



Dave Yost • Auditor of State

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Independence Local School District
Cuyahoga County
7733 Stone Road
Independence, Ohio 44131

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District, Cuyahoga County, Ohio (the District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District, Cuyahoga County, Ohio, as of June 30, 2017 and 2016, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of a Matter

As discussed in Note 3 to the financial statements, during 2016, the District has elected to change its financial presentation to a cash basis comparable to the requirements of *Governmental Accounting Standards*. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

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, 2017. 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 the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position increased \$1,318,600, which represents a 11 percent increase over 2016.
- During the fiscal year, outstanding debt decreased from \$12,669,993 to \$11,849,993 due to principal payments made by the School District.

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 Independence Local 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. 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 the most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Reporting the School District as a Whole

Statement of Net Position and the 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 2017?" The *Statement of Net Position* and the *Statement of Activities* answer this question.

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 fund financial statements begin on page 14. 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 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 the cash basis of accounting. 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship 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 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 17 and 18. 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, 2017
(Unaudited)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2017 compared to 2016.

Table 1
Net Position –Cash Basis

	Governmental Activities	
	2017	2016
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 13,803,283	\$ 12,484,683
Net Position		
Restricted for:		
Capital Outlay	348,543	508,860
Debt Service	3,339,203	3,080,151
Other Purposes	13,132	73,036
Unrestricted	10,102,405	8,822,636
<i>Total Net Position</i>	<i>\$ 13,803,283</i>	<i>\$ 12,484,683</i>

A portion of the School District's net position, \$3,700,878 or 27 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$10,102,405 may be used to meet the government's ongoing obligations to students and creditors.

The School District received a donation from the Cleveland Clinic Foundation in the amount of \$618,483 in fiscal year 2017. The School District also received a back payment related to 2015 coupled with additional TIF agreements received through the County in fiscal year 2017 compared to fiscal year 2016 which contributed to the increase in cash.

Table 2 shows the changes in net position for fiscal year 2017 compared to the fiscal year ended 2016 for governmental activities.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Table 2
Changes in Net Position –Cash Basis

	Governmental Activities	
	2017	2016
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 524,281	\$ 541,615
Operating Grants, Contributions and Interest	596,012	440,770
Capital Grants, Contributions and Interest	40,000	0
<i>Total Program Receipts</i>	<u>1,160,293</u>	<u>982,385</u>
General Receipts		
Property Taxes	13,902,514	13,586,216
Grants and Entitlements not Restricted to Specific Programs	3,096,845	2,589,561
Payments in Lieu of Taxes	2,184,214	1,551,440
Investment Earnings	74,195	36,414
Miscellaneous	173,300	459,174
<i>Total General Receipts</i>	<u>19,431,068</u>	<u>18,222,805</u>
<i>Total Receipts</i>	<u>20,591,361</u>	<u>19,205,190</u>
Program Disbursements		
Instruction:		
Regular	7,601,658	7,591,771
Special	1,674,929	1,444,403
Student Intervention Services	25,868	22,161
Other	260,079	152,948
Support Services:		
Pupils	845,381	822,482
Instructional Staff	822,595	684,523
Board of Education	171,786	158,244
Administration	1,283,703	1,239,196
Fiscal	558,621	586,218
Business	155,219	162,090
Operation and Maintenance of Plant	1,783,517	1,735,944
Pupil Transportation	961,152	722,939
Central	33,676	34,941
Operation of Non-Instructional Services:		
Food Service Operations	299,991	297,662
Community Services	354,532	204,578
Extracurricular Activities	651,596	616,756
Capital Outlay	645,155	454,603
Debt Service:		
Principal Retirement	820,000	805,000
Interest and Fiscal Charges	323,303	339,753
<i>Total Program Disbursements</i>	<u>19,272,761</u>	<u>18,076,212</u>
<i>Change in Net Position</i>	1,318,600	1,128,978
<i>Net Position Beginning of Year</i>	<u>12,484,683</u>	<u>11,355,705</u>
<i>Net Position End of Year</i>	<u>\$ 13,803,283</u>	<u>\$ 12,484,683</u>

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Receipts increased \$1,386,171 over fiscal year 2016 mainly due to the increases in grants and entitlements for the Cleveland Clinic Foundation donation and an increase in Payment in Lieu of Taxes discussed earlier. The School District received payment related to a bank error on a bond refunding in fiscal year 2016 accounting for the decrease in miscellaneous revenue.

