,650,296
Health and welfare	562,450	—	—	—	562,450
Culture and recreation	2,647,822	—	—	—	2,647,822
Community development	1,355,646	—	—	—	1,355,646
Storm water	846,557	—	—	—	846,557
General government	120,123	—	—	1,037	121,160
Capital outlay	17,679,814	7,613,443	—	—	25,293,257
Debt service:					
Principal	2,725,000	—	—	58,000	2,783,000
Interest and fiscal agent fees	855,496	—	—	54,546	910,042
Total expenditures	32,489,711	7,613,443	—	113,583	40,216,737
Excess (deficiency) of revenues over expenditures	(5,462,500)	(1,421,348)	604	(5,978)	(6,889,222)
Other financing sources (uses):					
Transfers in	7,039	1,512,097	—	—	1,519,136
Transfers out	(968,506)	—	—	—	(968,506)
Total other financing sources (uses)	(961,467)	1,512,097	—	—	550,630
Net change in fund balances	(6,423,967)	90,749	604	(5,978)	(6,338,592)
Fund balances (deficit), beginning	31,833,079	(79,540)	13,616	92,278	31,859,433
Fund balances, ending	\$ 25,409,112	11,209	14,220	86,300	25,520,841

CITY OF INDEPENDENCE, MISSOURI

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2006

Assets	Tourism	Independence Square Benefit District	Community Development Grant Act	Rental Rehabilitation	Combined Sales Tax Funds (Exhibit 25)	License Surcharge	Grants	Total
Pooled cash and investments	\$ 3	1,051	—	—	15,687,184	3,227,654	1	18,915,893
Receivables:								
Taxes	90,000	863	—	—	3,036,804	—	—	3,127,667
Accounts	—	—	—	—	—	—	22,650	22,650
Accrued interest	—	—	—	—	218,967	51,644	—	270,611
Due from other funds	1,133,485	—	—	—	3,489,011	—	—	4,622,496
Due from component unit	—	—	—	—	16,500	—	—	16,500
Due from other governments	68,333	—	188,392	102,295	—	—	362,439	721,459
Restricted assets	—	—	—	—	220	—	—	220
Total assets	\$ 1,291,821	1,914	188,392	102,295	22,448,686	3,279,298	385,090	27,697,496
Liabilities and Fund Balances								
Liabilities:								
Accounts and contracts payable	\$ 144,325	—	378	2,003	1,439,116	—	49,992	1,635,814
Due to other funds	—	—	184,348	86,306	—	—	215,874	486,528
Accrued items	6,729	—	3,666	2,166	22,954	—	15,257	50,772
Other current liabilities	—	—	—	11,816	—	—	—	11,816
Deferred revenue	—	—	—	—	—	—	103,454	103,454
Total liabilities	151,054	—	188,392	102,291	1,462,070	—	384,577	2,288,384
Fund balances:								
Reserved for:								
Encumbrances	108,399	—	392,995	205,311	10,329,496	—	122,316	11,158,517
Other purposes	—	—	—	—	220	—	—	220
Unreserved, reported in:								
Special revenue funds	1,032,368	1,914	(392,995)	(205,307)	10,656,900	3,279,298	(121,803)	14,250,375
Total fund balances	1,140,767	1,914	—	4	20,986,616	3,279,298	513	25,409,112
Total liabilities and fund balances	\$ 1,291,821	1,914	188,392	102,295	22,448,686	3,279,298	385,090	27,697,496

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Tourism	Independence Square Benefit District	Community Development Grant Act	Rental Rehabilitation	Combined Sales Tax Funds (Exhibit 26)	License Surcharge	Grants	Total
Revenues:								
Taxes	\$ 1,000,809	20,586	—	—	19,622,689	—	—	20,644,084
Licenses and permits	—	—	—	—	—	542,956	—	542,956
Intergovernmental	121,632	—	802,830	570,166	247,067	—	2,217,105	3,958,800
Charges for services	375	—	—	—	661,172	—	93,310	754,857
Investment income	43,429	487	—	—	921,126	121,947	389	1,087,378
Other	5,068	—	—	—	13,282	—	20,786	39,136
Total revenues	1,171,313	21,073	802,830	570,166	21,465,336	664,903	2,331,590	27,027,211
Expenditures:								
Current:								
Administrative services	—	—	—	—	—	—	46,507	46,507
Public safety	—	—	—	—	4,244,855	—	1,405,441	5,650,296
Health and welfare	—	—	—	—	—	—	562,450	562,450
Culture and recreation	885,954	—	—	—	1,617,868	—	144,000	2,647,822
Community development	—	—	779,529	576,117	—	—	—	1,355,646
Storm water	—	—	—	—	846,557	—	—	846,557
General government	—	—	—	—	28,190	—	91,933	120,123
Capital outlay	—	23,375	—	—	17,656,439	—	—	17,679,814
Debt service:								
Principal	—	—	—	—	2,725,000	—	—	2,725,000
Interest and fiscal agent fees	—	—	—	—	855,496	—	—	855,496
Total expenditures	885,954	23,375	779,529	576,117	27,974,405	—	2,250,331	32,489,711
Excess (deficiency) of revenues over expenditures	285,359	(2,302)	23,301	(5,951)	(6,509,069)	664,903	81,259	(5,462,500)
Other financing sources (uses):								
Transfers in	—	—	—	5,951	1,088	—	—	7,039
Transfers out	—	—	(23,301)	—	(679,343)	(184,293)	(81,569)	(968,506)
Total other financing sources (uses)	—	—	(23,301)	5,951	(678,255)	(184,293)	(81,569)	(961,467)
Net change in fund balances	285,359	(2,302)	—	—	(7,187,324)	480,610	(310)	(6,423,967)
Fund balances, beginning	855,408	4,216	—	4	28,173,940	2,798,688	823	31,833,079
Fund balances, ending	\$ 1,140,767	1,914	—	4	20,986,616	3,279,298	513	25,409,112

CITY OF INDEPENDENCE, MISSOURI

Budgetary Comparison Schedule

Tourism Fund

Year ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Transient guest taxes	\$ 840,000	840,000	1,000,809	160,809
Interest	11,250	11,250	43,429	32,179
Grants – federal, state, and local	—	122,857	121,632	(1,225)
Other revenue	13,500	13,500	5,443	(8,057)
Total revenues	864,750	987,607	1,171,313	183,706
Expenditures:				
Tourism	778,198	920,905	919,440	1,465
Total expenditures	778,198	920,905	919,440	1,465
Excess of revenues and other financing sources over expenditures and other financing uses	\$ 86,552	66,702	251,873	185,171
Undesignated fund balance at beginning of year			567,785	
Cancellation of prior year encumbrances			70	
Increase in other fund balance components during the year (1)			(181,138)	
Undesignated fund balance at end of year			\$ 638,590	

- (1) This amount represents transactions included in the excess of revenues and other financing resources over expenditures and other financing uses amount listed above that affected fund balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the undesignated fund balance account to other fund balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Tourism Fund

Year ended June 30, 2006

	<u>Tourism Fund</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 1,171,313
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u><u>1,171,313</u></u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 919,440
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(86,165)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	52,679
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u><u>885,954</u></u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
 Budgetary Comparison Schedule
 Community Development Block Grant Fund
 Year ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over Over (Under)
	Original	Final		
Revenues:				
Federal grant - CDBG	\$ 862,847	862,847	802,830	(60,017)
Total revenues	862,847	862,847	802,830	(60,017)
Other financing sources:				
Transfers in	—	—	—	—
Total other financing resources	—	—	—	—
Total revenues and other sources	862,847	862,847	802,830	(60,017)
Expenditures:				
CDBG administration	172,569	277,257	262,644	14,613
CDBG expenditures	—	840,540	616,877	(223,663)
Public facilities and improvements	—	1,891	29,715	27,824
Commercial facade program	58,798	308,388	263,288	(45,100)
Total expenditures	231,367	1,428,076	1,172,524	(226,326)
Other financing uses:				
Transfers out	—	111,924	23,301	88,623
Total other financing uses	—	111,924	23,301	88,623
Total expenditures and other uses	231,367	1,540,000	1,195,825	(137,703)
Excess of revenue and other financing sources over expenditures and other financing uses	\$ 631,480	(677,153)	(392,995)	284,157
Undesignated fund balance at beginning of year			(225,816)	
Cancellation of prior year encumbrances			—	
Decrease (increase) in other fund balance components during the year			225,816	
Undesignated fund balance at end of year			\$ (392,994)	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

Exhibit 17.1**CITY OF INDEPENDENCE, MISSOURI****Budgetary Basis Reconciliation Schedule****Community Development Block Grant Fund****Year ended June 30, 2006**

	<u>Community Development Block Grant</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 802,830
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 802,830</u></u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 1,172,524
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(392,995)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 779,529</u></u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI

Budgetary Comparison Schedule

Rental Rehabilitation

Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budget Basis)	
Revenues:				
HOME program grant	\$ 483,729	483,729	570,166	86,437
Total revenues	483,729	483,729	570,166	86,437
Other financing sources:				
Transfers in	—	—	5,951	5,951
Total other financing sources	—	—	5,951	5,951
Total revenues and other sources	483,729	483,729	576,117	92,388
Expenditures:				
HOME administration	48,372	48,373	44,174	4,199
Multi family housing	—	537,120	283,200	(253,920)
Single family housing	—	497,509	151,200	(346,309)
Community housing development	—	382,955	302,855	(80,100)
Total expenditures	48,372	1,465,957	781,429	(676,130)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ 435,357	(982,228)	(205,312)	776,916
Undesignated fund balance at beginning of year			(461,836)	
Cancellation of prior year encumbrances			—	
Decrease (increase) in other fund balance components during the year (1)			461,840	
Undesignated fund balance at end of year			\$ (205,307)	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Rental Rehabilitation

Year ended June 30, 2006

**Rental
Rehabilitation**

Sources/inflows of resources:

Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule

\$ 570,166

Basis differences – budget to GAAP:

None

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds

\$ 570,166

Uses/outflows of resources:

Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule

\$ 781,429

Basis differences – budget to GAAP:

Outstanding encumbrances at year-end charged to the current year's budget (1)

(205,312)

Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)

—

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds

\$ 576,117

- (1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.

CITY OF INDEPENDENCE, MISSOURI

 Budgetary Comparison Schedule
 Street Improvements Sales Tax Fund
 Year ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 6,174,161	6,174,161	5,869,719	(304,442)
Interest	82,000	82,000	245,878	163,878
Other revenue			33,283	33,283
Total revenues	6,256,161	6,256,161	6,148,880	(107,281)
Other Financing sources:				
Transfers in	—	—	—	—
Proceeds from bond issuance	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources	6,256,161	6,256,161	6,148,880	(107,281)
Expenditures:				
General Government	13,125	13,125	7,547	(5,578)
Capital outlay	15,594,751	18,711,370	9,008,607	(9,702,763)
Debt service	—	—	1,355,936	1,355,936
Total expenditures	15,607,876	18,724,495	10,372,090	(8,352,405)
Other financing uses:				
Transfers out	—	—	—	—
Total other financing uses	—	—	—	—
Total expenditures and other financing uses	15,607,876	18,724,495	10,372,090	(8,352,405)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ (9,351,715)	(12,468,334)	(4,223,210)	8,245,124
Undesignated fund balance at beginning of year			2,880,807	
Cancellation of prior year encumbrances				
Decrease (increase) in other fund balance components during the year (1)			145,753	
Undesignated fund balance at end of year			\$ (1,196,650)	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

Exhibit 19.1**CITY OF INDEPENDENCE, MISSOURI****Budgetary Basis Reconciliation Schedule****Street Improvements Sales Tax Fund**

Year ended June 30, 2006

	<u>Streets Improvements Sales Tax</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 6,148,880
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 6,148,880</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 10,372,090
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	—
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 10,372,090</u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
Budgetary Comparison Schedule
Park Improvements Sales Tax Fund
Year ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 3,997,783	3,997,783	3,762,542	(235,241)
Public health and recreation	—	480,400	655,889	175,489
Adventure Oasis Water Park	404,400	—	—	—
Other revenue	174,500	174,500	28,353	(146,147)
Total revenues	4,576,683	4,652,683	4,446,784	(205,899)
Other financing sources:				
Transfers in	—	—	—	—
Proceeds from bond issuance	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources	4,576,683	4,652,683	4,446,784	(205,899)
Expenditures:				
Health and welfare	1,886,651	1,962,651	1,732,551	230,100
General Government	8,750	8,750	5,031	3,719
Capital outlay	3,922,930	5,582,930	2,686,848	2,896,082
Debt service	1,165,001	1,165,001	1,164,220	781
Total expenditures	6,983,332	8,719,332	5,588,650	3,130,682
Other financing uses:				
Transfers out	—	—	—	—
Total other financing uses	—	—	—	—
Total expenditures and other financing uses	6,983,332	8,719,332	5,588,650	3,130,682
Excess of revenues and other financing sources over expenditures and other financing uses	\$ (2,406,649)	(4,066,649)	(1,141,866)	2,924,783
Undesignated fund balance at beginning of year			457,584	
Cancellation of prior year encumbrances			2,079	
Decrease (increase) in other fund balance components during the year (1)			(828,539)	
Undesignated fund balance at end of year			\$ (1,510,742)	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

Exhibit 20.1**CITY OF INDEPENDENCE, MISSOURI****Budgetary Basis Reconciliation Schedule****Park Improvements Sales Tax Fund**

