



Rea & associates *a brighter way*

Independence Local School District Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2013



Dave Yost • Auditor of State

Board of Education and Management
Independence Local School District
7733 Stone Road
Independence, OH 44131

We have reviewed the Independent Auditor's Report of the Independence Local School District, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Independence Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 3, 2014

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Cuyahoga County, Ohio
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December 19, 2013

To Board of Education and Management
Independence Local School District
Cuyahoga County, Ohio
7733 Stone Road
Independence, OH 44131

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District, Cuyahoga County, Ohio, (the School District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The discussion and analysis of the Independence Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Net position increased \$3,229,681, which represents a 20.23 percent increase from fiscal year 2012.
- Capital assets decreased \$908,937 during fiscal year 2013.
- During the year, outstanding debt principal decreased from \$15,365,989 to \$14,564,989 due to the payment of principal.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Independence Local School District, the general fund and bond retirement fund are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2013?" The *Statement of Net Position* and *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund.

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

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 20 and 21. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for fiscal year 2013 compared to 2012:

Table 1
Net Position

	Governmental Activities	
	2013	2012
Assets		
Current and Other Assets	\$ 25,800,231	\$ 23,923,795
Capital Assets	22,200,486	23,109,423
<i>Total Assets</i>	48,000,717	47,033,218
Liabilities		
Other Liabilities	12,098,749	13,756,544
Long-Term Liabilities	16,702,138	17,306,525
<i>Total Liabilities</i>	28,800,887	31,063,069
Net Position		
Net Investment in Capital Assets	8,632,047	8,775,786
Restricted	2,804,740	2,587,168
Unrestricted	7,763,043	4,607,195
<i>Total Net Position</i>	\$ 19,199,830	\$ 15,970,149

At year end, capital assets represented 46.25 percent of total assets. Capital assets include, land, land improvements, buildings and building improvements, furniture and equipment and vehicles. Net investment in capital assets was \$8,632,047 at June 30, 2013. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$2,804,740 or 14.61 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$7,763,043 may be used to meet the government's ongoing obligations to students and creditors.

A significant increase in current assets is due to an increase in the property taxes receivable of \$268,457 which was the result of an increase in delinquent taxes receivable and the School District monitoring the budget. The \$908,937 decrease in capital assets was attributable to current year depreciation exceeding purchases. The \$2,262,182 decrease in total liabilities is the result of an increase in the amount property taxes available for advance as of June 30, 2013 compared to prior fiscal year and \$801,000 in long-term liability principal payments made during fiscal year 2013 compared to only \$140,000 in the prior year.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Table 2 shows the changes in net position for fiscal years 2013 and 2012.

Table 2
Changes in Net Position

	Governmental Activities	
	2013	2012
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 472,221	\$ 523,116
Operating Grants and Contributions	433,592	373,620
<i>Total Program Revenues</i>	<u>905,813</u>	<u>896,736</u>
<i>General Revenues:</i>		
Property Taxes	17,381,862	15,676,001
Grants and Entitlements Not Restricted	2,508,123	2,766,034
Payments in Lieu of Taxes	62,500	50,000
Other	170,144	298,146
<i>Total General Revenues</i>	<u>20,122,629</u>	<u>18,790,181</u>
<i>Total Revenues</i>	<u>21,028,442</u>	<u>19,686,917</u>
Program Expenses		
Instruction:		
Regular	8,143,521	8,230,246
Special	950,621	417,557
Vocational	1,011	1,011
Student Intervention Services	27,726	138,905
Other	162,297	138,369
Support Services:		
Pupils	899,232	932,573
Instructional Staff	1,307,171	2,019,929
Board of Education	172,677	204,225
Administration	1,078,126	1,251,102
Fiscal	510,981	648,896
Business	189,642	210,978
Operation and Maintenance of Plant	1,712,939	3,047,465
Pupil Transportation	908,572	975,912
Operation of Non-Instructional Services:		
Food Service Operations	316,996	299,660
Community Services	318,278	247,619
Extracurricular Activities	567,925	563,740
Debt Service:		
Interest and Fiscal Charges	531,046	1,150,904
<i>Total Expenses</i>	<u>17,798,761</u>	<u>20,479,091</u>
<i>Increase (Decrease) in Net Position</i>	3,229,681	(792,174)
<i>Net Position at Beginning of Year</i>	<u>15,970,149</u>	<u>16,762,323</u>
<i>Net Position at End of Year</i>	<u>\$ 19,199,830</u>	<u>\$ 15,970,149</u>