Expenditures showed an increase of \$1,196,549 over fiscal year 2016 with the largest increases in special instruction and pupil transportation. The \$230,526 increase in special instruction can be attributed to increases in services for gifted and special needs students and pupil transportation had an increase of \$238,213 due to the purchase of a truck and a bus.

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, that is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements for fiscal year ended 2017 compared to the fiscal year ended 2016.

Table 3
Governmental Activities –Cash Basis

	Total Costs of Services	
	2017	2016
<i>Program Disbursements</i>		
Instruction:		
Regular	\$ 7,601,658	\$ 7,591,771
Special	1,674,929	1,444,403
Student Intervention Services	25,868	22,161
Other	260,079	152,948
Support Services:		
Pupils	845,381	822,482
Instructional Staff	822,595	684,523
Board of Education	171,786	158,244
Administration	1,283,703	1,239,196
Fiscal	558,621	586,218
Business	155,219	162,090
Operation and Maintenance of Plant	1,783,517	1,735,944
Pupil Transportation	961,152	722,939
Central	33,676	34,941
Operation of Non-Instructional Services:		
Food Service Operations	299,991	297,662
Community Services	354,532	204,578
Extracurricular Activities	651,596	616,756
Capital Outlay	645,155	454,603
Debt Service:		
Principal Retirement	820,000	805,000
Interest and Fiscal Charges	323,303	339,753
<i>Total</i>	<u><u>\$19,272,761</u></u>	<u><u>\$18,076,212</u></u>

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The dependence upon tax receipts and general receipt entitlements from the state for governmental activities is apparent. Program receipts only account for 6 percent of all governmental disbursements. The community is the largest area of support for the School District students.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund balance of \$13,803,283, which is higher than the prior year balance of \$12,484,683.

The general fund's fund balance of \$10,102,405 is an increase of \$1,279,769 from fiscal year 2016. The increase in fund balance can be attributed to receipts outpacing disbursements.

The bond retirement fund balance of \$3,339,203 is an increase of \$259,052 from fiscal year 2016. The increase in fund balance can be attributed to the timing of debt service payments compared to receipts.

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 2017, the School District amended its general fund budget. For the general fund, final budget basis receipts and other financing sources were \$17,131,709, representing an increase of \$1,026,804 from the original estimate of \$16,104,905 due to taxes originally being estimated lower. Actual receipts and other financing sources of \$17,782,265 were \$650,556 higher than the final budget with actual taxes received being higher than estimates.

For the fiscal year 2017, the general fund final budget basis disbursements and other financing uses were \$16,625,356, representing a increase of \$83,150 from the original estimate of \$16,542,206. Actual disbursements and financing uses of \$16,515,307 were \$110,049 lower than the final budget, mainly in regular instruction and pupil support, due to cost cutting measures by the School District.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2017 and 2016.

Table 4
Outstanding Debt at June 30

	Governmental Activities	
	2017	2016
2011 School Improvement Serial and Capital Appreciation Bonds	\$ 7,129,993	\$ 7,254,993
2012 School Improvement Serial and Term Bonds	3,865,000	4,480,000
Energy Conservation Bonds	855,000	935,000
<i>Total</i>	\$ 11,849,993	\$ 12,669,993

For further information regarding the School District's debt, refer to Note 10 of the basic financial statements.