Year ended June 30, 2006

	<u>Park Improvements Sales Tax</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 446,784
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u>446,784</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 5,588,650
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(208,681)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	<u>93,998</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u>5,473,967</u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
Budgetary Comparison Schedule
Storm Water Sales Tax Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 3,997,783	3,997,783	3,906,388	(91,395)
Grants - federal, state and local	—	—	231,067	231,067
Interest	294,000	294,000	341,847	47,847
Other revenue	—	—	5,678	5,678
Total revenues	4,291,783	4,291,783	4,484,980	193,197
Other financing sources:				
Transfers in	—	—	1,088	1,088
Proceeds from bond issuance	—	—	—	—
Total other financing sources	—	—	1,088	1,088
Total revenues and other financing sources	4,291,783	4,291,783	4,486,068	194,285
Expenditures:				
Storm water administration	290,981	290,981	141,039	149,942
Storm water maintenance	994,858	994,858	610,345	384,513
Storm water permit completion	185,550	185,550	181,363	4,187
General Government	8,750	8,750	5,031	3,719
Capital outlay	7,757,021	7,757,021	3,894,900	3,862,121
Debt service	—	—	—	—
Total expenditures	9,237,160	9,237,160	4,832,678	4,404,482
Other financing uses:				
Transfers out	—	—	—	—
Total other financing uses	—	—	—	—
Total expenditures and other financing uses	9,237,160	9,237,160	4,832,678	4,404,482
Excess of revenues and other financing sources over expenditures and other financing uses	\$ (4,945,377)	(4,945,377)	(346,610)	4,598,767
Undesignated fund balance at beginning of year			5,897,947	
Cancellation of prior year encumbrances			44,109	
Decrease (increase) in other fund balance components during the year (1)			1,761,615	
Undesignated fund balance at end of year			\$ 7,357,061	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Storm Water Sales Tax Fund

Year ended June 30, 2006

	<u>Storm Water Sales Tax</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 4,484,980
Basis differences – budget to GAAP:	
None	<u>---</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 4,484,980</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 4,832,678
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(136,893)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	50,703
	<u>---</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 4,746,488</u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
Budgetary Comparison Schedule
Police Public Safety Sales Tax Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final
			(Budget Basis)	Budget
				Over
				(Under)
Revenues:				
Sales taxes	\$ 2,108,064	2,108,064	2,107,959	(105)
Other revenue	58,000	58,000	137,038	79,038
Total revenues	2,166,064	2,166,064	2,244,997	78,933
Other financing sources:				
Transfers in	—	—	—	—
Proceeds from bond issuance	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources	2,166,064	2,166,064	2,244,997	78,933
Expenditures:				
Communications	513,417	513,417	169,839	343,578
Facilities	170,000	481,065	1,278,520	(797,455)
Equipment	1,648,632	1,882,508	1,366,482	516,026
General Government	4,375	4,375	2,515	1,860
Debt service	517,763	517,763	515,955	1,808
Total expenditures	2,854,187	3,399,128	3,333,311	65,817
Other financing uses:				
Transfers out	443,938	443,938	321,408	122,530
Total other financing uses	443,938	443,938	321,408	122,530
Total expenditures and other financing sources	3,298,125	3,843,066	3,654,719	188,347
Excess of revenues and other financing sources over expenditures and other financing uses	\$ (1,132,061)	(1,677,002)	(1,409,722)	267,280
Undesignated fund balance at beginning of year			3,561,456	
Cancellation of prior year encumbrances			31,029	
Decrease (increase) in other fund balance components during the year (1)			13,884	
Undesignated Fund Balance at end of year			\$ 2,196,647	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Police Public Safety Sales Tax Fund

Year ended June 30, 2006

	<u>Police Public Safety Sales Tax</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 2,244,997
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 2,244,997</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 3,333,311
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(1,389,755)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	133,353
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 2,076,909</u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
 Budgetary Comparison Schedule
 Fire Public Safety Sales Tax Fund
 Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budget Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Sales taxes	\$ 3,997,783	3,997,783	3,976,081	(21,702)
Other revenue	58,000	58,000	163,614	105,614
Total revenues	4,055,783	4,055,783	4,139,695	83,912
Other financing sources:				
Transfers in	—	—	—	—
Proceeds from bond issuance	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources	4,055,783	4,055,783	4,139,695	83,912
Expenditures:				
Fire public safety sales tax	2,338,070	2,338,070	1,289,455	1,048,615
General government	8,750	8,750	5,031	3,719
Capital outlay	3,501,457	3,501,457	2,066,083	1,435,374
Debt service	551,913	551,913	548,771	3,142
Total expenditures	6,400,190	6,400,190	3,909,340	2,490,850
Other financing uses:				
Transfers out	493,937	493,937	357,935	136,002
Total other financing uses	493,937	493,937	357,935	136,002
Total expenditures and other financing sources	6,894,127	6,894,127	4,267,275	2,626,852
Excess of revenues and other financing sources over expenditures and other financing uses	\$ <u>(2,838,344)</u>	<u>(2,838,344)</u>	<u>(127,580)</u>	<u>2,710,764</u>
Undesignated fund balance at beginning of year			1,461,545	
Cancellation of prior year encumbrances			805	
Decrease (increase) in other fund balance components during the year (1)			1,652,182	
Undesignated fund balance at end of year			\$ <u>2,986,952</u>	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Fire Public Safety Sales Tax Fund

Year ended June 30, 2006

	Fire Public Safety Sales Tax
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 4,139,695
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 4,139,695</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 3,909,340
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(676,370)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	2,071,981
	<u> </u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 5,304,951</u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budget Basis)	
Revenues:				
Grants and other shared revenue	\$ 1,228,435	3,127,805	2,217,105	(910,700)
Charges for current services	60,000	93,309	93,309	—
Interest income and other revenue	5,688	58,626	21,176	(37,450)
Total revenues	1,294,123	3,279,740	2,331,590	(948,150)
Other financing sources:				
Transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources	1,294,123	3,279,740	2,331,590	(948,150)
Expenditures:				
Law department	59,640	71,911	46,507	25,404
Police department	761,284	1,741,614	1,379,015	(362,599)
Fire department	44,780	117,398	108,360	(9,038)
Health department	428,419	1,063,952	602,832	(461,120)
Community development	—	141,233	91,933	(49,300)
Culture and recreation	—	144,000	144,000	—
Total expenditures	1,294,123	3,280,108	2,372,647	(856,653)
Other financing uses:				
Transfers out	—	—	81,569	(81,569)
Total other financing uses	—	—	81,569	(81,569)
Total expenditures and other financing uses	1,294,123	3,280,108	2,454,216	(938,222)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ —	(368)	(122,626)	(122,258)
Undesignated fund balance at beginning of year			(504,814)	
Cancellation of prior year encumbrances			—	
Decrease (increase) in other fund balance components during the year (1)			504,792	
Undesignated fund balance at end of year			\$ (122,647)	

(1) This amount represents transactions included in the Excess of Revenues and Other Financing Resources over Expenditures and Other Financing Uses amount listed above that affected Fund Balance components other than the Undesignated Fund Balance or transactions that were recorded directly from the Undesignated Fund Balance account to other Fund Balance component accounts.

CITY OF INDEPENDENCE, MISSOURI

Budgetary Basis Reconciliation Schedule

Grants Fund

Year ended June 30, 2006

	<u>Grants</u>
Sources/inflows of resources:	
Actual amounts (budgetary basis) for total revenues from the budgetary comparison schedule	\$ 2,331,590
Basis differences – budget to GAAP:	
None	<u>—</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u><u>2,331,590</u></u>
Uses/outflows of resources:	
Actual amounts (budgetary basis) for total expenditures from the budgetary comparison schedule	\$ 2,372,647
Basis differences – budget to GAAP:	
Outstanding encumbrances at year-end charged to the current year's budget (1)	(122,316)
Current year expenditures of encumbrances outstanding at the end of the prior fiscal year (1)	<u>—</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ <u><u>2,250,331</u></u>
(1) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	

CITY OF INDEPENDENCE, MISSOURI

Combining Balance Sheet

Nonmajor Sales Tax Funds

June 30, 2006

Assets	Street Sales Tax	Parks Sales Tax	Storm Water Sales Tax	Police Sales Tax	Fire Sales Tax	Total (Exhibit 14)
Pooled cash and investments	\$ 3,570,106	85,986	8,555,219	2,487,892	987,981	15,687,184
Receivables:						
Taxes	907,718	605,812	607,310	312,404	603,560	3,036,804
Accrued interest	36,040	—	135,472	40,065	7,390	218,967
Due from other funds	—	—	16,156	828,982	2,643,873	3,489,011
Restricted assets	1	90	—	62	67	220
Advance to component unit	—	16,500	—	—	—	16,500
Total assets	<u>\$ 4,513,865</u>	<u>708,388</u>	<u>9,314,157</u>	<u>3,669,405</u>	<u>4,242,871</u>	<u>22,448,686</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts and contracts payable	\$ 391,857	522,943	151,011	64,855	308,450	1,439,116
Accrued items	—	13,890	9,064	—	—	22,954
Total liabilities	<u>391,857</u>	<u>536,833</u>	<u>160,075</u>	<u>64,855</u>	<u>308,450</u>	<u>1,462,070</u>
Fund balances:						
Reserved for:						
Encumbrances	5,318,657	1,682,207	973,389	1,407,841	947,402	10,329,496
Other purposes	1	90	—	62	67	220
Unreserved, reported in:						
Special revenue funds	(1,196,650)	(1,510,742)	8,180,693	2,196,647	2,986,952	10,656,900
Total fund balances	<u>4,122,008</u>	<u>171,555</u>	<u>9,154,082</u>	<u>3,604,550</u>	<u>3,934,421</u>	<u>20,986,616</u>
Total liabilities and fund balances	<u>\$ 4,513,865</u>	<u>708,388</u>	<u>9,314,157</u>	<u>3,669,405</u>	<u>4,242,871</u>	<u>22,448,686</u>

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Sales Tax Funds

Year ended June 30, 2006

	Street Sales Tax	Park Improvements Sales Tax	Storm Water Sales Tax	Police Sales Tax	Fire Sales Tax	Total (Exhibit 15)
Revenues:						
Taxes	\$ 5,869,719	3,762,542	3,906,389	2,107,959	3,976,080	19,622,689
Intergovernmental	16,000	—	231,067	—	—	247,067
Charges for services	5,283	655,889	—	—	—	661,172
Investment income	245,878	31,099	343,568	137,038	163,543	921,126
Other	12,000	(2,746)	3,956	—	72	13,282
Total revenues	6,148,880	4,446,784	4,484,980	2,244,997	4,139,695	21,465,336
Expenditures:						
Current:						
Public Safety	—	—	—	1,559,790	2,685,065	4,244,855
Culture and recreation	—	1,617,868	—	—	—	1,617,868
Storm Water	—	—	846,557	—	—	846,557
General government	10,582	5,031	5,031	2,515	5,031	28,190
Capital outlay	9,008,607	2,686,848	3,894,900	—	2,066,084	17,656,439
Debt service:						
Principal	1,185,000	870,000	—	325,000	345,000	2,725,000
Interest and fiscal agent fees	167,901	294,220	—	189,604	203,771	855,496
Total expenditures	10,372,090	5,473,967	4,746,488	2,076,909	5,304,951	27,974,405
Excess (deficiency) of revenues over expenditures	(4,223,210)	(1,027,183)	(261,508)	168,088	(1,165,256)	(6,509,069)
Other financing sources (uses):						
Transfers in	—	—	1,088	—	—	1,088
Transfers out	—	—	—	(321,408)	(357,935)	(679,343)
Total other financing sources (uses)	—	—	1,088	(321,408)	(357,935)	(678,255)
Net change in fund balances	(4,223,210)	(1,027,183)	(260,420)	(153,320)	(1,523,191)	(7,187,324)
Fund balances, beginning	8,345,218	1,198,738	9,414,502	3,757,870	5,457,612	28,173,940
Fund balances, ending	\$ 4,122,008	171,555	9,154,082	3,604,550	3,934,421	20,986,616

CITY OF INDEPENDENCE, MISSOURI

Combining Balance Sheet

Nonmajor Capital Projects Funds

June 30, 2006

Assets	Revolving Public Improvements	Buildings and Other Improvements	Storm Drainage	Park Improvements	Total (Exhibit 12)
Pooled cash and investments	\$ 18,213	—	1	9,151	27,365
Receivables:					
Accounts	—	612	—	—	612
Due from other governments	—	4,705,198	—	—	4,705,198
Total assets	<u>\$ 18,213</u>	<u>4,705,810</u>	<u>1</u>	<u>9,151</u>	<u>4,733,175</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts and contracts payable	\$ —	3,727	—	—	3,727
Due to other funds	—	4,702,083	16,156	—	4,718,239
Total liabilities	<u>—</u>	<u>4,705,810</u>	<u>16,156</u>	<u>—</u>	<u>4,721,966</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	—	2,151,673	—	—	2,151,673
Unreserved, reported in:					
Capital projects funds	18,213	(2,151,673)	(16,155)	9,151	(2,140,464)
Total fund balances (deficit)	<u>18,213</u>	<u>—</u>	<u>(16,155)</u>	<u>9,151</u>	<u>11,209</u>
Total liabilities and fund balances	<u>\$ 18,213</u>	<u>4,705,810</u>	<u>1</u>	<u>9,151</u>	<u>4,733,175</u>

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)

Nonmajor Capital Projects Funds

Year ended June 30, 2006

	Revolving Public Improvements	Buildings and Other Improvements	Storm Drainage	Park Improvements	Total (Exhibit 13)
Revenues:					
Intergovernmental	\$ —	6,190,699	—	—	6,190,699
Investment income	774	—	—	10	784
Other	—	612	—	—	612
Total revenues	774	6,191,311	—	10	6,192,095
Expenditures:					
Capital outlay	—	7,613,408	—	35	7,613,443
Total expenditures	—	7,613,408	—	35	7,613,443
Excess (deficiency) of revenues over expenditures	774	(1,422,097)	—	(25)	(1,421,348)
Other financing sources (uses):					
Transfers in	—	1,512,097	—	—	1,512,097
Total other financing sources (uses)	—	1,512,097	—	—	1,512,097
Net change in fund balances	774	90,000	—	(25)	90,749
Fund balances (deficit), beginning	17,439	(90,000)	(16,155)	9,176	(79,540)
Fund balances (deficit), ending	\$ 18,213	—	(16,155)	9,151	11,209

CITY OF INDEPENDENCE, MISSOURI

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other governmental units on a cost-reimbursement basis.