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

There was an increase in property tax revenue mainly attributable to an increased tax rate on assessed valuations and an increase in the amount available for advance. Total expenses decreased \$2,680,330 or 13.09 percent over fiscal year 2012. The School District was able to implement cost savings throughout majority of the expenses during fiscal year 2013. There was a significant decrease in operation and maintenance of plant of \$1,334,526 related to H.B. 264 Energy Conservation Program entering the final stages during fiscal year 2013. This program allows school districts to make energy efficient improvements to their buildings. There was a significant decrease in interest and fiscal charges of \$619,858 related to the School District refunding debt in fiscal year 2012. There was a significant decrease in instructional staff of \$712,758 due to the School District eliminating five teaching positions and a decrease in severance payments from fiscal year 2012.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2013	2012	2013	2012
Instruction:				
Regular	\$ 8,143,521	\$ 8,230,246	\$ 8,065,136	\$ 8,170,679
Special	950,621	417,557	849,068	340,475
Vocational	1,011	1,011	1,011	1,011
Student Intervention Services	27,726	138,905	27,726	138,905
Other	162,297	138,369	162,297	138,369
Support Services:				
Pupils	899,232	932,573	899,232	932,573
Instructional Staff	1,307,171	2,019,929	1,307,171	2,019,925
Board of Education	172,677	204,225	172,677	204,225
Administration	1,078,126	1,251,102	1,078,126	1,251,102
Fiscal	510,981	648,896	510,981	648,896
Business	189,642	210,978	189,642	210,978
Operation and Maintenance of Plant	1,712,939	3,047,465	1,712,939	3,047,465
Pupil Transportation	908,572	975,912	908,572	975,912
Operation of Non-Instructional Services:				
Food Service Operations	316,996	299,660	74,986	25,530
Community Services	318,278	247,619	(9,914)	(64,891)
Extracurricular Activities	567,925	563,740	412,252	390,297
Debt Service:				
Interest and Fiscal Charges	531,046	1,150,904	531,046	1,150,904
<i>Total Expenses</i>	<u>\$ 17,798,761</u>	<u>\$ 20,479,091</u>	<u>\$ 16,892,948</u>	<u>\$ 19,582,355</u>

As mentioned above, there was a significant decrease in operation and maintenance of plant of \$1,334,526 related to the Energy Conservation Program being completed during fiscal year 2013. The dependence upon general revenues for governmental activities is apparent. Over 94.91 percent of governmental activities are supported through taxes and other general revenues; such revenues are 95.69 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Governmental Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,247,341 and expenditures of \$17,559,153 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2013 was an increase of \$2,588,007. The School District showed a significant increase in property and other local taxes due to an increase in the amount available for advance offset by a slight decrease in intergovernmental revenue. Expenditures in total decreased significantly due to cost saving measures being implemented during fiscal year 2013 and the final stages of the H.B. 264 project during fiscal year 2013.

The fund balance of the bond retirement fund increased \$205,812. There was a significant decrease in expenditures of \$480,198 associated with interest and fiscal charges partially offset by a decrease in other financing sources of \$274,594 both related to the debt refunding in fiscal year 2012.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2013, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue was \$852,565 higher than the final budget basis revenue of \$15,876,109, which was \$262,941 higher than original budget. Most of these differences are due to an underestimation of property and other local taxes.

Actual expenditures of \$14,800,571 were \$688,846 less than the final expenditure appropriations of \$15,489,417, as cost savings were recognized for regular instruction along with recognizing cost savings measures for all functions throughout the year.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$22,200,486 invested in capital assets. Table 4 shows fiscal year 2013 balances compared with 2012.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2013	2012
Land	\$ 147,099	\$ 147,099
Land Improvements	573,650	619,723
Buildings and Improvements	20,835,716	21,774,519
Furniture and Equipment	295,787	326,092
Vehicles	348,234	241,990
<i>Totals</i>	<u>\$ 22,200,486</u>	<u>\$ 23,109,423</u>

The \$908,937 decrease in capital assets was attributable to current year depreciation exceeding purchases. See Note 10 for more information about the capital assets of the School District.

Debt

At June 30, 2013, the School District had \$14,564,989 in bond principal outstanding. See Note 15 for additional details. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2013	2012
School Improvement Serial Bonds	\$ 0	\$ 481,000
2011 School Improvement Serial and Capital Appreciation Bonds	7,629,993	7,764,993
2012 School Improvement Serial, Term and Capital Appreciation Bonds	5,759,996	5,869,996
Energy Conservation Bonds	1,175,000	1,250,000
<i>Total</i>	<u>\$ 14,564,989</u>	<u>\$ 15,365,989</u>

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Current Issues

The Board of Education and administration closely monitor revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan.

The financial future of the School District improved between the end of fiscal year 2013 and 2012 when the general fund unencumbered cash balance increased to \$4,251,105 from \$2,459,026. This was a result of various staffing, benefit and budget adjustments for fiscal year 2013. The School District's goal is to maintain positive, unreserved fund balances for an extended period of time. To meet this goal, revenue must be equal to, or greater than expenditures each year for the extended period and the unreserved balance ending in the extended period, must be at least zero. Our immediate goals are to end fiscal year 2014 with a positive balance and end future fiscal years with positive balances by continuing to reduce expenditure costs and requesting revenue growth to retain positions and programs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Eric Koehler, Treasurer of Independence Local School District, 7733 Stone Road, Independence, Ohio 44131 or email at ekoehler@independence.k12.oh.us.