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 2017 and 2016 when the general fund unencumbered cash balance increased to \$10,049,222 from \$8,657,258. This was a result of revenues exceeding expenditures. 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 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 - Cash Basis
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 13,803,283</u>
Net Position	
Restricted for:	
Capital Outlay	348,543
Debt Service	3,339,203
Other Purposes	13,132
Unrestricted	<u>10,102,405</u>
<i>Total Net Position</i>	<u><u>\$ 13,803,283</u></u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 7,601,658	\$ 147,134	\$ 0	\$ 0	\$ (7,454,524)
Special	1,674,929	23,200	212,379	0	(1,439,350)
Student Intervention Services	25,868	0	0	0	(25,868)
Other	260,079	0	808	0	(259,271)
Support Services:					
Pupils	845,381	0	0	0	(845,381)
Instructional Staff	822,595	0	5,400	0	(817,195)
Board of Education	171,786	0	0	0	(171,786)
Administration	1,283,703	0	0	0	(1,283,703)
Fiscal	558,621	0	0	0	(558,621)
Business	155,219	0	0	0	(155,219)
Operation and Maintenance of Plant	1,783,517	0	0	0	(1,783,517)
Pupil Transportation	961,152	0	48,246	0	(912,906)
Central	33,676	0	0	0	(33,676)
Operation of Non-Instructional Services:					
Food Service Operations	299,991	207,523	39,989	0	(52,479)
Community Services	354,532	76,800	289,118	0	11,386
Extracurricular Activities	651,596	69,624	72	40,000	(541,900)
Capital Outlay	645,155	0	0	0	(645,155)
Debt Service:					
Principal Retirement	820,000	0	0	0	(820,000)
Interest and Fiscal Charges	323,303	0	0	0	(323,303)
<i>Totals</i>	<u>\$ 19,272,761</u>	<u>\$ 524,281</u>	<u>\$ 596,012</u>	<u>\$ 40,000</u>	<u>\$ (18,112,468)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	12,353,321
Debt Service	1,018,417
Capital Outlay	530,776
Grants and Entitlements not Restricted to Specific Programs	3,096,845
Payments in Lieu of Taxes	2,184,214
Investment Earnings	74,195
Miscellaneous	173,300
<i>Total General Receipts</i>	<u>19,431,068</u>
<i>Change in Net Position</i>	1,318,600
<i>Net Position Beginning of Year</i>	<u>12,484,683</u>
<i>Net Position End of Year</i>	<u>\$ 13,803,283</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2017