Central Garage – This fund is used to account for costs of maintenance of the City's fleet of vehicles and mobile equipment and related charges to other departments.

Staywell Health Care – This fund is used to account for the costs of the City's self-insured healthcare plan.

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Net Assets

Internal Service Funds

June 30, 2006

	Central Garage	Staywell Health Care	Total (Exhibit 5)
Assets:			
Current assets:			
Pooled cash and investments	\$ 93,003	2,427,697	2,520,700
Accounts receivable	8,108	48,520	56,628
Accrued interest receivable	—	7,733	7,733
Inventory	24,566	—	24,566
Total current assets	125,677	2,483,950	2,609,627
Noncurrent assets:			
Property, plant, and equipment:			
Land	93,979	—	93,979
Depreciable property, plant, and equipment	146,481	—	146,481
Less accumulated depreciation	(143,731)	—	(143,731)
Total noncurrent assets	96,729	—	96,729
Total assets	\$ 222,406	2,483,950	2,706,356
Liabilities:			
Current liabilities:			
Accounts and contracts payable	\$ 49,139	—	49,139
Accrued liabilities	7,097	—	7,097
Compensated absences – current	23,887	—	23,887
Medical self-insurance claims	—	1,389,102	1,389,102
Total current liabilities	80,123	1,389,102	1,469,225
Noncurrent liabilities:			
Compensated absences – long-term	37,026	—	37,026
Total liabilities	117,149	1,389,102	1,506,251
Net assets:			
Invested in capital assets, net of related debt	96,729	—	96,729
Unrestricted	8,528	1,094,848	1,103,376
Total net assets	105,257	1,094,848	1,200,105
Total liabilities and net assets	\$ 222,406	2,483,950	2,706,356

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year ended June 30, 2006

	Central Garage	Staywell Health Care	Total (Exhibit 6)
Operating revenues:			
Charges for services	\$ 1,621,051	11,610,854	13,231,905
Total operating revenues	1,621,051	11,610,854	13,231,905
Operating expenses:			
Personal services	546,517	—	546,517
Other services	279,997	11,240,645	11,520,642
Supplies	878,128	48	878,176
Depreciation and amortization	3,511	—	3,511
Total operating expenses	1,708,153	11,240,693	12,948,846
Operating income (loss)	(87,102)	370,161	283,059
Nonoperating revenues:			
Interest revenue	5,190	70,368	75,558
Miscellaneous revenue	49,331	248,464	297,795
Total nonoperating revenue	54,521	318,832	373,353
Change in net assets	(32,581)	688,993	656,412
Total net assets:			
Beginning of the period	137,838	405,855	543,693
End of the period	\$ 105,257	1,094,848	1,200,105

CITY OF INDEPENDENCE, MISSOURI

Combining Statement of Cash Flows

Internal Service Funds

Year ended June 30, 2006

	Internal Service Funds		
	Central Garage	Staywell Health Care	Total (Exhibit 7)
Cash flows from operations:			
Receipts from customers	\$ 1,664,972	11,820,071	13,485,043
Payments to suppliers	(1,128,246)	(10,971,356)	(12,099,602)
Payments to employees	(554,023)	—	(554,023)
Net cash provided by (used in) operating activities	(17,297)	848,715	831,418
Cash flows from noncapital financing activities:			
Transfers in/(out)	—	—	—
Net cash provided by noncapital financing activities	—	—	—
Cash flows from capital financing activities:			
Acquisition and construction of capital assets	—	—	—
Net cash provided by capital financing activities	—	—	—
Cash flows from investing activities:			
Purchases of investments	—	(240,089)	(240,089)
Proceeds from sales and maturities of investments	—	—	—
Interest on investments	5,190	62,636	67,826
Net cash provided by (used in) investing activities	5,190	(177,453)	(172,263)
Net increase (decrease) in cash and cash equivalents	(12,107)	671,262	659,155
Cash and cash equivalents at beginning of year	105,110	1,516,346	1,621,456
Cash and cash equivalents at end of year	93,003	2,187,608	2,280,611
Investments with original maturities greater than 90 days	—	240,089	240,089
Pooled cash and investments	\$ 93,003	2,427,697	2,520,700
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (87,102)	370,161	283,059
Adjustments not affecting cash:			
Depreciation and amortization	3,511	—	3,511
Nonoperating Revenues	49,331	248,464	297,795
Change in assets and liabilities:			
Accounts receivable	(5,411)	(39,247)	(44,658)
Inventory	17,258	—	17,258
Accounts and contracts payable	13,531	269,337	282,868
Accrued liabilities	(13,358)	—	(13,358)
Other current liabilities	—	—	—
Compensated absences	4,943	—	4,943
Total adjustments	69,805	478,554	548,359
Net cash provided by (used in) operating activities	\$ (17,297)	848,715	831,418

CITY OF INDEPENDENCE, MISSOURI
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year ended June 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006 (Exhibit 8)
Flexible Benefit Plan:				
Assets:				
Pooled cash and investments	\$ 11,730	57,038	57,269	11,499
Liabilities:				
Flexible benefit payable	\$ 11,730	472,329	472,560	11,499
Susie Block Trust:				
Assets:				
Pooled cash and investments	\$ 30,610	1,541	1,405	30,746
Accrued interest receivable	495	1,324	1,325	494
	\$ 31,105	2,865	2,730	31,240
Liabilities:				
Funds held in escrow	\$ 31,105	1,545	1,410	31,240
Seniors Travel Programs:				
Assets:				
Pooled cash and investments	\$ —	49,216	30,684	18,532
Liabilities:				
Accounts and contracts payable	\$ —	27,829	27,804	25
Funds held in escrow	—	53,371	34,864	18,507
	\$ —	81,200	62,668	18,532
All Agency Funds:				
Assets:				
Pooled cash and investments	\$ 42,340	107,795	89,358	60,777
Accrued interest receivable	495	1,324	1,325	494
	\$ 42,835	109,119	90,683	61,271
Liabilities:				
Flexible benefit payable	\$ 11,730	472,329	472,560	11,499
Accounts and contracts payable	—	27,829	27,804	25
Funds held in escrow	31,105	54,916	36,274	49,747
	\$ 42,835	555,074	536,638	61,271

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CITY OF INDEPENDENCE, MISSOURI
Combining Balance Sheet
Component Unit - Tax Increment Financing
June 30, 2006

Assets	Midtown Truman	RSO	Bolger Square	Sante Fe	Sterling Village	Hartman Heritage	Drumm Farm
Pooled cash and investments	\$ 666,730	102,618	836,072	10,337	1	1,083,130	514,558
Receivables:							
Taxes	2,600	1,282	75,896	753	—	420	56,904
Accounts	—	—	—	—	—	—	—
Due from other funds	—	—	—	—	—	—	—
Due from other governments	639	12,109	46,284	3,869	—	43,167	1,432
Restricted assets	—	—	854,005	1,038,430	—	2,349,613	12,001
Total assets	\$ 669,969	116,009	1,812,257	1,053,389	1	3,476,330	584,895
Liabilities and Fund Balances							
Liabilities:							
Accounts and contracts payable	\$ —	—	—	—	—	5,396	—
Due to other funds	—	—	—	—	136	—	—
Due to primary government	—	—	—	—	—	102,300	—
Other current liabilities	—	—	—	—	—	—	—
Total liabilities	—	—	—	—	136	107,696	—
Fund balances:							
Reserved for:							
Encumbrances	—	—	—	540	—	4,874	—
Other purposes	—	—	854,005	1,038,430	—	2,349,612	12,001
Unreserved, reported in:							
Capital projects funds	669,969	116,009	958,252	14,419	(135)	1,014,148	572,894
Total fund balances (deficit)	669,969	116,009	1,812,257	1,053,389	(135)	3,368,634	584,895
Total liabilities and fund balances	\$ 669,969	116,009	1,812,257	1,053,389	1	3,476,330	584,895

Eastland Center	North Independence	Mount Washington	Hy-Vee	Noland Rd Auto Plaza	Crackerneck Creek	Cornerstone Apartments	HCA	TIF App Fees	Total
1,719,344	2,054	39,434	59,711	31,352	—	288,638	770,930	7,531	6,132,440
254,255	7,100	700	34,000	2,700	—	—	—	—	436,610
—	—	—	—	—	—	—	—	30	30
—	—	—	—	—	—	—	—	3,257	3,257
152,577	2,272	1,238	29,254	—	—	—	—	—	292,841
2,363,559	—	—	—	—	59,721,111	—	—	—	66,338,719
4,489,735	11,426	41,372	122,965	34,052	59,721,111	288,638	770,930	10,818	73,203,897
145,286	—	—	—	—	—	—	—	—	150,682
—	—	—	—	—	3,121	—	—	—	3,257
207,673	—	—	—	—	16,500	—	673,578	—	1,000,051
—	—	35,300	—	—	—	—	—	—	35,300
352,959	—	35,300	—	—	19,621	—	673,578	—	1,189,290
1,106	—	—	—	—	2,000	—	12,241	6,678	27,439
2,363,559	—	—	—	—	59,721,111	—	—	—	66,338,718
1,772,111	11,426	6,072	122,965	34,052	(21,621)	288,638	85,111	4,140	5,648,450
4,136,776	11,426	6,072	122,965	34,052	59,701,490	288,638	97,352	10,818	72,014,607
4,489,735	11,426	41,372	122,965	34,052	59,721,111	288,638	770,930	10,818	

Amounts reported in the government-wide statements are different because

Unreimbursed certified costs are reported as liabilities and expense at the government-wide level, but not at the fund statement level (13,262,729)

Interest on long-term debt is not accrued in component unit funds, but rather is recognized as an expenditure when due (1,682,131)

Long term liabilities, including TIF loans payable are not due and payable in the current period and therefore are not reported in the funds, net of unamortized premiums/discounts

TIF loans and obligations payable (125,960,251)

Unamortized issuance costs on TIF loans payable 861,648

Net assets (deficit) of component unit \$ (68,028,856)

CITY OF INDEPENDENCE, MISSOURI
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Component Unit - Tax Increment Financing
Year ended June 30, 2006

	Midtown Truman	RSO	Bolger Square	Sante Fe	Sterling Village	Hartman Heritage	Drumm Farm
Revenues:							
Taxes	\$ 261,860	173,120	1,258,043	12,970	8,100	1,748,250	292,119
Charges for services	—	—	—	—	—	—	—
Investment income	30,317	438	90,671	51,307	27	141,261	16,225
Other	—	—	—	86,841	—	—	—
Total revenues	<u>292,177</u>	<u>173,558</u>	<u>1,348,714</u>	<u>151,118</u>	<u>8,127</u>	<u>1,889,511</u>	<u>308,344</u>
Expenditures:							
Capital outlay	10,947	3,676	28,205	8,362	163	132,391	85,882
Debt service:							
Principal	425,393	48,947	1,330,000	200,000	590	611,362	1,159,699
Interest and fiscal agent fees	—	—	228,403	519,873	7,492	1,026,625	282,211
Total expenditures	<u>436,340</u>	<u>52,623</u>	<u>1,586,608</u>	<u>728,235</u>	<u>8,245</u>	<u>1,770,378</u>	<u>1,527,792</u>
Excess (deficiency) of revenues over expenditures	<u>(144,163)</u>	<u>120,935</u>	<u>(237,894)</u>	<u>(577,117)</u>	<u>(118)</u>	<u>119,133</u>	<u>(1,219,448)</u>
Other financing sources:							
Proceeds from bond issuance	—	—	—	—	—	—	1,590,000
Reoffering premium/original issue discount	—	—	—	—	—	—	—
Total other financing sources	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,590,000</u>
Net change in fund balances	<u>(144,163)</u>	<u>120,935</u>	<u>(237,894)</u>	<u>(577,117)</u>	<u>(118)</u>	<u>119,133</u>	<u>370,552</u>
Fund balances (deficit), beginning	814,132	(4,926)	2,050,151	1,630,506	(17)	3,249,501	214,343
Fund balances (deficit), ending	<u>\$ 669,969</u>	<u>116,009</u>	<u>1,812,257</u>	<u>1,053,389</u>	<u>(135)</u>	<u>3,368,634</u>	<u>584,895</u>

Eastland Center	North Independence	Mount Washington	Hy-Vee	Noland Rd Auto Plaza	Crackerneck Creek	Cornerstone Apartments	HCA	TIF App Fees	Total
3,378,327	89,287	89,964	621,840	16,934	—	287,355	114,415	—	8,352,584
—	—	—	—	—	—	—	—	10,000	10,000
161,133	1,451	2,628	5,919	1,105	804,268	7,065	8,957	740	1,323,512
—	—	—	—	—	—	—	—	—	86,841
3,539,460	90,738	92,592	627,759	18,039	804,268	294,420	123,372	10,740	9,772,937
1,331,459	1,626	37,070	11,136	750	11,721,832	5,782	26,020	36,964	13,442,265
805,000	—	—	301,306	—	—	—	—	—	4,882,297
1,184,556	86,314	10,088	368,884	—	551,531	—	—	—	4,265,977
3,321,015	87,940	47,158	681,326	750	12,273,363	5,782	26,020	36,964	22,590,539
218,445	2,798	45,434	(53,567)	17,289	(11,469,095)	288,638	97,352	(26,224)	(12,817,602)
—	—	—	—	—	61,160,000	—	—	—	62,750,000
—	—	—	—	—	1,763	—	—	—	1,763
—	—	—	—	—	61,161,763	—	—	—	62,751,763
218,445	2,798	45,434	(53,567)	17,289	49,692,668	288,638	97,352	(26,224)	49,934,161
3,918,331	8,628	(39,362)	176,532	16,763	10,008,822	—	—	37,042	22,080,446
4,136,776	11,426	6,072	122,965	34,052	59,701,490	288,638	97,352	10,818	72,014,607