Independence Local School District
Cuyahoga County, Ohio
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,659,618
Receivables:	
Property Taxes	18,890,501
Deferred Charges	250,112
Nondepreciable Capital Assets	147,099
Depreciable Capital Assets (Net)	22,053,387
<i>Total Assets</i>	48,000,717
Liabilities	
Accounts Payable	56,188
Accrued Wages and Benefits	1,136,745
Intergovernmental Payable	192,901
Accrued Vacation Leave Payable	85,527
Matured Compensated Absences Payable	71,753
Accrued Interest Payable	35,559
Deferred Revenue	10,520,076
Long Term Liabilities:	
Due Within One Year	921,718
Due In More Than One Year	15,780,420
<i>Total Liabilities</i>	28,800,887
Net Position	
Net Investment in Capital Assets	8,632,047
Restricted For:	
Debt Service	2,789,217
Other Purposes	15,523
Unrestricted	7,763,043
<i>Total Net Position</i>	\$ 19,199,830

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 8,143,521	\$ 78,385	\$ 0	\$ (8,065,136)
Special	950,621	0	101,553	(849,068)
Vocational	1,011	0	0	(1,011)
Student Intervention Services	27,726	0	0	(27,726)
Other	162,297	0	0	(162,297)
Support Services:				
Pupils	899,232	0	0	(899,232)
Instructional Staff	1,307,171	0	0	(1,307,171)
Board of Education	172,677	0	0	(172,677)
Administration	1,078,126	0	0	(1,078,126)
Fiscal	510,981	0	0	(510,981)
Business	189,642	0	0	(189,642)
Operation and Maintenance of Plant	1,712,939	0	0	(1,712,939)
Pupil Transportation	908,572	0	0	(908,572)
Operation of Non-Instructional Services:				
Food Service Operations	316,996	182,878	59,132	(74,986)
Community Services	318,278	55,648	272,544	9,914
Extracurricular Activities	567,925	155,310	363	(412,252)
Debt Service:				
Interest and Fiscal Charges	531,046	0	0	(531,046)
Total	\$ 17,798,761	\$ 472,221	\$ 433,592	(16,892,948)

General Revenues

Property Taxes Levied for:

General Purposes	15,535,862
Debt Service	1,214,471
Capital Outlay	631,529
Grants and Entitlements Not Restricted to Specific Programs	2,508,123
Payments in Lieu of Taxes	62,500
Investment Earnings	17,499
Miscellaneous	152,645

Total General Revenues 20,122,629

Change in Net Position 3,229,681

Net Position Beginning of Year 15,970,149

Net Position End of Year \$ 19,199,830

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,303,922	\$ 1,844,664	\$ 511,032	\$ 6,659,618
Receivables:				
Interfund	0	397,000	0	397,000
Property Taxes	16,905,407	1,296,578	688,516	18,890,501
<i>Total Assets</i>	<u>\$ 21,209,329</u>	<u>\$ 3,538,242</u>	<u>\$ 1,199,548</u>	<u>\$ 25,947,119</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 54,686	\$ 0	\$ 1,502	\$ 56,188
Accrued Wages and Benefits	1,113,074	0	23,671	1,136,745
Intergovernmental Payable	187,869	0	5,032	192,901
Matured Compensated Absences Payable	71,753	0	0	71,753
Interfund Payable	0	0	397,000	397,000
Deferred Revenue	14,412,420	1,097,491	584,832	16,094,743
<i>Total Liabilities</i>	<u>15,839,802</u>	<u>1,097,491</u>	<u>1,012,037</u>	<u>17,949,330</u>
Fund Balances				
Restricted	0	2,440,751	612,553	3,053,304
Assigned	130,120	0	0	130,120
Unassigned	5,239,407	0	(425,042)	4,814,365
<i>Total Fund Balances</i>	<u>5,369,527</u>	<u>2,440,751</u>	<u>187,511</u>	<u>7,997,789</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 21,209,329</u>	<u>\$ 3,538,242</u>	<u>\$ 1,199,548</u>	<u>\$ 25,947,119</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2013

Total Governmental Fund Balances		\$ 7,997,789
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		22,200,486
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes		5,574,667
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		250,112
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(35,559)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds - net of premium	(15,232,963)	
Capital Lease Payable	(48,117)	
Accrued Vacation Leave Payable	(85,527)	
Compensated Absences	<u>(1,421,058)</u>	
Total		<u>(16,787,665)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 19,199,830</u></u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 14,818,871	\$ 1,172,317	\$ 609,574	\$ 16,600,762
Intergovernmental	2,296,909	115,199	551,873	2,963,981
Investment Income	13,029	4,470	0	17,499
Tuition and Fees	159,267	0	0	159,267
Extracurricular Activities	88,041	0	46,168	134,209
Rentals	55,648	0	0	55,648
Charges for Services	0	0	182,878	182,878
Contributions and Donations	0	0	363	363
Payments in Lieu of Taxes	62,500	0	0	62,500
Miscellaneous	65,686	0	4,548	70,234
<i>Total Revenues</i>	<u>17,559,951</u>	<u>1,291,986</u>	<u>1,395,404</u>	<u>20,247,341</u>
Expenditures				
Current:				
Instruction:				
Regular	6,924,476	0	159,826	7,084,302
Special	830,075	0	104,151	934,226
Student Intervention Services	27,726	0	0	27,726
Other	162,297	0	0	162,297
Support Services:				
Pupils	902,251	0	0	902,251
Instructional Staff	1,219,974	0	86,423	1,306,397
Board of Education	172,677	0	0	172,677
Administration	1,100,531	0	0	1,100,531
Fiscal	480,298	14,659	7,635	502,592
Business	189,642	0	0	189,642
Operation and Maintenance of Plant	1,482,845	0	0	1,482,845
Pupil Transportation	837,756	0	164,892	1,002,648
Extracurricular Activities	463,428	0	97,777	561,205
Operation of Non-Instructional Services:				
Food Service Operations	200	0	309,042	309,242
Community Services	0	0	339,182	339,182
Capital Outlay	0	0	275,626	275,626
Debt Service:				
Principal Retirement	22,361	726,000	75,000	823,361
Interest and Fiscal Charges	2,937	345,515	33,951	382,403
<i>Total Expenditures</i>	<u>14,819,474</u>	<u>1,086,174</u>	<u>1,653,505</u>	<u>17,559,153</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,740,477</u>	<u>205,812</u>	<u>(258,101)</u>	<u>2,688,188</u>
Other Financing Sources (Uses)				
Transfers In	0	0	152,470	152,470
Transfers Out	(152,470)	0	0	(152,470)
<i>Total Other Financing Sources (Uses)</i>	<u>(152,470)</u>	<u>0</u>	<u>152,470</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	2,588,007	205,812	(105,631)	2,688,188
<i>Fund Balances Beginning of Year</i>	<u>2,781,520</u>	<u>2,234,939</u>	<u>293,142</u>	<u>5,309,601</u>
<i>Fund Balances End of Year</i>	<u>\$ 5,369,527</u>	<u>\$ 2,440,751</u>	<u>\$ 187,511</u>	<u>\$ 7,997,789</u>