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 10,102,405	\$ 3,339,203	\$ 361,675	\$ 13,803,283
<i>Total Assets</i>	<u>\$ 10,102,405</u>	<u>\$ 3,339,203</u>	<u>\$ 361,675</u>	<u>\$ 13,803,283</u>
Fund Balances				
Restricted	\$ 0	\$ 3,339,203	\$ 361,675	\$ 3,700,878
Assigned	618,224	0	0	618,224
Unassigned	9,484,181	0	0	9,484,181
<i>Total Fund Balances</i>	<u>\$ 10,102,405</u>	<u>\$ 3,339,203</u>	<u>\$ 361,675</u>	<u>\$ 13,803,283</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 12,353,321	\$ 1,018,417	\$ 530,776	\$ 13,902,514
Intergovernmental	2,436,380	148,244	529,141	3,113,765
Investment Income	74,195	0	537	74,732
Tuition and Fees	170,333	0	0	170,333
Extracurricular Activities	32,441	0	37,183	69,624
Gifts and Donations	618,483	0	72	618,555
Charges for Services	1,620	0	205,903	207,523
Payments in Lieu of Taxes	1,963,890	145,392	74,932	2,184,214
Rent	76,800	0	0	76,800
Miscellaneous	123,705	0	49,596	173,301
<i>Total Receipts</i>	<u>17,851,168</u>	<u>1,312,053</u>	<u>1,428,140</u>	<u>20,591,361</u>
Disbursements				
Current:				
Instruction:				
Regular	7,596,729	0	4,929	7,601,658
Special	1,568,584	0	106,345	1,674,929
Student Intervention Services	25,868	0	0	25,868
Other	260,079	0	0	260,079
Support Services:				
Pupils	845,381	0	0	845,381
Instructional Staff	817,195	0	5,400	822,595
Board of Education	171,786	0	0	171,786
Administration	1,283,703	0	0	1,283,703
Fiscal	537,293	14,011	7,317	558,621
Business	155,219	0	0	155,219
Operation and Maintenance of Plant	1,674,996	0	108,521	1,783,517
Pupil Transportation	827,652	0	133,500	961,152
Central	33,676	0	0	33,676
Extracurricular Activities	514,778	0	136,818	651,596
Operation of Non-Instructional Services:				
Food Service Operations	600	0	299,391	299,991
Community Services	0	0	354,532	354,532
Capital Outlay	11,047	0	634,108	645,155
Debt Service:				
Principal Retirement	80,000	740,000	0	820,000
Interest and Fiscal Charges	24,313	298,990	0	323,303
<i>Total Disbursements</i>	<u>16,428,899</u>	<u>1,053,001</u>	<u>1,790,861</u>	<u>19,272,761</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,422,269</u>	<u>259,052</u>	<u>(362,721)</u>	<u>1,318,600</u>
Other Financing Sources (Uses)				
Transfers In	0	0	142,500	142,500
Transfers Out	(142,500)	0	0	(142,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(142,500)</u>	<u>0</u>	<u>142,500</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,279,769	259,052	(220,221)	1,318,600
<i>Fund Balances Beginning of Year ,</i>	<u>8,822,636</u>	<u>3,080,151</u>	<u>581,896</u>	<u>12,484,683</u>
<i>Fund Balances End of Year</i>	<u>\$ 10,102,405</u>	<u>\$ 3,339,203</u>	<u>\$ 361,675</u>	<u>\$ 13,803,283</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts and other financing sources	\$ 16,104,905	\$ 17,131,709	\$ 17,782,265	\$ 650,556
Disbursements and other financing uses	16,542,206	16,625,356	16,515,307	110,049
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(437,301)	506,353	1,266,958	760,605
<i>Fund Balance Beginning of Year</i>	8,657,258	8,657,258	8,657,258	0
Prior Year Encumbrances Appropriated	125,006	125,006	125,006	0
<i>Fund Balance End of Year</i>	<u>\$ 8,344,963</u>	<u>\$ 9,288,617</u>	<u>\$ 10,049,222</u>	<u>\$ 760,605</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 6,986	\$ 274,831
Net Position		
Held in Trust for Scholarships	6,986	\$ 0
Held for Student Activities	0	274,831
<i>Total Net Position</i>	\$ 6,986	\$ 274,831

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

	Scholarship
Additions	\$ <u>0</u>
Deductions	\$ <u>500</u>
<i>Change in Net Position</i>	(500)
<i>Net Position Beginning of Year</i>	<u>7,486</u>
<i>Net Position End of Year</i>	<u>\$ 6,986</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, 2017

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.

The School District participates in Connect, the Cuyahoga Valley Career Center, and the Ohio Schools’ Council Association, 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 11 and 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limitations. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general receipts 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.

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.

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. 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 constraints imposed upon the use of the resources.

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 net position) and do not involve measurement of results of operations. The School District's agency funds account for student managed activities and miscellaneous agency activities.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and receipt for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued liabilities and the related disbursements) are not recorded in these financial statements.

Budgetary Process

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 of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board of Education. The legal level of control has been established by the Board of Education at the fund level for all funds. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given the authority to allocate Board of Education appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and subsequent appropriations were adopted.

The appropriation resolution is subject to amendment by the Board of Education throughout the year with the restriction that appropriations may not exceed estimated receipts. 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

Cash and Investments

To improve cash management, all 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 records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Investments of the School District's 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 initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2017, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 general fund to receive allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2017 amounted to \$74,195 with \$22,115 assigned from other funds.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when made.

Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include instructional activities, food service operations and grants.

The School District applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

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 interfund loans.

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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 receipt 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 disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the School District's financial statements as the School District does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School District.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 3 - Budgetary Basis of Accounting

The statement of receipts, disbursements and changes in fund balance - budget and actual (budget basis) 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 the cash basis are that:

- a. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- b. Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance

Cash Basis	\$ 1,279,769
Funds budgeted elsewhere**	3,081
Adjustments for encumbrances	<u>(15,892)</u>
 Budget Basis	 <u><u>\$ 1,266,958</u></u>

** 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 cash basis. This includes the uniform school supplies and public school support funds.