Amounts reported in the government-wide statements are different because

Change in fund balance: \$ 49,934,161

Unreimbursed certified costs are reported as liabilities and expenses at the government-wide level (6,425,392)

Bond proceeds provide current financial resources in Tax Increment Financing funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in Tax Increment Financing funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded net assets. Also, Tax Increment Financing funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items

Loan proceeds	(62,750,000)
Reoffering premium/original issue discount	(1,763)
Principal payments	4,882,297
Discounts	1,274,713
Premiums	16,726
	(56,578,027)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Tax Increment Financing funds

Accrued interest (804,742)

Change in net assets of Tax Increment Financing fund \$ (13,874,000)

CITY OF INDEPENDENCE, MISSOURI
Schedules of Operating Expenses – Power and Light Fund
Years ended June 30, 2006 and 2005

	2006			2005		
	Operations	Maintenance	Total	Operations	Maintenance	Total
Production fuel:						
Coal			\$ 11,570,449			8,727,888
Gas			1,162,206			1,109,467
Oil			340,946			104,956
Total production fuel			13,073,601			9,942,311
Purchased power:						
Purchased energy			21,370,750			17,321,228
Purchased capacity (net)			7,430,000			7,545,000
Border customers			27,555			26,773
Control and dispatching			707,200			617,839
Total purchased power			29,535,505			25,510,840
Production (other):						
Blue Valley Station:						
Supervision and engineering	\$ 513,343	662,538	1,175,881	490,063	635,189	1,125,252
Steam	720,001	2,637,791	3,357,792	684,852	2,186,438	2,871,290
Electric	701,830	505,519	1,207,349	712,779	353,216	1,065,995
Structures and improvements	—	96,261	96,261	—	89,237	89,237
Miscellaneous	904,129	371,835	1,275,964	1,101,292	446,032	1,547,324
	2,839,303	4,273,944	7,113,247	2,988,986	3,710,112	6,699,098
Missouri City Station:						
Supervision and engineering	38,642	67,429	106,071	40,740	78,166	118,906
Steam	370,893	1,436,840	1,807,733	288,353	680,792	969,145
Electric	376,918	177,614	554,532	293,344	108,738	402,082
Structures and improvements	—	37,717	37,717	—	23,717	23,717
Miscellaneous	381,951	174,861	556,812	205,136	182,830	387,966
	1,168,404	1,894,461	3,062,865	827,573	1,074,243	1,901,816
Combustion Turbine Station:						
Supervision and engineering	—	3,602	3,602	—	5,008	5,008
Generation expenses	—	91,992	91,992	410	28,709	29,119
Structures and improvements	—	66,004	66,004	—	8,900	8,900
Miscellaneous	11,589	33,256	44,845	4,963	193,017	197,980
	11,589	194,854	206,443	5,373	235,634	241,007
Total production (other)	\$ 4,019,296	6,363,259	10,382,555	3,821,932	5,019,989	8,841,921
Transmission and distribution:						
Transmission:						
Supervision and engineering	\$ 148,778	16,901	165,679	141,200	15,210	156,410
Overhead expenses	21,579	—	21,579	36,045	4,502	40,547
Station expenses	24,526	147,251	171,777	23,774	98,037	121,811
Wheeling charges	1,205,483	—	1,205,483	108,257	—	108,257
Underground line expense	—	—	—	—	—	—
Structures and improvements	—	—	—	—	876	876
Miscellaneous	347	—	347	4,291	—	4,291
Total transmission	1,400,713	164,152	1,564,865	313,567	118,625	432,192

CITY OF INDEPENDENCE, MISSOURI
Schedules of Operating Expenses – Power and Light Fund
Years ended June 30, 2006 and 2005

	2006			2005		
	Operations	Maintenance	Total	Operations	Maintenance	Total
Distribution:						
Supervision and engineering	\$ 72,094	43,687	115,781	81,761	45,726	127,487
Overhead lines	736,325	2,629,242	3,365,567	880,969	2,580,530	3,461,499
Station expenses	211,618	359,740	571,358	264,371	328,809	593,180
Street lights and traffic signals	163,635	403,352	566,987	199,668	538,155	737,823
Meters	174,454	666,902	841,356	162,256	596,312	758,568
Customer installations	895	—	895	353	—	353
Underground lines	618,127	526,954	1,145,081	659,049	410,376	1,069,425
Dispatching communication	653,431	—	653,431	702,738	—	702,738
Line transformers	—	129,556	129,556	—	111,348	111,348
Miscellaneous	588,146	119,313	707,459	537,789	228,660	766,449
Total distribution	3,218,725	4,878,746	8,097,471	3,488,954	4,839,916	8,328,870
Total transmission and distribution	\$ 4,619,438	5,042,898	9,662,336	3,802,521	4,958,541	8,761,062
Customer service:						
Supervision			\$ 236,095			205,140
Meter reading			639,315			640,800
Customer records and collections			1,416,847			1,309,562
Provisions for doubtful accounts			566,899			451,152
Miscellaneous			113,724			(26,671)
Total customer service			2,972,880			2,579,983
General and administrative:						
Salaries			884,108			745,245
Office supplies			562,907			467,426
Insurance			888,007			898,651
Injuries and damage			502,123			376,156
Employee benefits			3,597,333			3,284,693
Outside services			1,419,752			1,428,402
Miscellaneous			1,089,413			844,503
Administrative expenses – transfers			(60,227)			(56,047)
Total general and administrative			8,883,416			7,989,029
Depreciation and amortization			9,192,811			8,824,770
Payroll taxes			859,184			827,590
Total operating expenses			\$ 84,562,288			73,277,506

CITY OF INDEPENDENCE, MISSOURI
Schedule of Operating Statistics – Power and Light Fund
Year ended June 30, 2006

	Number of customers		Revenue	KWH
	Beginning of year	End of year		
Sale of electric energy:				
Metered:				
Residential	50,995	51,317	50,757,673	539,421,550
Small general services	3,051	3,012	3,418,573	29,501,979
General services – space heating	2	2	1,733	21,403
Large general services	1,599	1,614	28,495,636	356,930,797
Large general services – prime voltage	10	10	1,484,367	21,266,948
Large general services – space heating	2	2	10,098	122,052
Total electric general services	68	86	3,416,925	49,946,730
Schools, churches, and hospitals	282	282	3,710,662	44,078,603
Schools, churches, and hospitals, all electric	7	7	263,307	3,733,003
Large power services	6	6	2,648,568	44,421,480
Interruptible services	—	—	—	—
Sewer pumping	6	6	127,765	1,223,401
City traffic signals	58	58	61,688	300,511
Wholesale (border customers)	—	—	128,104	6,249,055
Wholesale (interchange)	—	—	1,710,814	44,528,000
	<u>56,086</u>	<u>56,402</u>	<u>96,235,913</u>	<u>1,141,745,512</u>
Unmetered:				
Private security lighting	1,570	1,564	278,411	1,356,162
City public street lighting	11,218	11,225	1,068,815	9,167,408
	<u>12,788</u>	<u>12,789</u>	<u>1,347,226</u>	<u>10,523,570</u>
Increase in unbilled revenue			(418,308)	(9,797,916)
Other operating revenue			1,113,523	
Total operating revenue and total energy sales			\$ 98,278,354	1,142,471,166
Net generation				438,010,368
Wholesale power purchased				766,392,022
Unintentional interchange				(18,000)
Net generation and power purchased				1,204,384,390
Retail energy sales				1,091,694,111
Wholesale (border customers) sales				50,777,055
Power and light usage (building and substations)				1,468,492
Net disposition				1,143,939,658
Transmission and distribution operating losses			\$	<u>60,444,732</u>

CITY OF INDEPENDENCE, MISSOURI
Schedules of Operating Expenses – Water Fund
Years ended June 30, 2006 and 2005

	2006			2005		
	Operations	Maintenance	Total	Operations	Maintenance	Total
Production:						
Source of supply:						
Supervision and engineering	\$ 22,936	—	22,936	21,438	—	21,438
Labor and expenses	213,086	—	213,086	207,669	—	207,669
Structures and improvements	—	220,469	220,469	—	19,288	19,288
Miscellaneous	—	368,764	368,764	—	143,750	143,750
Total source of supply	236,022	589,233	825,255	229,107	163,038	392,145
Power and pumping:						
Supervision and engineering	33,047	10,104	43,151	31,556	9,828	41,384
Fuel/power purchased	1,273,337	—	1,273,337	1,171,384	—	1,171,384
Labor and expenses	158,719	—	158,719	154,985	—	154,985
Structures and improvements	—	6,155	6,155	—	6,852	6,852
Miscellaneous	—	13,064	13,064	—	12,115	12,115
Total power and pumping	1,465,103	29,323	1,494,426	1,357,925	28,795	1,386,720
Water treatment:						
Supervision and engineering	38,732	16,110	54,842	36,857	15,863	52,720
Chemicals	840,001	—	840,001	742,702	—	742,702
Labor and expenses	520,557	—	520,557	495,363	—	495,363
Structures and improvements	—	21,175	21,175	—	19,467	19,467
Miscellaneous	—	245,543	245,543	—	196,852	196,852
Total water treatment	1,399,290	282,828	1,682,118	1,274,922	232,182	1,507,104
Total production	\$ 3,100,415	901,384	4,001,799	2,861,954	424,015	3,285,969
Transmission and distribution:						
Supervision and engineering	\$ 78,653	51,862	130,515	78,614	50,591	129,205
Storage facilities	14,599	44,179	58,778	13,997	52,527	66,524
Transmission and distribution lines	621,227	871,403	1,492,630	522,787	560,516	1,083,303
Meters	217,496	134,368	351,864	206,615	116,983	323,598
Customer installations	70,746	—	70,746	69,643	—	69,643
Services	—	238,108	238,108	—	182,775	182,775
Hydrants	—	62,275	62,275	—	81,450	81,450
Miscellaneous	421,622	95,300	516,922	382,887	58,022	440,909
Total transmission and distribution	\$ 1,424,343	1,497,495	2,921,838	1,274,543	1,102,864	2,377,407
Customer service:						
Customer accounting paid and collecting:						
Supervision			\$ 140,454			140,666
Meter reading			688,979			718,776
Customer records			48,920			47,389
Provision for uncollectible amounts			51,296			68,656
Total customer accounting paid and collecting			929,649			975,487
Sales promotion:						
Expenses			37,216			47,414
Total customer service			966,865			1,022,901
General and administrative:						
Salaries			506,890			445,666
Office supplies and expense			339,736			328,083
Injuries and damages			709,429			1,023,650
Employee benefits			1,433,023			1,273,214
Outside services			947,177			935,156
Miscellaneous			172,305			124,456
Total general and administrative			4,108,560			4,130,225
Depreciation and amortization			2,119,896			2,061,038
Payroll taxes			301,881			280,125
Other			85,269			56,093
Total operating expenses			14,506,108			13,213,758
Certain amounts are presented as a reduction of operating expenses, whereas they are included as miscellaneous revenue in the statement of revenues, expenses, and changes in fund net assets			1,172,341			1,086,861
			\$ 15,678,449			14,300,619

CITY OF INDEPENDENCE, MISSOURI
Schedule of Operating Statistics – Water Fund
Year ended June 30, 2006

	Number of customers		Revenue	MGS*
	Beginning of year	End of year		
Sale of water:				
Residential	44,490	44,742	\$ 8,488,894	3,341,082
Commercial	2,971	3,027	2,245,526	960,835
Industrial	8	8	362,537	276,692
Public authority	64	66	231,257	98,713
Resale	13	13	5,858,904	4,832,068
Private fire protection	346	354	93,420	—
Public fire protection	—	—	623,822	—
	<u>47,892</u>	<u>48,210</u>	<u>17,904,360</u>	<u>9,509,390</u>
Increase in unbilled revenue			156,867	
Other operating revenue			<u>251,493</u>	
Total operating revenue			<u>\$ 18,312,720</u>	
Thousands of gallons pumped:				
Courtney Bend Plant				10,837,401
Less total sales				<u>9,509,390</u>
Unaccounted for water				<u>1,328,011</u>

* Thousand gallons sold.

CITY OF INDEPENDENCE, MISSOURI
Schedule of Operating Statistics – Sanitary Sewer Fund
Year ended June 30, 2006

	Number of customers		Revenue	CCF*
	Beginning of year	End of year		
Sale of sanitary sewer services:				
Residential	40,520	40,767	9,196,013	2,939,160
Commercial:				
Base	3,529	3,523	3,747,937	1,775,347
Surcharge	—	—	616,331	—
Contract waste treatment	15	14	200,749	—
Intermunicipal agreements:				
Sugar Creek	—	—	372,347	—
Kansas City	—	—	70,201	—
	<u>44,064</u>	<u>44,304</u>	14,203,578	<u>4,714,507</u>
Other operating revenue			130,925	
Increase in unbilled revenue			<u>29,662</u>	
Total operating revenue			<u>\$ 14,364,165</u>	

* Hundred cubic feet.

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APPENDIX C

DEFINITIONS OF WORDS AND TERMS AND SUMMARIES OF CERTAIN LEGAL DOCUMENTS

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APPENDIX C

DEFINITIONS OF WORDS AND TERMS AND SUMMARIES OF CERTAIN LEGAL DOCUMENTS

Except as otherwise noted, the following definitions and summary of the Indenture and the Financing Agreement relates to the Series 2007A Bonds. The Bonds of each Series are separately secured. The Indenture and Financing Agreement for the Series 2007B, Series 2007C and Series 2007D Bonds are substantially similar to the Indenture and Financing Agreement summarized below, except as otherwise noted. The Continuing Disclosure Agreements for each of the Series of Bonds are also substantially similar. References to the Tax Compliance Agreement would not be applicable to the Series 2007C Bonds.