See accompanying notes to the basic financial statements.

**Independence Local School District
Cuyahoga County, Ohio**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013*

Net Change in Fund Balances - Total Governmental Funds	\$	2,688,188
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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 depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	\$ 245,586	
Current Year Depreciation	<u>(1,154,523)</u>	(908,937)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes		781,100
 Repayment of bonds and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	801,000	
Capital Lease	<u>22,361</u>	823,361
 In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	36,658	
Amortization of Issuance Costs	(15,325)	
Amortization of Premium on Bonds	77,056	
Amortization of Refunding Loss	<u>(44,894)</u>	53,495
 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 governmental funds.		
Compensated Absences	(48,997)	
Accrued Vacation Payable	<u>43,609</u>	(5,388)
 Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds.		
		<u>(202,138)</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u><u>3,229,681</u></u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 13,118,386	\$ 13,333,834	\$ 14,032,407	\$ 698,573
Intergovernmental	2,117,366	2,159,687	2,296,909	137,222
Investment Income	12,411	12,615	13,276	661
Tuition and Fees	145,152	147,535	155,265	7,730
Extracurricular Activities	45,197	45,939	48,346	2,407
Rentals	63,806	64,854	68,252	3,398
Payments in Lieu of Taxes	62,500	62,500	62,500	0
Miscellaneous	48,350	49,145	51,719	2,574
<i>Total Revenues</i>	<u>15,613,168</u>	<u>15,876,109</u>	<u>16,728,674</u>	<u>852,565</u>
Expenditures				
Current:				
Instruction:				
Regular	7,280,785	7,280,785	6,956,994	323,791
Special	867,358	867,358	828,785	38,573
Student Intervention Services	29,016	29,016	27,726	1,290
Other	170,144	170,144	162,577	7,567
Support Services:				
Pupils	957,036	957,036	914,475	42,561
Instructional Staff	1,263,577	1,263,577	1,207,383	56,194
Board of Education	195,109	195,109	186,432	8,677
Administration	1,147,295	1,147,295	1,096,272	51,023
Fiscal	490,931	490,931	469,098	21,833
Business	177,154	177,154	169,276	7,878
Operation and Maintenance of Plant	1,542,086	1,542,086	1,473,506	68,580
Pupil Transportation	883,071	883,071	843,799	39,272
Extracurricular Activities	485,646	485,646	464,048	21,598
Operation of Non-Instructional Services:				
Food Service Operations	209	209	200	9
<i>Total Expenditures</i>	<u>15,489,417</u>	<u>15,489,417</u>	<u>14,800,571</u>	<u>688,846</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>123,751</u>	<u>386,692</u>	<u>1,928,103</u>	<u>1,541,411</u>
Other Financing Sources (Uses)				
Advances In	397,000	397,000	397,000	0
Advances Out	(415,477)	(415,477)	(397,000)	18,477
Transfers Out	(159,566)	(159,566)	(152,470)	7,096
<i>Total Other Financing Sources (Uses)</i>	<u>(178,043)</u>	<u>(178,043)</u>	<u>(152,470)</u>	<u>25,573</u>
<i>Net Change in Fund Balance</i>	(54,292)	208,649	1,775,633	1,566,984
<i>Fund Balance Beginning of Year</i>	2,462,161	2,462,161	2,462,161	0
Prior Year Encumbrances Appropriated	13,857	13,857	13,857	0
<i>Fund Balance End of Year</i>	<u>\$ 2,421,726</u>	<u>\$ 2,684,667</u>	<u>\$ 4,251,651</u>	<u>\$ 1,566,984</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,236	\$ 231,575
<i>Total Assets</i>	8,236	\$ 231,575
Liabilities		
Undistributed Monies	0	\$ 949
Due to Students	0	230,626
<i>Total Liabilities</i>	0	\$ 231,575
Net Position		
Held in Trust for Scholarships	\$ 8,236	

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2013

	Private Purpose Trust
<i>Net Position Beginning of Year</i>	<u>8,236</u>
<i>Net Position End of Year</i>	<u>\$ 8,236</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the School District and Reporting Entity

Independence Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and federal agencies.