Note 4 - Deposits and Investments

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

Active monies 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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding thirty days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAR Ohio);
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40 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 specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

According to State law, public depositors must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2017, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$10,488,412. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, \$2,721,040 of the School District's bank balance of \$10,566,192 was exposed to custodial risk as discussed above, while \$7,845,152 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$7,043,290 held in a STAR Plus account.

Investments

As of June 30, 2017, the School District had the following investment and maturity:

<u>Rating</u>	<u>Investment Type</u>	<u>Measurement Amount</u>	<u>Investment Maturity 6 Months or Less</u>	<u>Percent of Total</u>
AAAm	STAR Ohio	<u>\$3,596,688</u>	<u>\$3,596,688</u>	<u>100.00%</u>

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to two years or less for investments with a fixed interest rate, and one year or less for investments with a variable interest rate.

STAR Ohio 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 STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days and carries a rating of AAAm by S&P Global Ratings.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The School District places no limit on the amount that may be invested in any one issuer.

Note 5 - 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 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 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.

Public utility property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2017 taxes were collected are:

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

	2016 Second Half Half Collections		2017 First Half Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 433,659,030	95.55%	\$ 426,271,810	94.98%
Public Utility	20,192,650	4.45%	22,521,000	5.02%
Total	\$ 453,851,680	100.00%	\$ 448,792,810	100.00%
 Tax rate per \$1,000 of assessed valuation	 <u>\$ 36.10</u>		 <u>\$ 36.70</u>	

Note 6 - Interfund Transfers

During the fiscal year the general fund made transfers to the permanent improvement fund in the amount of \$40,000, the food service fund in the amount of \$47,500 and the athletics fund in the amount of \$55,000. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Note 7 - Risk Management

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. These risks were covered by commercial insurance purchased from independent third parties.

During fiscal year 2017, 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 and purchased additional coverage of \$500,000 with a \$50,000 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. The School District also has an Umbrella policy with a limit of \$7,000,000.

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 11). 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.

Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 11) 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 existing school district subsequent to the settlement of all expenses and claims.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

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GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

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The School District's contractually required contribution to SERS was \$301,851 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 11.5 percent of the 13 percent member rate goes to the DC Plan and the remaining 1.5 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$988,320 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.06367380%	0.06778460%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.06399132%</u>	<u>0.06544160%</u>	
Change in Proportionate Share	<u>0.00031752%</u>	<u>-0.00234300%</u>	
Proportionate Share of the Net Pension Liability	\$ 21,419,824	\$ 4,789,721	\$ 26,209,545

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016 and June 30, 2015, are presented below:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 percent	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation	7.75 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$ 6,341,292	\$ 4,789,721	\$ 3,490,992

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 28,465,205	\$ 21,419,824	\$ 15,476,629

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Note 9 - Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$32,971.

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$32,971, \$33,157, and \$49,695, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School District did not contribute to health care in the last three fiscal years.

Note 10 - Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Outstanding Balance 6/30/2016	Additions	Deductions	Outstanding Balance 6/30/2017	Amount Due in One Year
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 935,000	\$ 0	\$ 80,000	\$ 855,000	\$ 85,000
2011 Refunding Bonds					
Current Interest Serial Bonds	6,760,000	0	125,000	6,635,000	125,000
Capital Appreciation Bonds	494,993	0	0	494,993	0
Accretion on CAB's	481,637	155,994	0	637,631	0
2012 Refunding Bonds					
Current Interest Serial Bonds	4,215,000	0	615,000	3,600,000	630,000
Current Interest Term Bonds	265,000	0	0	265,000	0
Total Governmental Long-Term Obligations	\$ 13,151,630	\$ 155,994	\$ 820,000	\$ 12,487,624	\$ 840,000

General obligation debt will be paid from the bond retirement fund and the general fund.

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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. The advance refunding reduced cash flows required for debt service by \$1,225,842 over the next fifteen years and resulted in an economic gain of \$983,091.