In addition to words and terms defined elsewhere in this Official Statement, the following are definitions of certain words and terms used in the Indenture, the Financing Agreement, the Authorizing Ordinance, the Continuing Disclosure Agreement and this Official Statement unless the context clearly otherwise requires. Reference is hereby made to the Indenture for complete definitions of all terms.

“Additional Bonds” means any additional parity bonds issued by the Board pursuant to the Indenture that stand on a parity and equality under the Indenture with the Series 2007A Bonds.

“Authorizing Ordinance” means the Ordinance of the City authorizing the execution of the Financing Agreement and certain other documents.

“Bond” or **“Bonds”** means the Series 2007A Bonds and any Additional Bonds issued pursuant to the Indenture.

“Business Day” means a day on which the Trustee and any Paying Agent shall be scheduled in the normal course of its operations to be open to the public for conduct of its banking operations.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement executed by the City, as from time to time amended in accordance with the provisions thereof.

“Debt Service Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund Requirement” means (i) with respect to the Series 2007A Bonds, an amount equal to \$1,939,000 from the issuance of the Series 2007A Bonds through May 31, 2012 and from April 1, 2012 through May 31, 2021 an amount equal to \$1,635,000 and after May 31, 2021 an amount equal to \$310,000, (ii) with respect to Additional Bonds issued on a parity with the Series 2007A Bonds, a sum equal to the least of (A) **10%** of the original aggregate principal amount of such Additional Bonds, (B) the maximum annual debt service on such Additional Bonds in any future fiscal year following such date, or (C) **125%** of the average future annual debt service on such Additional Bonds, and (iii) with respect to any Additional Bonds that are entitled to the benefit of a reserve fund, the amount, if any, specified in the Supplemental Bond Indenture authorizing the issuance of said Additional Bonds.

[Note: No Debt Service Reserve Fund has been established for the Series 2007D Bonds. The Debt Service Reserve Fund for the Series 2007B Bonds and the Series 2007C Bonds is not subject to reduction prior to the final maturity date of those series of Bonds, provided that amounts in each Debt Service Reserve Fund are to be used to pay principal of and interest on the related Series of Bonds to the extent of any deficiency in the Debt Service Fund and to retire the last Outstanding Bonds of such Series.]

“Defeasance Obligations” means:

- (a) Government Obligations which are not subject to redemption prior to maturity; or
- (b) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Obligations); or

“Government Obligations” means the following:

- (a) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America; and
- (b) evidences of direct ownership of a proportionate or individual interest in future interest or principal payments on specified direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian in form and substance satisfactory to the Trustee.

“Opinion of Bond Counsel” means a written opinion in the form described in the Indenture of any legal counsel acceptable to the Board and the Trustee who shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from federal income taxation of interest on such obligations.

“Opinion of Counsel” means a written opinion in the form described in the Indenture of any legal counsel acceptable to the City and the Trustee and, to the extent the Board is asked to take action in reliance thereon, the Board, who may be an employee of or counsel to the Trustee or the City.

“Outstanding” means when used with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture, except:

- (1) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation as provided in the Indenture;
- (2) Bonds for whose payment or redemption money or Government Obligations in the necessary amount has been deposited with the Trustee or any Paying Agent in trust for the owners of such Bonds as provided in the Indenture, provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;
- (3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Indenture; and
- (4) Bonds alleged to have been destroyed, lost or stolen which have been paid as provided in the Indenture.

“Paying Agent” means the Trustee and any other commercial bank or trust institution organized under the laws of any state of the United States of America or any national banking association designated pursuant to the Indenture or any Supplemental Indenture as paying agent for any series of Bonds at which the principal of, redemption premium, if any, and interest on such Bonds shall be payable.

“Permitted Investments” means, if and to the extent the same are at the time legal for investment of funds held under the Indenture:

(1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below);

(2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of Treasury of the United States of America;

(3) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export - Import Bank,
- Farm Credit System Financial Assistance Corporation,
- Rural Economic Community Development Administration (formerly the Farmers Home Administration),
- General Services Administration,
- U.S. Maritime Administration,
- Small Business Administration,
- Government National Mortgage Association (GNMA),
- U.S. Department of Housing & Urban Development (PHA's),
- Federal Housing Administration, and
- Federal Financing Bank;

(4) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC),
- Obligations of the Resolution Funding Corporation (REFCORP), and
- Senior debt obligations of the Federal Home Loan Bank System;

(5) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(6) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by Standard & Poor’s and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase;

(7) investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s;

(8) Pre-refunded Municipal Obligations, defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Standard & Poor's and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate; provided, however, that Pre-refunded Municipal Obligations meeting the requirements of this subsection (B) may not be used as Permitted Investments without the prior written approval of Standard & Poor's.

(9) general obligations of states with a rating of at least "A2/A" or higher by both Moody's and Standard & Poor's; and

(10) investment agreements (supported by appropriate opinions of counsel) with notice to Standard & Poor's.

The value ("Value"), which shall be determined as of the end of each month, of the above investments shall be calculated as follows: (a) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; (b) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; (c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and (d) as to any investment not specified above: the value thereof established by prior agreement between the City and the Trustee.

"Standard & Poor's" means Standard & Poor's Ratings Services, and its successors and assigns, and, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, **Standard & Poor's** shall be deemed to refer to any other nationally recognized securities rating service designated by the City, with notice to the Board and the Trustee.

"Transaction Documents" means the Indenture, the Bonds, the Financing Agreement, the Official Statement relating to the Bonds, the Continuing Disclosure Agreement, the Tax Compliance Agreement, the Authorizing Ordinance and any and all other documents or instruments that evidence or are a part of the transactions referred to in the Indenture, the Financing Agreement or the Official Statement or contemplated by the Indenture, the Financing Agreement or the Official Statement; and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing; provided, however, that when the words "Transaction Documents" are used in the context of the authorization, execution, delivery, approval or performance of Transaction Documents by a particular party, the same shall mean only those Transaction Documents that provide for or contemplate authorization, execution, delivery, approval or performance by such party.

* * *

SUMMARY OF THE INDENTURE

Except as otherwise noted, the following definitions and summary of the Indenture relates to the Series 2007A Bonds. The Bonds of each Series are separately secured. The Indenture for the Series 2007B Bonds, Series 2007C Bonds and Series 2007D Bonds are substantially similar to the Indenture and Financing Agreement summarized below, except as otherwise noted. The summary of the Continuing Disclosure Agreement relates to all four Series of Bonds.

The following is a summary of certain provisions contained in the Series 2007A Indenture. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Series 2007A Indenture for a complete recital of the terms thereof.

Trust Estate

Note: As noted in the Official Statement each Series of Bonds is separately secured.

The Trust Estate created by the Indenture in favor of the Trustee for the benefit and security of the owners of the Bonds consists of:

- (a) All rights, title and interest of the Board (including, but not limited to, the right to enforce any of the terms thereof) in, to and under (1) the Financing Agreement, including, without limitation, all Loan Payments and other payments to be received by the Board and paid by the City under and pursuant to and subject to the provisions of the Financing Agreement (except the Board's rights to payment of its fees and expenses and to indemnification as set forth in the Financing Agreement and as otherwise expressly set forth therein), and (2) all financing statements or other instruments or documents evidencing, securing or otherwise relating to the loan of the proceeds of the Bonds; and
- (b) All moneys and securities (except moneys and securities held in the Rebate Fund) from time to time held by the Trustee under the terms of the Indenture; and
- (c) Any and all other property (real, personal or mixed) of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security under the Indenture by the Board or by anyone in its behalf or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

The Trustee shall hold in trust and administer the Trust Estate, upon the terms and conditions set forth in the Indenture for the equal and pro rata benefit and security of each and every owner of Bonds, without preference, priority or distinction as to participation in the lien, benefit and protection of the Indenture of one Bond over or from the others, except as otherwise expressly provided in the Indenture.

Authorization of Additional Bonds

Additional Bonds may be issued under and equally and ratably secured by the Indenture on a parity (except as otherwise provided in the Indenture) with the Series 2007A Bonds and any other Additional Bonds at any time and from time to time, upon compliance with the conditions set forth in the Indenture and in the Financing Agreement, for any purpose authorized under the Act.

Before any Additional Bonds are issued under the provisions of this Section, the Board shall adopt a resolution (1) authorizing the issuance of such Additional Bonds, fixing the principal amount thereof and describing the purpose or purposes for which such Additional Bonds are being issued, (2) authorizing the Board to enter into a Supplemental Indenture for the purpose of issuing such Additional Bonds and establishing the terms and provisions of such series of Bonds and the form of the Bonds of such series, (3) authorizing the Board to enter into a Supplemental Financing Agreement with the City to provide for payments at least sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds then to be Outstanding (including the Additional Bonds to be issued) as the same become due, and to extend the term of the Financing Agreement if the maturity of any of the Additional Bonds would otherwise occur after the expiration of the term of the Financing Agreement, and (4) providing for such other matters as are appropriate because of the issuance of the Additional Bonds, which matters, in the judgment of the Board, are not prejudicial to the Board or the owners of the Bonds previously issued.

Such Additional Bonds shall be executed in the manner set forth in the Indenture and shall be deposited with the Trustee for authentication, but prior to or simultaneously with the authentication and delivery of such Additional Bonds by the Trustee, and as a condition precedent thereto, there shall be filed with the Trustee the following:

(a) A copy, certified by the Secretary or Assistant Secretary of the Board, of the resolution adopted by the Board authorizing the issuance of such Additional Bonds and the execution of the Supplemental Indenture, Supplemental Financing Agreement and supplements to any other Transaction Documents as may be necessary.

(b) A copy, certified by the City Clerk of the ordinances and/or resolutions adopted by the City authorizing the execution and delivery of the Supplemental Financing Agreement and supplements to any other Transaction Documents.

(c) An original executed counterpart of the Supplemental Indenture, executed by the Board and the Trustee, authorizing the issuance of the Additional Bonds being issued to make the loan, specifying, among other things, the terms thereof, and providing for the disposition of the proceeds of such loan and the Supplemental Financing Agreement.

(d) An original executed counterpart of the Supplemental Financing Agreement, executed by the City and the Board, specifying, among other things, the principal amount, rate of interest, maturity, terms of optional prepayment.

(e) An Officer's Certificate (1) stating that no event of default under the Financing Agreement has occurred and is continuing and that no event has occurred and is continuing which with the lapse of time or giving of notice, or both, would constitute such an event of default, and (2) stating the purpose or purposes for which such Additional Bonds are being issued and accompanied by the certificates, reports or opinions demonstrating compliance with the applicable tests set forth in the Financing Agreement.

(f) A request and authorization to the Trustee, on behalf of the Board, executed by a City Representative, to authenticate the Additional Bonds and deliver said Additional Bonds to the purchasers therein identified upon payment to the Trustee, for the account of the Board, of the purchase price thereof. The Trustee shall be entitled to rely conclusively upon such request and authorization as to the names of the purchasers and the amounts of such purchase price.

(g) If such Additional Bonds are to be insured or guaranteed by a bond insurer or other credit enhancer, an insurance policy or other credit enhancement in each case in form or substance satisfactory to the Board, the City and the Trustee.

(h) Deposit of an amount equal to the Debt Service Reserve Fund Requirement, if any, for such Additional Bonds.

(i) An Opinion of Bond Counsel to the effect that all requirements for the issuance of such Additional Bonds have been met and the issuance of such Additional Bonds will not result in the interest on any Bonds then Outstanding becoming subject to federal income taxes then in effect.

(j) Such other certificates, statements, receipts and documents required by any of the Transaction Documents or as the Board, the City or the Trustee shall reasonably require for the delivery of the Additional Bonds.

Except as provided in this Indenture and in the Financing Agreement, the Board will not otherwise issue any obligations on a parity with the Bonds, but the Board may issue other obligations specifically subordinate and junior to the Bonds.

Debt Service Fund

The moneys in the Debt Service Fund shall be held in trust and shall be applied solely in accordance with the provisions of the Indenture to pay the principal of and redemption premium, if any, and interest on the Bonds as the same become due and payable. Except as otherwise provided in the Indenture, moneys in the Debt Service Fund shall be expended solely as follows: (a) to pay interest on the Bonds as the same becomes due; (b) to pay principal of the Bonds as the same mature or become due and upon mandatory sinking fund redemption thereof; and (c) to pay principal of and redemption premium, if any, on the Bonds as the same become due upon redemption (other than mandatory sinking fund redemption) prior to maturity.

The Trustee, upon the written instructions from the Board given pursuant to written direction of the City, shall use excess moneys in the Debt Service Fund to redeem all or part of the Bonds Outstanding and to pay interest to accrue thereon prior to such redemption and redemption premium, if any, on the next succeeding redemption date for which the required redemption notice may be given or on such later redemption date as may be specified by the City, in accordance with the provisions of the Indenture, so long as the City is not in default with respect to any payments under the Financing Agreement and to the extent said moneys are in excess of the amount required for payment of Bonds theretofore matured or called for redemption. The City may cause such excess money in the Debt Service Fund or such part thereof or other moneys of the City, as the City may direct, to be applied by the Trustee on a best efforts basis to the extent practical for the purchase of Bonds in the open market for the purpose of cancellation at prices not exceeding the principal amount thereof plus accrued interest thereon to the date of such purchase.

After payment in full of the principal of, redemption premium, if any, and interest on the Bonds (or after provision has been made for the payment thereof as provided in the Indenture), and the fees, charges and expenses of the Trustee, any Paying Agents and the Board, and any other amounts required to be paid under the Indenture and the Financing Agreement, all amounts remaining in the Debt Service Fund shall be paid to the City upon the expiration or sooner termination of the Financing Agreement.