The School District is located in Independence, Ohio, Cuyahoga County. The Board of Education controls the School District's four instructional/support facilities.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Independence Local School District, this includes general operations, food service and student related activities of the School District.

Parochial School Within the School District boundaries, St. Michael's School is operated through the Cleveland Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity of the School District.

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

The School District participates in the North Coast Council, the Cuyahoga Valley Career Center, and the Ohio Schools' Council, which are defined as jointly governed organizations, the Suburban Health Consortium, which is a risk sharing pool and the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan which is an insurance purchasing pool. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following are the most significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to Ohio law.

Bond Retirement Fund The bond retirement fund accounts for the resources to pay for principal and interest on long-term general obligation debt of governmental funds.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe imposed constraints (See Note 20).

Fiduciary Fund Types Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust, which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student managed activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The private purpose trust fund is reported using the economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net position. The statement of changes in fiduciary net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, have been recorded as deferred revenue within the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Grants and entitlements received before the eligibility requirements are met and receivables that will not be collected within the available period have been reported as deferred revenue in the governmental fund financial statements.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the “operating grants and contributions” program revenue account.

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

E. Cash and Cash Equivalents

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

During fiscal year 2013, the School District’s investments were limited to STAROhio, STAR Plus and a certificate of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. The certificate of deposit is reported at cost.

STAROhio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2013.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$13,029, which includes \$3,699 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as “investments.”

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

F. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase and maintenance of capital assets of the School District. See Note 19 for additional information regarding set asides.

G. Deferred Charges

Bond issuance costs are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method or bonds outstanding method.

H. Bond Premium

On government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the straight-line method since the results are not significantly different from the effective interest method or bonds outstanding method. Bond premiums are presented as an increase of the face amount of the bonds payable.

I. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. All of the School District's capital assets are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	20-50 years
Furniture and Equipment	5-10 years
Vehicles	10 years

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and interfund services provided and used are classified as "interfund receivables/payables." Interfund balances are eliminated in the governmental activities column of the statement of net position.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave is paid.

L. Accrued Liabilities and Long-term Obligations

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

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

M. Interfund Activity

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

N. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

O. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes primarily will be used for state and federal programs.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither of these occurred in fiscal year 2013.

Q. Estimates

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

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in effect at the time the final appropriations were passed by the Board of Education.

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The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

S. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,” GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” and GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School District.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School District.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School District.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

Note 3 – Accountability

The following funds had a GAAP deficit fund balances at June 30, 2013:

Funds:	Amount
Building Fund	\$ 396,999
Food Service Fund	27,725
Athletics Fund	157
Auxiliary Services Fund	161

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The deficits in these governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

Note 4 - Budgetary Basis of Accounting

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

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as an assignment of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$ 2,588,007
Net adjustments for revenue accruals	20,387
Advance in	(397,000)
Net adjustments for expenditure accruals	(809,995)
Advance out	397,000
Funds budgeted elsewhere**	(5,472)
Adjustments for encumbrances	(17,294)
Budget Basis	\$ 1,775,633

** As part of Governmental Accounting Standards Board No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies and public school support funds.

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Note 5 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all uninsured public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, and per School District policy, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Undeposited Cash At year-end, the School District did not have any undeposited cash on hand.

At fiscal year-end, the carrying amount of the School District's deposits was \$4,697,266. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$2,273,437 of the School District's bank balance of \$4,777,446 was exposed to custodial risk as discussed above, while \$2,504,011 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$2,004,011 held in a STAR Plus account.

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Investments

As of June 30, 2013, the District had the following investment and maturity:

Investment Type	Fair Value	Investment Maturity < 1 Year
STAROhio	\$ 2,202,163	\$ 2,202,163

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District’s policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the School District.

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2013 is 58 days and carries a rating of AAAM by Standard and Poor’s.

Concentration of Credit Risk – The School District places no limit on the amount it may invest in any one issuer. At the end of fiscal year 2013, 100% of the School District’s investments were in STAROhio.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Note 6 – Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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Public utility property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected in 2013 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2013, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2013 was \$2,492,987 in the general fund, \$199,087 in the bond retirement fund and \$103,684 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2012 was \$1,706,523 in the general fund, \$139,834 in the bond retirement fund and \$73,831 in the permanent improvement capital projects fund.

On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

Independence Local School District
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The assessed values upon which the fiscal year 2013 taxes were collected are:

	2013 First-Half Collections		2012 Second-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 439,613,450	96.47%	\$ 464,606,440	96.95%
Public Utility	16,106,220	3.53%	14,613,270	3.05%
Total	\$ 455,719,670	100.00%	\$ 479,219,710	100.00%
Tax rate per \$1,000 of assessed valuation	\$ 35.20		\$ 34.90	

Note 7 - Receivables

Receivables at June 30, 2013, consisted taxes and interfund (See Note 8) receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes.