The bonds were issued with a premium of \$713,264. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$471,323.

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 and December 1, 2019, and are not subject to early redemption. 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. The maturity amount of the bonds is \$1,500,000. The fiscal year 2017 accretion amount was \$155,994.

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 capital appreciation bonds matured December 1, 2014. 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.

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. The advance refunding reduced cash flows required for debt service by \$628,841 over the next eighteen years and resulted in an economic gain of \$439,190.

The bonds were issued with a premium of \$499,774. The issuance costs of \$119,465 were expensed. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$326,227.

The bond issue consists of serial and term bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2028 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:

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Fiscal Year	Principal Amount to be Redeemed
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

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 general fund.

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2017, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds							
	Serial & Term		Capital Appreciation		Energy Conservation		Total	
	Principal	Interest	Principal	Accretion	Principal	Interest	Principal	Interest/Accretion
2018	\$ 755,000	\$ 284,040	\$ 0	\$ 0	\$ 85,000	\$ 22,456	\$ 840,000	\$ 306,496
2019	20,000	276,190	265,943	484,057	85,000	20,544	370,943	780,791
2020	25,000	275,515	229,050	520,950	90,000	18,418	344,050	814,883
2021	775,000	266,890	0	0	90,000	16,078	865,000	282,968
2022	785,000	249,677	0	0	90,000	13,693	875,000	263,370
2023 - 2027	4,250,000	935,424	0	0	415,000	121,138	4,665,000	1,056,562
2028 - 2031	3,890,000	256,901	0	0	0	0	3,890,000	256,901
	\$10,500,000	\$ 2,544,637	\$ 494,993	\$ 1,005,007	\$ 855,000	\$ 212,327	\$11,849,993	\$ 3,761,971

Note 11 - Jointly Governed Organizations

Connect Connect is a jointly governed Information Technology Center (ITC) owned and operated by the Educational Service Centers of Medina, Cuyahoga and Lorain Counties along with the Ohio Schools Council. Per the Owner-Member Agreement, ninety-five percent of the ownership of the organization is allocated among the three educational service centers based upon the proportion of students in each of the three counties that are served by Connect. The purpose of the organization is to maintain and expand technology and support services to member organizations. Further information may be obtained by contacting the Director at 5700 West Canal Road, Valley View, Ohio, 44125.

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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.

Ohio Schools' Council Association The Ohio Schools' Council (OSC) is a jointly governed organization among 200 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 2017, the School District paid \$3,778 to the OSC for various programs. Financial information can be obtained by contacting William Zelei, 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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 12 – Public Entity Risk Pools

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.

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.

Note 13 – Contingencies and Significant Commitments

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2017, if applicable, cannot be determined at this time.

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.

School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Encumbrance Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At fiscal year end, the School District's commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General Fund	\$ 15,892

Contractual Commitments

The School District had contractual commitments at June 30, 2017 in the amount of \$304,825 for roofing repairs and replacement. Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments disclosed in this note.

Note 14 - 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Capital Improvement Reserve
Set aside Restricted Balance as of June 30, 2016	\$ 0
Current Year Set-Aside Requirement	174,993
Current Year Qualifying Disbursements	(691,630)
Total	\$ (516,637)
Cash Balance Carried Forward FY 2018	\$ 0
Set Aside Restricted Balance as of June 30, 2017	\$ 0

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvement set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 15 - Fund Balance

Fund balance can be classified as non-spendable, 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 major funds and all other governmental funds are presented as follows:

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
Restricted for:				
Debt Service	\$ 0	\$ 3,339,203	\$ 0	\$ 3,339,203
Capital Outlay	0	0	348,543	348,543
Student Activities	0	0	11,718	11,718
Other Purposes	0	0	1,414	1,414
Total Restricted	<u>0</u>	<u>3,339,203</u>	<u>361,675</u>	<u>3,700,878</u>
Assigned for:				
Encumbrances:				
Instruction	10,876	0	0	10,876
Support Services	5,017	0	0	5,017
Other Purposes	23,984	0	0	23,984
Subsequent Year Appropriations	<u>578,347</u>	<u>0</u>	<u>0</u>	<u>578,347</u>
Total Assigned	<u>618,224</u>	<u>0</u>	<u>0</u>	<u>618,224</u>
Unassigned	<u>9,484,181</u>	<u>0</u>	<u>0</u>	<u>9,484,181</u>
<i>Total Fund Balance</i>	<u>\$ 10,102,405</u>	<u>\$ 3,339,203</u>	<u>\$ 361,675</u>	<u>\$ 13,803,283</u>