Debt Service Reserve Fund

Moneys in the Debt Service Reserve Fund shall be disbursed and expended by the Trustee, without any further authorization from the City, solely for the payment of the principal of and interest on the Series 2007A Bonds to the extent of any deficiency in the Debt Service Fund for such purposes. The Trustee may disburse and expend moneys from the Debt Service Reserve Fund for such purpose whether or not the amount in the Debt Service Reserve Fund at that time equals the Debt Service Reserve Fund Requirement. If the Trustee disburses or expends moneys from the Debt Service Reserve Fund for the purposes stated in this paragraph, the Trustee shall immediately notify the City of the amount necessary to restore the balance in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement, and the Trustee shall direct the

City to restore the deficiency in 12 equal monthly payments beginning not later than the first day of the next calendar month.

[Note: No Debt Service Reserve Fund has been established for the Series 2007D Bonds. The Series 2007A Debt Service Reserve Fund is subject to reduction prior to the final maturity of the Series 2007A Bonds (see the definition of "Debt Service Reserve Requirement" herein. The Debt Service Reserve Fund for the Series 2007B Bonds and the Series 2007C Bonds is not subject to reduction prior to the final maturity date of those series of Bonds, provided that amounts in each Debt Service Reserve Fund are to be used to pay principal of and interest on the related Series of Bonds to the extent of any deficiency in the Debt Service Fund and to retire the last Outstanding Bonds of such Series.]

Rebate Fund

There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Compliance Agreement. All amounts on deposit at any time in the Rebate Fund shall be held by the Trustee in trust to the extent required to pay rebatable arbitrage to the United States of America, and neither the City, the Board nor the owner of any Bonds shall have any rights in or claim to such money. All amounts held in the Rebate Fund shall be governed by the Indenture and by the Tax Compliance Agreement.

Investment of Moneys

Moneys held in each of the funds and accounts under the Indenture shall, pursuant to written directions of the City Representative, be invested and reinvested by the Trustee in accordance with the provisions of the Indenture and the Tax Compliance Agreement in Permitted Investments which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed. In the absence of direction of the City Representative, the Trustee may invest and reinvest moneys in an investment described in paragraph (7) of the definition of the term "Permitted Investments." The Trustee may make any investments permitted by the provisions of the Indenture through its own bond department or short-term investment department or that of any affiliate of the Trustee and may pool moneys for investment purposes, except moneys held in any fund or account that are required to be yield restricted in accordance with the Tax Compliance Agreement, which shall be invested separately. Any such Permitted Investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund or account in which such moneys are originally held. The interest accruing on each fund or account and any profit realized from such Permitted Investments (other than any amount required to be deposited in the Rebate Fund) shall be credited to such fund or account, and any loss resulting from such Permitted Investments shall be charged to such fund or account; provided, however, that all interest accruing on the Project Fund shall be automatically deposited into the Debt Service Fund. The Trustee shall sell or present for redemption and reduce to cash a sufficient amount of such Permitted Investments whenever it shall be necessary to provide moneys in any fund or account for the purposes of such fund or account and the Trustee shall not be liable for any loss resulting from such investments.

Events of Default

The term "**event of default**," wherever used in the Indenture, means any one of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (a) default in the payment of any interest on any Bond when such interest becomes due and payable; or

- (b) default in the payment of the principal of (or premium, if any, on) any Bond when the same becomes due and payable (whether at maturity, upon proceedings for redemption, by acceleration or otherwise); or
- (c) default in the performance, or breach, of any covenant or agreement of the Board in the Indenture (other than a covenant or agreement a default in the performance or breach of which is specifically dealt with elsewhere in this Section), and continuance of such default or breach for a period of **60** days after there has been given to the Board, the City by the Trustee or to the Board, the City and the Trustee by the owners of at least **10%** in principal amount of the Bonds Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, that if such default cannot be fully remedied within such **60**-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an event of default if the Board shall immediately upon receipt of such notice commence the curing of such default and shall thereafter prosecute and complete the same with due diligence and dispatch; or
- (d) any event of default under the Financing Agreement shall occur and is continuing and has not been waived.

With regard to any alleged default concerning which notice is given to the City under the provisions of this Section, the Board hereby grants the City full authority for the account of the Board to perform any covenant or obligation, the nonperformance of which is alleged in said notice to constitute a default, in the name and stead of the Board, with full power to do any and all things and acts to the same extent that the Board could do and perform any such things and acts in order to remedy such default.

Acceleration of Maturity; Rescission and Annulment

If an event of default occurs and is continuing, the Trustee may, and shall, if requested by the owners of not less than **25%** in principal amount of the Bonds Outstanding, by written notice to the Board and the City, declare the principal of all Bonds Outstanding and the interest accrued thereon to be due and payable, and upon any such declaration such principal and interest shall become immediately due and payable.

At any time after such a declaration of acceleration has been made, but before any judgment or decree for payment of money due on any Bonds has been obtained by the Trustee as provided in the Indenture, the owners of a majority in principal amount of the Bonds Outstanding may, by written notice to the Board, the City and the Trustee, rescind and annul such declaration and its consequences if:

- (a) the Board has deposited with the Trustee a sum sufficient to pay
 - (1) all overdue installments of interest on all Bonds,
 - (2) the principal of (and premium, if any, on) any Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate prescribed therefor in the Bonds,
 - (3) interest upon overdue installments of interest at the rate prescribed therefor in the Bonds, and
 - (4) all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and

(b) all events of default, other than the non-payment of the principal of Bonds which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in the Indenture.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Exercise of Remedies by the Trustee

Upon the occurrence and continuance of any event of default under the Indenture, unless the same is waived as provided in the Indenture, the Trustee shall have the following rights and remedies, in addition to any other rights and remedies provided under the Indenture or by law:

- (a) *Right to Bring Suit, Etc.* The Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Bonds Outstanding, including interest on overdue principal (and premium, if any) and on overdue installments of interest, and any other sums due under the Indenture, to realize on or to foreclose any of its interests or liens under the Indenture or any other Transaction Document, to enforce and compel the performance of the duties and obligations of the Board as set forth in the Indenture and to enforce or preserve any other rights or interests of the Trustee under the Indenture with respect to any of the Trust Estate or otherwise existing at law or in equity.
- (b) *Exercise of Remedies at Direction of Bondowners.* If requested in writing to do so by the owners of not less than 25% in principal amount of Bonds Outstanding and if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and remedies conferred by the Indenture as the Trustee shall deem most expedient in the interests of the bondowners.
- (c) *Appointment of Receiver.* Upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the bondowners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.
- (d) *Suits to Protect the Trust Estate.* The Trustee shall have power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Indenture and to protect its interests and the interests of the bondowners in the Trust Estate, including power to institute and maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security under the Indenture or be prejudicial to the interests of the bondowners or the Trustee, or to intervene (subject to the approval of a court of competent jurisdiction) on behalf of the bondowners in any judicial proceeding to which the Board, the City is a party and which in the judgment of the Trustee has a substantial bearing on the interests of the bondowners.
- (e) *Enforcement Without Possession of Bonds.* All rights of action under the Indenture or any of the Bonds may be enforced and prosecuted by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust. Any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents

and counsel, and subject to the provisions of the Indenture, be for the equal and ratable benefit of the owners of the Bonds in respect of which such judgment has been recovered.

- (f) *Restoration of Positions.* If the Trustee or any bondowner has instituted any proceeding to enforce any right or remedy under the Indenture by suit, foreclosure, the appointment of a receiver, or otherwise, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such bondowner, then and in every case the Board, the City, the Trustee and the bondowners shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Indenture, and thereafter all rights and remedies of the Trustee and the bondowners shall continue as though no such proceeding had been instituted.

Limitation on Suits by Bondowners

No owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, unless:

- (a) such owner has previously given written notice to the Trustee of a continuing event of default;
- (b) the owners of not less than **25%** in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture;
- (c) such owner or owners have offered to the Trustee indemnity as provided in the Indenture against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Trustee for **60** days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such **60-day** period by the owners of a majority in principal amount of the Outstanding Bonds.

it being understood and intended that no one or more owners of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other owners of Bonds, or to obtain or to seek to obtain priority or preference over any other owners or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Outstanding Bonds.

Control of Proceedings by Bondowners

The owners of a majority in principal amount of the Bonds Outstanding shall have the right, during the continuance of an event of default, provided indemnity has been provided to the Trustee in accordance with the Indenture:

- (a) to require the Trustee to proceed to enforce the Indenture, either by judicial proceedings for the enforcement of the payment of the Bonds and the foreclosure of the Indenture, or otherwise; and
- (b) to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture, provided that

- (1) such direction shall not be in conflict with any rule of law or the Indenture,
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and
- (3) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the owners not taking part in such direction.

Application of Moneys Collected

Any moneys collected by the Trustee pursuant to the Indenture (after the deductions for payment of costs and expenses of proceedings resulting in the collection of such moneys) together with any other sums then held by the Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

- (a) **First:** To the payment of all unpaid amounts due the Trustee under the Indenture;
- (b) **Second:** To the payment of the whole amount then due and unpaid upon the Outstanding Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Bonds, then to the payment of such principal and interest, without any preference or priority, ratably according to the aggregate amount so due; and
- (c) **Third:** To the payment of the remainder, if any, to the Board or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, in accordance with the Indenture, and shall not be required to make payment to the owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Resignation and Removal of Trustee

The Trustee may resign at any time by giving written notice thereof to the Board, the City and each owner of Bonds Outstanding as shown by the list of bondowners required by the Indenture to be kept at the office of the Trustee. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee has or shall acquire any conflicting interest (as determined by the Trustee), it shall, within **90** days after ascertaining that it has a conflicting interest, or within **30** days after receiving written notice from the Board or the City (so long as the City is not in default under the Indenture) that it has a conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in the preceding paragraph.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Board and the Trustee signed by the owners of a majority in principal amount of the Outstanding Bonds, or, so long as the City is not in default and no condition that with the giving of notice or passage of time, or both, would constitute a default under the Financing Agreement, by the City. The Board, the City or any bondowner may at any time petition any court of competent jurisdiction for the removal for cause of the Trustee.

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee under the Indenture.

Appointment of Successor Trustee

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Board, with the written consent of the City (which consent shall not be unreasonably withheld) or the owners of a majority in principal amount of Bonds Outstanding (if an event of default under the Indenture or under the Financing Agreement has occurred and is continuing), by an instrument or concurrent instruments in writing delivered to the Board and the retiring Trustee, shall promptly appoint a successor Trustee. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee, by written instrument, may similarly appoint a temporary successor to fill such vacancy until a new Trustee shall be so appointed by the Board or the bondowners. If, within **30** days after such resignation, removal or incapability or the occurrence of such vacancy, a successor Trustee shall be appointed in the manner provided in the Indenture, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the retiring Trustee and any temporary successor Trustee appointed by such receiver or trustee. If no successor Trustee shall have been so appointed and accepted appointment in the manner provided in the Indenture, any bondowner may petition any court of competent jurisdiction for the appointment of a successor Trustee, until a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Trustee appointed pursuant to the provisions of the Indenture shall be a bank or trust company in good standing under the law of the jurisdiction in which it was created and by which it exists, meeting the eligibility requirements of the Indenture.

Supplemental Indentures without Consent of Bondowners

Without the consent of the owners of any Bonds, the Board and the Trustee may from time to time enter into one or more Supplemental Indentures for any of the following purposes:

- (a) to correct or amplify the description of any property at any time subject to the lien of the Indenture, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of the Indenture, or to subject to the lien of the Indenture additional property; or
- (b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of Bonds or of any series of Bonds, additional conditions, limitations and restrictions thereafter to be observed; or

- (c) to authorize the issuance of any series of Additional Bonds and, make such other provisions as provided in the Indenture; or
- (d) to evidence the appointment of a separate trustee or the succession of a new trustee under the Indenture; or
- (e) to add to the covenants of the Board or to the rights, powers and remedies of the Trustee for the benefit of the owners of all Bonds or to surrender any right or power conferred upon the Board under the Indenture; or
- (f) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture or to make any other change, with respect to matters or questions arising under the Indenture, which shall not be inconsistent with the provisions of the Indenture, provided such action shall not materially adversely affect the interests of the owners of the Bonds; or
- (g) to modify, eliminate or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute hereafter enacted, or to permit the qualification of the Bonds for sale under the securities laws of the United States or any state of the United States.

Supplemental Indentures with Consent of Bondowners

With the consent of the owners of not less than a majority in principal amount of the Bonds then Outstanding affected by such Supplemental Indenture, the Board and the Trustee may enter into one or more Supplemental Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the owners of the Bonds under the Indenture; provided, however, that no such Supplemental Indenture shall, without the consent of the owner of each Outstanding Bond affected thereby,

- (a) change the stated maturity of the principal of, or any installment of interest on, any Bond, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, any Bond, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date); or
- (b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose owners is required for any such Supplemental Indenture, or the consent of whose owners is required for any waiver provided for in the Indenture of compliance with certain provisions of the Indenture or certain defaults under the Financing Agreement and their consequences; or
- (c) modify the obligation of the Board to make payment on or provide funds for the payment of any Bond; or
- (d) modify or alter the provisions of the proviso to the definition of the term "Outstanding"; or
- (e) modify any of the provisions of the Indenture, except to increase any percentage provided thereby or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the owner of each Bond affected thereby; or

- (f) permit the creation of any lien ranking prior to or on a parity with the lien of the Indenture with respect to any of the Trust Estate or terminate the lien of the Indenture on any property at any time subject hereto or deprive the owner of any Bond of the security afforded by the lien of the Indenture.

The Trustee may in its discretion determine whether or not any Bonds would be affected by any Supplemental Indenture and any such determination shall be conclusive upon the owners of all Bonds, whether theretofore or thereafter authenticated and delivered. The Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for the required percentage of owners of Bonds under this Section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such act shall approve the substance thereof.