Note 8 - Interfund Balances

The account balances reported in the fund financial statements for “interfund receivable” and “interfund payable” as of June 30, 2013 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Bond Retirement Fund	\$ 397,000	\$ 0
Nonmajor Governmental Funds	0	397,000
Total Governmental Funds	\$ 397,000	\$ 397,000

Interfund receivables and payables can result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

During the fiscal year, the School District issued a treasury investment in the amount of \$397,000, which was authorized under Chapter 133.29 of the Ohio Revised Code between the debt service and building capital projects fund. The purpose of this treasury investment was to finance the costs of constructing, furnishing and equipping a new high school and renovating, improving, furnishing and equipping existing school facilities and their sites. The maximum maturity of the note is June 18, 2028, which is 20 years from the date of issuance of the original notes issued for this purpose.

Note 9 - Interfund Transfers

During the fiscal year the general fund made a transfer to the building capital projects fund in the amount of \$54,470 for the repayment of debt. The general fund also made transfers to the food service fund in the amount of \$53,000 and district managed activities fund in the amount of \$45,000. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Independence Local School District
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Notes to the Basic Financial Statements
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Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$ 147,099	\$ 0	\$ 0	\$ 147,099
<i>Total Capital Assets, not depreciated</i>	<u>147,099</u>	<u>0</u>	<u>0</u>	<u>147,099</u>
<i>Depreciable Capital Assets</i>				
Land Improvements	1,258,739	7,229	0	1,265,968
Buildings and Improvements	33,069,573	22,744	0	33,092,317
Furniture and Equipment	719,709	27,440	(5,818)	741,331
Vehicles	1,385,960	188,173	(106,472)	1,467,661
<i>Total Capital Assets, being depreciated</i>	<u>36,433,981</u>	<u>245,586</u>	<u>(112,290)</u>	<u>36,567,277</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(639,016)	(53,302)	0	(692,318)
Buildings and Improvements	(11,295,054)	(961,547)	0	(12,256,601)
Furniture and Equipment	(393,617)	(57,745)	5,818	(445,544)
Vehicles	(1,143,970)	(81,929)	106,472	(1,119,427)
<i>Total Accumulated Depreciation</i>	<u>(13,471,657)</u>	<u>(1,154,523)</u>	<u>112,290</u>	<u>(14,513,890)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>22,962,324</u>	<u>(908,937)</u>	<u>0</u>	<u>22,053,387</u>
<i>Governmental Activities, Capital Assets, Net</i>	<u>\$ 23,109,423</u>	<u>\$ (908,937)</u>	<u>\$ 0</u>	<u>\$ 22,200,486</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,046,016
Vocational	1,011
Support Services:	
Instructional Staff	8,259
Operation and Maintenance of Plant	3,539
Pupil Transportation	83,860
Extracurricular Activities	6,720
Food Service Operations	5,118
	<u>\$ 1,154,523</u>

Independence Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 11 - Risk Management

A. Property and Liability

The School District 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 (Note 17). During fiscal year 2013, these risks were covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

B. Workers' Compensation

The School District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Comp Management provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 17) to provide medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which the claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

Independence Local School District
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Note 12 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per year, depending upon length of service and hours worked. Teachers and administrators who are not on a twelve-month contract do not earn vacation time. Classified employees and administrators who earn vacation are paid for accumulated unused vacation time upon termination of employment. Classified employees and administrators may carryover a maximum of five days at fiscal year end. Teachers, administrators and classified employees earn sick leave at the rate of 1¼ days per month. Sick leave may be accumulated up to a maximum of 280 days. Upon retirement, payment is made for 35 percent of the total sick leave accumulated up to a maximum of 75 days for teachers and administrators and 85 days for classified employees.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem Life Insurance. The coverage varies with employees depending on negotiated agreements and benefit packages.

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$309,420, \$304,460 and \$317,521, respectively; 97 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011. \$8,654 represents the unpaid contribution for fiscal year 2013, and is recorded as a liability within the respective fund.

B. State Teachers Retirement System

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Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$961,820, \$1,004,259 and \$966,948, respectively; 89 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$13,862 made by the School District and \$9,901 made by the plan members. \$118,265 represents the unpaid contribution for fiscal year 2013, and is recorded as a liability within the respective fund.

Independence Local School District
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C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2013, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, .16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,794, \$13,237, and \$38,447, respectively; 97 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$17,546, \$18,051, and \$20,433, respectively; 97 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$73,986, \$77,251, and \$77,334, respectively; 89 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 15 - Long Term Obligations

The original issue date, interest rate, original issue amount and date of maturity for each of the School District's outstanding bonds and notes are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
<i>General Obligation Bonds:</i>				
School Improvement	2003	2.00 - 5.25%	\$ 17,860,000	December 1, 2030
Energy Conservation Bonds	2011	1.25 - 3.25%	1,250,000	December 1, 2026
2011 Refunding School Improvement	2011	1.00 - 3.125%	7,764,993	December 1, 2027
2012 Refunding School Improvement	2012	1.00 - 3.25%	5,869,996	December 1, 2030

A schedule of changes in bonds and other long-term obligations of the School District during fiscal year 2013 follows:

	<u>Balance 6/30/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2013</u>	<u>Amount Due in One Year</u>
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 1,250,000	\$ 0	\$ 75,000	\$ 1,175,000	\$ 80,000
2011 Refunding Bonds					
Current Interest Serial Bonds	7,270,000	0	135,000	7,135,000	125,000
Capital Appreciation Bonds	494,993	0	0	494,993	0
Issuance Premiums	692,286	0	41,957	650,329	0
Accretion on CAB's	44,900	86,235	0	131,135	0
Refunding Loss	(457,454)	27,724	0	(429,730)	0
2012 Refunding Bonds					
Current Interest Serial Bonds	5,520,000	0	110,000	5,410,000	595,000
Current Interest Term Bonds	265,000	0	0	265,000	0
Capital Appreciation Bonds	84,996	0	0	84,996	0
Issuance Premiums	486,622	0	26,304	460,318	0
Accretion on CAB's	40,491	115,903	0	156,394	0
Refunding Loss	(317,642)	17,170	0	(300,472)	0
School Improvement					
Current Interest Serial Bonds	481,000	0	481,000	0	0
Issuance Premiums	8,795	0	8,795	0	0
Total General Obligation Bonds	<u>15,863,987</u>	<u>247,032</u>	<u>878,056</u>	<u>15,232,963</u>	<u>800,000</u>
<i>Other Long-Term Liabilities:</i>					
Compensated absences	1,372,060	129,874	80,876	1,421,058	98,244
Capital Lease Payable	70,478	0	22,361	48,117	23,474
Total Other Long-Term Liabilities	<u>1,442,538</u>	<u>129,874</u>	<u>103,237</u>	<u>1,469,175</u>	<u>121,718</u>
Total Governmental Long-Term Obligations	<u>\$ 17,306,525</u>	<u>\$ 376,906</u>	<u>\$ 981,293</u>	<u>\$ 16,702,138</u>	<u>\$ 921,718</u>

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Compensated absences will be paid from the fund in which the employee is paid, which in prior years has primarily been the general fund. General obligation debt will be paid from the bond retirement debt service fund and the permanent improvement capital projects fund. Capital leases are paid from the general fund. See Note 21 for additional details.

2011 Refunding School Improvement General Obligation Bonds – On December 16, 2011 the School District issued \$7,764,993 in voted general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$7,270,000 and \$494,993, respectively. The bonds advance refunded \$7,765,000 of outstanding 2003 School Improvement General Obligation Bonds. The bonds were issued for a sixteen year period with final maturity at December 1, 2027.

At the date of refunding, \$8,478,257 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$7,765,000 of the 2003 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the 2013 financial statements. The advance refunding reduced cash flows required for debt service by \$1,225,842 over the next sixteen years and resulted in an economic gain of \$983,091. During fiscal year 2013, \$7,765,000 of defeased bonds were called and paid.

The bonds were issued with a premium of \$713,264, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2013 was \$41,957. The issuance costs of \$153,635 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2013 was \$9,037. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$471,323. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2013 was \$27,724.

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.125 percent. The capital appreciation bonds will mature December 1, 2018. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$1,500,000. The fiscal year 2013 accretion amount is \$86,235.

2012 Refunding School Improvement General Obligation Bonds – On January 12, 2012 the School District issued \$5,869,996 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$5,520,000, 265,000 and \$84,996, respectively. The bonds advance refunded \$5,870,000 of outstanding 2003 School Improvement General Obligation Bonds. The bonds were issued for a nineteen year period with final maturity at December 1, 2030.

Independence Local School District
Cuyahoga County, Ohio
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At the date of refunding, \$6,369,770 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$5,870,000 of the 2003 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the 2013 financial statements. The advance refunding reduced cash flows required for debt service by \$628,841 over the next nineteen years and resulted in an economic gain of \$439,190. During fiscal year 2013, \$5,870,000 of defeased bonds were called and paid.

The bonds were issued with a premium of \$499,774, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2013 was \$26,304. The issuance costs of \$119,465 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2013 was \$6,288. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$326,227. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2013 was \$17,170.

The bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2021 with an interest rate of 3.00 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2027 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule.

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2018	\$ 20,000
2019	25,000
2020	25,000
2021	35,000
2022	25,000
2023	25,000
2024	25,000
2025	25,000
2026	30,000
2027	30,000

The capital appreciation bond will mature December 1, 2014. This bond was purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bond is \$605,000. The fiscal year 2013 accretion amount is \$115,903.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Energy Conservation Bonds – Energy conservation bonds in the amount of \$1,250,000 were issued in accordance with Chapter 133 of the Ohio Revised Code on November 22, 2011 with interest rates ranging from 1.25 to 3.25 percent. The purpose of the energy conservation bonds issued was to reduce energy consumption in buildings owned by the School District. The energy conservation bonds were scheduled to be repaid over a 15 year period with the final payment due on December 1, 2026. The bonds will be retired from the permanent improvement fund.