Payment, Discharge and Defeasance of Bonds

Bonds will be deemed to be paid and discharged and no longer Outstanding under the Indenture and will cease to be entitled to any lien, benefit or security of the Indenture if the Board shall pay or provide for the payment of such Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on such Bonds, as and when the same become due and payable;
- (b) by delivering such Bonds to the Trustee for cancellation; or
- (c) by depositing in trust with the Trustee or other Paying Agent moneys and Government Obligations in an amount, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Bonds at or before their respective maturity or redemption dates (including the payment of the principal of, premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof); provided that, if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption is given in accordance with the requirements of the Indenture or provision satisfactory to the Trustee is made for the giving of such notice.

The Bonds may be defeased in advance of their maturity or redemption dates only with cash or Defeasance Obligations pursuant to subsection (c) above, subject to receipt by the Trustee of (1) a verification report in form and substance satisfactory to the Trustee prepared by independent certified public accountants, or other verification agent, satisfactory to the Trustee and the Board, and (2) an Opinion of Bond Counsel addressed and delivered to the Trustee in form and substance satisfactory to the Trustee to the effect that the payment of the principal of and redemption premium, if any, and interest on all of the Bonds then Outstanding and any and all other amounts required to be paid under the provisions of the Indenture has been provided for in the manner set forth in the Indenture and to the effect that so providing for the payment of any Bonds will not cause the interest on the Bonds to be included in gross income for federal income tax purposes, notwithstanding the satisfaction and discharge of the Indenture.

Satisfaction and Discharge of Indenture

The Indenture and the lien, rights and interests created by the Indenture shall cease, determine and become null and void (except as to any surviving rights) if the following conditions are met:

- (a) the principal of, premium, if any, and interest on all Bonds has been paid or is deemed to be paid and discharged by meeting the conditions of the Indenture;

- (b) all other sums payable under the Indenture with respect to the Bonds are paid or provision satisfactory to the Trustee is made for such payment;
- (c) the Trustee receives an Opinion of Bond Counsel (which may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that so providing for the payment of any Bonds will not cause the interest on the Bonds to be included in gross income for federal income tax purposes, notwithstanding the satisfaction and discharge of the Indenture; and
- (d) the Trustee receives an Opinion of Counsel to the effect that all conditions precedent in this Section to the satisfaction and discharge of the Indenture have been complied with.
- (e) if such Bonds are to be redeemed or final payment is to occur on a date which is more than 90 days from the date of the deposit under this Section, the Board and the City shall have received (1) the report of a verification agent acceptable to and addressed to each of them, confirming the mathematical accuracy of the calculations used to determine the sufficiency of the moneys or Defeasance Obligations; and (2) the escrow deposit agreement

Thereupon, the Trustee shall execute and deliver to the Board a termination statement and such instruments of satisfaction and discharge of the Indenture as may be necessary at the written request of the Board and shall pay, assign, transfer and deliver to the Board, or other Persons entitled thereto, all moneys, securities and other property then held by it under the Indenture as a part of the Trust Estate, other than moneys or Defeasance Obligations held in trust by the Trustee for the payment of the principal of, premium, if any, and interest on the Bonds.

SUMMARY OF THE FINANCING AGREEMENT

Except as otherwise noted, the following summary of the Financing Agreement relates to the Series 2007A Bonds. The Bonds of each Series are separately secured. The Financing Agreement for the Series 2007B Bonds, Series 2007C Bonds and Series 2007D Bonds are substantially similar to the Indenture and Financing Agreement summarized below, except as otherwise noted. The summary of the Continuing Disclosure Agreement relates to all four Series of Bonds. References to the Tax Compliance Agreement would not be applicable to the Series 2007C Bonds.

The following is a summary of certain provisions contained in the Series 2007A Financing Agreement. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Series 2007A Financing Agreement for a complete recital of the terms thereof.

Use of Proceeds

The proceeds of the Series 2007A Bonds loaned to the City shall be deposited with the Trustee and shall be administered, disbursed and applied for the purposes described in the Official Statement.

Loan Payments

Subject to the limitations in the Financing Agreement, the City shall pay the following amounts to the Trustee, all as "Loan Payments" under the Financing Agreement:

- (a) *Debt Service Fund -- Interest:* On or before 10:00 a.m. on or before the Business Day preceding each April 1 and October 1, commencing October 1, 2007, an amount which is not less than the interest to become due on the next interest payment date on the Series 2007A

Bonds; provided, however that the City may be entitled to certain credits on such payments as permitted under the Financing Agreement.

- (b) *Debt Service Fund -- Principal:* On or before 10:00 a.m. on or before the Business Day preceding each April 1, an amount which is not less than the next installment of principal due on the Series 2007A Bonds on the next principal payment date by maturity or mandatory sinking fund redemption; provided, however, that the City may be entitled to certain credits on such payments as permitted under the Financing Agreement.

Notwithstanding any schedule of payments upon the Loan set forth in the Financing Agreement or the Indenture, the City shall make payments upon the Loan and shall be liable therefor at the times and in the amounts (including interest, principal, and redemption premium, if any) equal to the amounts to be paid as interest, principal and redemption premium, if any, whether at maturity or by optional or mandatory redemption upon all Bonds from time to time Outstanding under the Indenture.

Additional Payments

Subject to annual appropriation, the City shall pay the following amounts to the following persons, all as "Additional Payments" under the Financing Agreement:

- (a) to the Trustee, when due, all reasonable fees, charges for its services rendered under the Indenture, the Financing Agreement and any other Transaction Documents, and all reasonable expenses (including without limitation reasonable fees and charges of any Paying Agent, bond registrar, counsel, accountant, engineer or other person) incurred in the performance of the duties of the Trustee under the Indenture or the Financing Agreement for which the Trustee and other persons are entitled to repayment or reimbursement;

- (b) to the Trustee, upon demand, an amount necessary to pay rebatable arbitrage in accordance with the Tax Compliance Agreement and the Indenture.

- (c) to the Board, on the Bond Issuance Date, its regular administrative and issuance fees and charges, if any, and all expenses (including without limitation attorney's fees) incurred by the Board in relation to the transactions contemplated by the Financing Agreement and the Indenture, which are not otherwise to be paid by the City under the Financing Agreement or the Indenture;

- (d) to the appropriate person, such payments as are required (i) as payment for or reimbursement of any and all reasonable costs, expenses and liabilities incurred by the Board or the Trustee or any of them in satisfaction of any obligations of the City under the Financing Agreement that the City does not perform, or incurred in the defense of any action or proceeding with respect to the Project, the Financing Agreement or the Indenture, or (ii) as reimbursement for expenses paid, or as prepayment of expenses to be paid, by the Board or the Trustee and that are incurred as a result of a request by the City, or a requirement of the Financing Agreement and that the City is not otherwise required to pay under the Financing Agreement;

- (e) to the appropriate person, any other amounts required to be paid by the City under the Financing Agreement or the Indenture; and

- (f) any past due Additional Payments shall continue as an obligation of the City until they are paid and shall bear interest at the Prime Rate plus 2% during the period such Additional Payments remain unpaid.

Annual Appropriations

The City intends, on or before the last day of each Fiscal Year, to budget and appropriate, specifically with respect to the Financing Agreement, moneys sufficient to pay all the Loan Payments and reasonably estimated Additional Payments for the next succeeding Fiscal Year. The City shall deliver written notice to the Trustee no later than 15 days after the commencement of its Fiscal Year stating whether or not the City Council has appropriated funds sufficient for the purpose of paying the Loan Payments and Additional Payments reasonably estimated to become due during such Fiscal Year. If the City Council shall have made the appropriation necessary to pay the Loan Payments and reasonably estimated Additional Payments to become due during such Fiscal Year, the failure of the City to deliver the foregoing notice on or before the 15th day after the commencement of its Fiscal Year shall not constitute an Event of Nonappropriation and, on failure to receive such notice 15 days after the commencement of the City's Fiscal Year, the Trustee shall make independent inquiry of the fact of whether or not such appropriation has been made. If the City Council shall not have made the appropriation necessary to pay the Loan Payments and Additional Payments reasonably estimated to become due during such succeeding Fiscal Year, the failure of the City to deliver the foregoing notice on or before the 15th day after the commencement of its Fiscal Year shall constitute an Event of Nonappropriation.

Annual Budget Request

The City Manager or other officer of the City at any time charged with the responsibility of formulating budget proposals shall include in the budget proposals submitted to the City Council, in each Fiscal Year in which the Financing Agreement shall be in effect, an appropriation for all payments required for the ensuing Fiscal Year; it being the intention of the City that the decision to appropriate or not to appropriate under the Financing Agreement shall be made solely by the City Council and not by any other official of the City. The City intends, subject to the provisions above respecting the failure of the City to budget or appropriate funds to make Loan Payments and Additional Payments, to pay the Loan Payments and Additional Payments under the Financing Agreement. The City reasonably believes that legally available funds in an amount sufficient to make all Loan Payments and Additional Payments during each Fiscal Year can be obtained. The City further intends to do all things lawfully within its power to obtain and maintain funds from which the Loan Payments and Additional Payments may be made, including making provision for such Loan Payments and Additional Payments to the extent necessary in each proposed annual budget submitted for approval in accordance with applicable procedures of the City and to exhaust all available reviews and appeals in the event such portion of the budget is not approved. The City's Director of Finance is directed to do all things lawfully within such person's power to obtain and maintain funds from which the Loan Payments and Additional Payments may be paid, including making provision for such Loan Payments and Additional Payments to the extent necessary in each proposed annual budget submitted for approval or by supplemental appropriation in accordance with applicable procedures of the City and to exhaust all available reviews and appeals in the event such portion of the budget or supplemental appropriation is not approved. Notwithstanding the foregoing, the decision to budget and appropriate funds is to be made in accordance with the City's normal procedures for such decisions.

Loan Payments to Constitute Current Expenses of the City

The Board and the City acknowledge and agree that the Loan Payments and Additional Payments shall constitute currently budgeted expenditures of the City, and shall not in any way be construed or interpreted as creating a liability or a general obligation or debt of the City in contravention of any applicable constitutional or statutory limitations or requirements concerning the creation of indebtedness by the City, nor shall anything contained herein constitute a pledge of the general credit, tax revenues, funds or moneys of the City. The City's obligations to pay Loan Payments and Additional Payments under the Financing Agreement shall be from year to year only, and shall not constitute a mandatory payment obligation of the City in any ensuing Fiscal Year beyond the then current Fiscal Year. Neither the Financing Agreement nor the issuance of the Series 2007A Bonds shall directly or indirectly obligate the City to levy or pledge any form of taxation or

make any appropriation or make any payments beyond those appropriated for the City's then current Fiscal Year, but in each Fiscal Year Loan Payments and Additional Payments shall be payable solely from the amounts budgeted or appropriated therefor out of the income and revenue provided for such year, plus any unencumbered balances from previous years; provided, however, that nothing herein shall be construed to limit the rights of the owners of the Series 2007A Bonds or the Trustee to receive any amounts which may be realized from the Trust Estate pursuant to the Indenture. Failure of the City to budget and appropriate said moneys on or before the last day of any Fiscal Year shall be deemed an Event of Nonappropriation.

Security for the Loan

The City's obligations to pay the Loan Payments and Additional Payments shall be limited, special obligations of the City payable solely from, subject to annual appropriation by the City as described above, all general fund revenues of the City and from amounts pledged to secure repayment of the Loan in the Special Allocation Fund as provided in the Authorizing Ordinance. The taxing power of the City is not pledged to the payment of the Loan either as to principal or interest. The City's obligation to pay the Loan Payments and Additional Payments shall not constitute general obligations of the City, nor shall they constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter provision, limitation or restriction.

Notwithstanding the foregoing, Payments in Lieu of Taxes deposited into the Special Allocation Fund are not subject to annual appropriation and are pledged by the City pursuant to the Authorizing Ordinance to secure the Loan Payments and Additional Payments.

Additional Bonds

The Board from time to time may, in its sole discretion, at the written request of the City, authorize the issuance of Additional Bonds for the purposes and upon the terms and conditions provided in the Indenture; provided that (1) the terms of such Additional Bonds, the purchase price to be paid therefor and the manner in which the proceeds thereof are to be disbursed shall have been approved by resolutions adopted by the Board, the City; (2) the Board, the City shall have entered into a Supplemental Financing Agreement to acknowledge that Loan Payments are revised to the extent necessary to provide for the payment of the principal of, redemption premium, if any, and interest on the Additional Bonds and to extend the term of the Financing Agreement if the maturity of any of the Additional Bonds would otherwise occur after the expiration of the term of the Financing Agreement; and (3) the Board, the City shall have otherwise complied with the provisions of the Financing Agreement and the Indenture with respect to the issuance of such Additional Bonds.

Financial Statements

The City shall furnish to the Board and the Trustee, as soon as practicable, but in no event more than 5 days after, an Event of Nonappropriation, written notice of such Event of Nonappropriation.

The City will at any and all times, upon the written request of the Trustee or the Board and at the expense of the City, permit the Trustee and the Board by their representatives to inspect the properties, books of account, records, reports and other papers of the City, and to take copies and extracts therefrom, and will promptly afford and procure a reasonable opportunity to make any such inspection, and the City will furnish to the Trustee or the Board any and all information as the Trustee or the Board may reasonably request with respect to the performance by the City of its covenants in the Financing Agreement.