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2013, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds									
	Serial		Term		Capital Appreciation		Energy Conservation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 720,000	\$ 326,678	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80,000	\$ 28,512	\$ 800,000	\$ 355,190
2015	125,000	321,828	0	0	84,996	520,003	80,000	27,513	289,996	869,344
2016	725,000	313,640	0	0	0	0	80,000	26,112	805,000	339,752
2017	740,000	298,990	0	0	0	0	80,000	24,313	820,000	323,303
2018	755,000	284,040	0	0	0	0	85,000	22,457	840,000	306,497
2019-2023	2,285,000	788,746	130,000	510,838	494,993	1,005,008	450,000	79,926	3,359,993	2,384,518
2024-2028	4,225,000	323,704	135,000	442,787	0	0	320,000	109,944	4,680,000	876,435
2029-2031	2,970,000	0	0	194,522	0	0	0	0	2,970,000	194,522
	<u>\$ 12,545,000</u>	<u>\$ 2,657,626</u>	<u>\$ 265,000</u>	<u>\$ 1,148,147</u>	<u>\$ 579,989</u>	<u>\$ 1,525,011</u>	<u>\$ 1,175,000</u>	<u>\$ 318,777</u>	<u>\$ 14,564,989</u>	<u>\$ 5,649,561</u>

Note 16 - Jointly Governed Organizations

North Coast Council North Coast Council is a jointly governed computer service bureau owned and operated by 2 educational service centers (ESC's) and 32 school districts. The primary function of North Coast Council is to provide data services to school districts, community schools, joint vocational schools and ESCs. Major areas of service provided by North Coast Council include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the North Coast Council Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of North Coast Council. Each school district supports North Coast Council based upon a per pupil charge dependent upon the software package used. Independence Local School District paid \$42,496 to North Coast Council during fiscal year 2013. Financial information can be obtained by contacting North Coast Council, 5700 West Canal Road, Valley View, Ohio 44125.

Cuyahoga Valley Career Center The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville Ohio 44141.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Ohio Schools' Council The Ohio Schools' Council (OSC) is a jointly governed organization among 198 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the OSC by paying an annual participation fee. The OSC's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2013, the School District paid \$1,073 to the OSC as a program fee. Financial information can be obtained by contacting David A. Cottrell, Executive Secretary/Treasurer, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the OSC's electric purchase program, which was implemented during fiscal year 1998 and the natural gas program that was implemented during fiscal year 2000.

The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The natural gas program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each November these estimates are compared to their actual usage for the year and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

Note 17 – Public Entity Risk Pools

A. Risk Sharing Pool

The Suburban Health Consortium is a shared health risk pool created pursuant to State statute for the purpose of administering health care benefits. The council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part at any time for their school district. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance of the terms of the contract.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

B. Insurance Purchasing Pool

The School District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President Elect and the Immediate Past President of the OASBO. The Executive Director of OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Liability Insurance

The School District contracted with the following companies for insurance: the Netherlands Insurance Company for property, crime and inland marine, the Travelers Property Casualty for boiler and the Netherlands Insurance Company for blanket employee dishonesty. The property insurance covers each of the School District's buildings and contents on a replacement cost basis with a \$5,000 deductible and the inland marine insurance provides coverage on a replacement cost basis with a \$1,000 deductible. The employee dishonesty insurance has coverage up to \$50,000 with a \$500 deductible.

Professional liability is protected by the Netherlands Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and with a \$2,500 deductible. Vehicles are also covered by the Netherlands Insurance Company and hold a \$250 and \$500 deductible for comprehensive and collision, respectively. Automobile liability has a \$1,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

Note 18 – Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, if applicable, cannot be determined at this time.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 19 – Set-asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the changes in the fiscal year-end set-aside amounts for capital improvements. Disclosure of this information is required by the State statute.

	Capital Acquisition
Set Aside Restricted Balance as of June 30, 2012	\$ 0
Current Year Set-Aside Requirement	183,091
Current Year Qualifying Expenditures	(314,588)
Total	\$ (131,497)
Balance Carried Forward Fiscal Year 2014	\$ 0
Amount to Restrict for Set-Asides	\$ 0
Set Aside Restricted Balance as of June 30, 2013	\$ 0

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years.

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Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 20 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General	Bond Retirement	Other Governmental	Total
Restricted for:				
Debt Service	\$ 0	\$ 2,440,751	\$ 0	\$ 2,440,751
Capital Outlay	0	0	598,805	598,805
Other Purposes	0	0	13,748	13,748
Total Restricted	0	2,440,751	612,553	3,053,304
Assigned for:				
Instruction	2,079	0	0	2,079
Support Services	12,808	0	0	12,808
Uniform School Supplies	2,053	0	0	2,053
Other Purposes	23,086	0	0	23,086
Subsequent Year Appropriations	90,094	0	0	90,094
Total Assigned	130,120	0	0	130,120
Unassigned	5,239,407	0	(425,042)	4,814,365
Total Fund Balance	\$ 5,369,527	\$ 2,440,751	\$ 187,511	\$ 7,997,789

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Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 21 – Capital Lease Payable

During fiscal year 2012, the School District entered into a lease agreement for office equipment. This lease meets the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

The office equipment has been capitalized in the governmental capital assets in the amount of \$91,778, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net position and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amounts of the lease.

The following is a summary of the School District’s future annual debt service requirements to maturity for capital leases:

	Fiscal Year Ending June 30,	2014	\$ 25,298	
		2015	<u>25,298</u>	
			50,596	
	Less: amount representing interest		<u>(2,479)</u>	
	Present value of minimum lease payments		<u><u>\$ 48,117</u></u>	

December 19, 2013

To Board of Education and Management
Independence Local School District
Cuyahoga County, Ohio
7733 Stone Road
Independence, OH 44131

**Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District, Cuyahoga County, Ohio (the School District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

Independence Local School District
Cuyahoga County, Ohio
Schedule of Prior Audit Findings
June 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2012-001	Internal Controls over Financial Reporting	Yes	

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Dave Yost • Auditor of State

INDEPENDENCE LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2014**