Events of Default and Remedies

The term "Event of Default" or "Default" shall mean any one or more of the following events:

- (a) Failure by the City to make timely payment of any Loan Payment.
- (b) Failure by the City to make any Additional Payment when due and, after notice of such failure, the City shall have failed to make such payment within 10 days following the due date.
- (c) Failure by the City to observe and perform any covenant, condition or agreement on the part of the City under the Financing Agreement or the Indenture, other than as referred to in the preceding subparagraphs (a) and (b) of this Section, for a period of 30 days after written notice of such default has been given to the City, by the Trustee or the Board during which time such default is neither cured by the City nor waived in writing by the Trustee and the Board, provided that, if the failure stated in the notice cannot be corrected within said 30-day period, the Trustee and the Board may consent in writing to an extension of such time prior to its expiration and the Trustee and the Board will not unreasonably withhold their consent to such an extension if corrective action is instituted by the City within the 30-day period and diligently pursued to completion and if such consent, in their judgment, does not materially adversely affect the interests of the bondowners.
- (d) Any representation or warranty by the City in the Financing Agreement or in any certificate or other instrument delivered under or pursuant to the Financing Agreement or the Indenture or in connection with the financing of the Project shall prove to have been false, incorrect, misleading or breached in any material respect on the date when made, unless waived in writing by the Board and the Trustee or cured by the City, if such representation or warranty can be cured to the satisfaction of the Board and the Trustee within 30 days after notice thereof has been given to the City.

Remedies on Default

Subject to the provisions of the Financing Agreement, whenever any Event of Default shall have occurred and be continuing, the Trustee, as the assignee of the Board, may take any one or more of the following remedial steps; provided that if the principal of all Bonds then Outstanding and the interest accrued thereon shall have been declared immediately due and payable pursuant to the provisions of the Indenture, all Loan Payments for the remainder of the Loan Term shall become immediately due and payable without any further act or action on the part of the Board or the Trustee and the Trustee may immediately proceed (subject to the provisions of the Financing Agreement) to take any one or more of the remedial steps set forth in subparagraph (b) of this Section:

- (a) By written notice to the City declare the outstanding principal of the Loan to be immediately due and payable, together with interest on overdue payments of principal and redemption premium, if any, and, to the extent permitted by law, interest, at the rate or rates of interest specified in the respective Bonds or the Indenture, without presentment, demand or protest, all of which are expressly waived.
- (b) Take whatever other action at law or in equity is necessary and appropriate to exercise or to cause the exercise of the rights and powers set forth in the Financing Agreement or in the Indenture, as may appear necessary or desirable to collect the amounts payable pursuant to the Financing Agreement then due and thereafter to become due or to enforce the performance and observance of any obligation, agreement or covenant of the City under the Financing Agreement or the Indenture.

In the enforcement of the remedies provided in this Section, the Trustee may treat all fees, costs and expenses of enforcement, including reasonable legal, accounting and advertising fees and expenses, as Additional Payments then due and payable by the City.

Any amount collected pursuant to action taken under this Section shall be paid to the Trustee and applied, first, to the payment of any costs, expenses and fees incurred by the Board or the Trustee as a result of taking such action and, next, any balance shall be used to satisfy any Loan Payments then due by payment into the Debt Service Fund and applied in accordance with the Indenture and, then, to satisfy any other Additional Payments then due or to cure any other Event of Default.

Notwithstanding the foregoing, the Trustee shall not be obligated to take any step that in its opinion will or might cause it to expend time or money or otherwise incur liability, unless and until indemnity satisfactory to it has been furnished to the Trustee at no cost or expense to the Trustee, except as otherwise provided in the Indenture.

The provisions of this Section are subject to the limitation that the annulment of a declaration that the Series 2007A Bonds are immediately due and payable shall automatically constitute an annulment of any corresponding declaration made pursuant to subparagraph (a) of this Section and a waiver and rescission of the consequences of such declaration and of the Event of Default with respect to which such declaration has been made, provided that no such waiver or rescission shall extend to or affect any other or subsequent Default or impair any right consequent thereon. In the event any covenant, condition or agreement contained in the Financing Agreement shall be breached or any Event of Default shall have occurred and such breach or Event of Default shall thereafter be waived by the Trustee, such waiver shall be limited to such particular breach or Event of Default.

No Remedy Exclusive

Subject to the provisions of the Financing Agreement, no remedy conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Financing Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon a Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Agreement to Pay Attorneys' Fees and Expenses

Subject to the provisions of the Financing Agreement, in connection with any Event of Default by the City, if the Board or the Trustee employs attorneys or incurs other expenses for the collection of amounts payable under the Financing Agreement or the enforcement of the performance or observance of any covenants or agreements on the part of the City contained in the Financing Agreement, the City agrees that it will, on demand therefor, pay to the Board and the Trustee the reasonable fees of such attorneys and such other reasonable fees, costs and expenses so incurred by the Board and the Trustee.

Board and City to Give Notice of Default

The Board and the City shall each, at the expense of the City, promptly give to the Trustee written notice of any Default of which the Board, the City, as the case may be, shall have actual knowledge or written notice, but the Board shall not be liable for failing to give such notice.

Remedial Rights Assigned to the Trustee

Upon the execution and delivery of the Indenture, the Board will thereby have assigned to the Trustee all rights and remedies conferred upon or reserved to the Board by the Financing Agreement, reserving only the Unassigned Board's Rights. Subject to the provisions of the Financing Agreement, the Trustee shall have the exclusive right to exercise such rights and remedies conferred upon or reserved to the Board by the Financing Agreement in the same manner and to the same extent, but under the limitations and conditions

imposed thereby and hereby. The Trustee and the Bondowners shall be deemed third party creditor beneficiaries of all representations, warranties, covenants and agreements contained in the Financing Agreement.

Supplemental Financing Agreements without Consent of Bondowners

Without the consent of the owners of any Bonds, the Board, the City may from time to time enter into one or more Supplemental Financing Agreements, for any of the following purposes:

- (a) to subject to the Financing Agreement additional property or to more precisely identify any project financed or refinanced out of the proceeds of any series of Bonds, or to substitute or add additional property thereto; or
- (b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the Loan, as set forth in the Financing Agreement, additional conditions, limitations and restrictions thereafter to be observed; or
- (c) in connection with the issuance of any Additional Bonds, to make such other provisions as provided in the Financing Agreement; or
- (d) to evidence the succession of another entity to the City and the assumption by any such successor of the covenants of the City contained in the Financing Agreement; or
- (e) to add to the covenants of the City or to the rights, powers and remedies of the Trustee for the benefit of the owners of all or any series of Bonds or to surrender any right or power conferred upon the City; or
- (f) to cure any ambiguity, to correct or supplement any provision which may be inconsistent with any other provision or to make any other provisions, with respect to matters or questions arising under the Financing Agreement, which shall not be inconsistent with the provisions of the Financing Agreement, provided such action shall not adversely affect the interests of the owners of the Bonds.

Supplemental Financing Agreements with Consent of Bondowners

With the prior written consent of the owners of not less than a majority in principal amount of the Bonds then Outstanding affected by such Supplemental Financing Agreement, the Board, the City may enter into Supplemental Financing Agreements, in form satisfactory to the Trustee, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Financing Agreement or of modifying in any manner the rights of the Trustee and the owners of the Bonds under the Financing Agreement; provided, however, that no such Supplemental Financing Agreement shall, without the consent of the owner of each Outstanding Bond affected thereby:

- (a) change the stated maturity of the principal of, or any installment of interest on, the Loan, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, the Loan, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date); or
- (b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose owners is required for any such Supplemental Financing Agreement, or the consent of whose owners is required for any waiver provided for in the Financing Agreement of compliance

with certain provisions of the Financing Agreement or certain defaults under the Financing Agreement and their consequences; or

- (c) modify any of the provisions of this Section, except to increase any percentage provided thereby or to provide that certain other provisions of the Financing Agreement cannot be modified or waived without the consent of the owner of each Bond affected thereby.

The Trustee may in its discretion determine whether or not any Bonds would be affected by any Supplemental Financing Agreement and any such determination shall be conclusive upon the owners of all Bonds, whether theretofore or thereafter authenticated and delivered under the Financing Agreement. The Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for the required percentage of owners of Bonds under this Section to approve the particular form of any proposed Supplemental Financing Agreement, but it shall be sufficient if such act shall approve the substance thereof.

SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

The following is a summary of certain provisions contained in the Continuing Disclosure Agreement relating to all four Series of Bonds. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Continuing Disclosure Agreement for a complete recital of the terms thereof.

Pursuant to the Continuing Disclosure Agreement, the City will, not later than **180** days after the end of the City's fiscal year, provide to each Nationally Recognized Securities Information Repository and the State Repository, if any, the following: (A) the City's Comprehensive Annual Financial Report (the "Annual Report"), which includes the audited financial statements of the City for the prior fiscal year and (B) the amounts deposited into the Special Allocation Fund established for each applicable Project. If audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in this Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report promptly after they become available.

Pursuant to the Continuing Disclosure Agreement, the City also will give notice of the occurrence of any of the following events with respect to the Bonds, if material ("Material Events"):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to the rights of holders of the Bonds;
- (8) Bond calls;

- (9) Defeasance;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

If the City should fail to comply with any provision of the Continuing Disclosure Agreement, then any holder or Beneficial Owner of Bonds may enforce, for the equal benefit and protection of all the holders or Beneficial Owners of the Bonds similarly situated, by mandamus or other suit or proceeding at law or in equity, against such party and any of its officers, agents and employees, and may compel such party or any such officers, agents or employees to perform and carry out their duties under the Continuing Disclosure Agreement; provided that the sole and exclusive remedy for breach of the Continuing Disclosure Agreement shall be an action to compel specific performance of the obligations of the City under the Continuing Disclosure Agreement, and no person or entity shall be entitled to recover monetary damages under the Continuing Disclosure Agreement under any circumstances; and provided, further, that the rights of any holder or Beneficial Owner to challenge the adequacy of the information provided in accordance with the Continuing Disclosure Agreement are conditioned upon the provisions of the Indenture with respect to the enforcement of remedies of holders upon the occurrence of an Event of Default as though such provisions applied under the Continuing Disclosure Agreement. Failure of the City to perform its obligations under the Continuing Disclosure Agreement shall not constitute an Event of Default under any agreement executed and delivered in connection with the issuance of the Bonds.

Without the consent of any of the holders or Beneficial Owners of the Bonds, the City, at any time and from time to time, may amend or make changes to the Continuing Disclosure Agreement for any purpose, if:

- (i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or any type of business or affairs it conducts;
- (ii) the undertakings set forth in the Continuing Disclosure Agreement, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 on the date hereof, after taking into account any amendments to, or interpretation by the staff of the Securities and Exchange Commission of, Rule 15c2-12, as well as any change in circumstances; and
- (iii) the amendment, in the opinion of nationally recognized bond counsel, does not materially impair the interests of the holders or Beneficial Owners of the Bonds.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

The form of opinion of Bond Counsel for each Series of Bonds is substantially similar.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

The form of opinion of Bond Counsel for the Series 2007A, Series 2007B and Series 2007D Bonds is substantially similar. The form of opinion of Bond Counsel for the Series 2007C states that the interest on the Series 2007C Bonds is included in gross income for Federal income tax purposes.

May __, 2007

Missouri Development Finance Board
Jefferson City, Missouri

Piper Jaffray & Co.
Leawood, Kansas

City of Independence, Missouri
Independence, Missouri

Commerce Bank, N.A., as Trustee
Kansas City, Missouri

**Re: \$ _____ Missouri Development Finance Board Infrastructure Facilities
Revenue Bonds (City of Independence, Missouri – Eastland Center Project)
Series 2007A**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Missouri Development Finance Board (the "Board"), of the above-referenced bonds (the "Bonds"). The Bonds have been authorized and issued under and pursuant to the Missouri Development Finance Board Act, Sections 100.250 to 100.297 of the Revised Statutes of Missouri, as amended (the "Act"), and the Bond Trust Indenture dated as of May 1, 2007 (the "Indenture") between the Board and Commerce Bank, N.A., as trustee (the "Trustee"). All capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The proceeds of the Bonds will be used by the Board to make a loan to the City of Independence, Missouri, a constitutional charter city and political subdivision of the State of Missouri (the "City"), pursuant to a Financing Agreement dated as of May 1, 2007 (the "Financing Agreement") between the Board and the City to pay the costs of refunding the Refunded Bonds as defined in the Indenture.

Reference is made to an opinion of even date herewith of Allen Garner, City Counselor, with respect to, among other matters, (a) the power of the City to enter into and perform its obligations under the Financing Agreement and the Tax Compliance Agreement, and (b) the due authorization, execution and delivery of the Financing Agreement and the Tax Compliance Agreement by the City and the binding effect and enforceability thereof against the City.

In our capacity as Bond Counsel, we have examined a certified transcript of proceedings relating to the authorization and issuance of the Bonds, which transcript includes, among other documents and proceedings, the following:

- (i) the Indenture;
- (ii) the Financing Agreement; and

(iii) the Tax Compliance Agreement.

We have also examined the Constitution and statutes of the State of Missouri, insofar as the same relate to the authorization and issuance of the Bonds and the authorization, execution and delivery of the Indenture and the Financing Agreement.

Based upon such examination, we are of the opinion, as of the date hereof, as follows:

1. The Board is a body corporate and politic duly and legally organized and validly existing under the Act and has lawful power and authority to issue the Bonds and to enter into the Indenture and the Financing Agreement and to perform its obligations thereunder.

2. The Bonds are in proper form and have been duly authorized and issued in accordance with the Constitution and statutes of the State of Missouri, including the Act.

3. The Bonds are valid and legally binding limited obligations of the Board according to the terms thereof, payable as to principal and interest solely from, and secured by a valid and enforceable pledge and assignment of the Trust Estate, all in the manner provided in the Indenture. The Bonds do not constitute a debt of the State of Missouri or of any other political subdivision thereof and do not constitute an indebtedness within the meaning of any constitutional, statutory or charter debt limitation or restriction and are not payable in any manner by taxation. The Board has no taxing power.

4. The Indenture and the Financing Agreement have been duly authorized, executed and delivered by the Board and constitute valid and legally binding agreements enforceable against the Board in accordance with the respective provisions thereof.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the Board, the City and the Trustee comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Board, the City and the Trustee have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from income taxation by the State of Missouri.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture, the Financing Agreement and the Tax Compliance Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

GILMORE & BELL, P.C.