Note 16 - Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2017, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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, 2016. 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 the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The School District switched from the GAAP Basis to the Cash Basis of Accounting for fiscal year 2016 (See Note 3).
- Net position increased \$1,128,978, which represents an almost 10 percent increase over 2015.
- During the fiscal year, outstanding debt decreased from \$13,474,993 to \$12,669,993 due to principal payments made by the School District.

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 Independence Local 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. 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 the most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Reporting the School District as a Whole

Statement of Net Position and the 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 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question.

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 fund financial statements begin on page 54. 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 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 the cash basis of accounting. 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship 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 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 57 and 58. 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, 2016
(Unaudited)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to 2015.

Table 1
Net Position –Cash Basis

	Governmental Activities	
	2016	Restated 2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 12,484,683	\$ 11,355,705
Net Position		
Restricted for:		
Capital Outlay	508,860	514,032
Debt Service	3,080,151	2,591,957
Other Purposes	73,036	12,227
Unrestricted	8,822,636	8,237,489
<i>Total Net Position</i>	<i>\$ 12,484,683</i>	<i>\$ 11,355,705</i>

A portion of the School District's net position, \$3,662,047 or 29 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$8,822,636 may be used to meet the government's ongoing obligations to students and creditors.

Table 2 shows the changes in net position for fiscal year 2016. Since this is the first year the School District has prepared financial statements on a cash basis, receipts and disbursements comparisons to fiscal year 2015 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 2
Changes in Net Position –Cash Basis

	Governmental Activities
	2016
Receipts	
<i>Program Receipts</i>	
Charges for Services and Sales	\$ 541,615
Operating Grants, Contributions and Interest	440,770
<i>Total Program Receipts</i>	982,385
<i>General Receipts</i>	
Property Taxes	13,586,216
Grants and Entitlements not Restricted to Specific Programs	2,589,561
Payments in Lieu of Taxes	1,551,440
Investment Earnings	36,414
Miscellaneous	459,174
<i>Total General Receipts</i>	18,222,805
<i>Total Receipts</i>	19,205,190
<i>Program Disbursements</i>	
Instruction:	
Regular	7,591,771
Special	1,444,403
Student Intervention Services	22,161
Other	152,948
Support Services:	
Pupils	822,482
Instructional Staff	684,523
Board of Education	158,244
Administration	1,239,196
Fiscal	586,218
Business	162,090
Operation and Maintenance of Plant	1,735,944
Pupil Transportation	722,939
Central	34,941
Operation of Non-Instructional Services:	
Food Service Operations	297,662
Community Services	204,578
Extracurricular Activities	616,756
Capital Outlay	454,603
Debt Service:	
Principal Retirement	805,000
Interest and Fiscal Charges	339,753
<i>Total Program Disbursements</i>	18,076,212
<i>Change in Net Position</i>	1,128,978
<i>Net Position Beginning of Year - Restated, See Note</i>	11,355,705
<i>Net Position End of Year</i>	\$ 12,484,683

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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 receipts and unrestricted State entitlements. Since this is the first year the School District has prepared financial statements on a cash basis, receipts and disbursements comparisons to fiscal year 2015 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

Table 3
Governmental Activities –Cash Basis

	<u>Total Costs of Services</u>	<u>Net Costs of Services</u>
	2016	2016
<i>Program Disbursements</i>		
Instruction:		
Regular	\$ 7,591,771	\$ 7,421,189
Special	1,444,403	1,315,161
Student Intervention Services	22,161	22,161
Other	152,948	152,921
Support Services:		
Pupils	822,482	822,482
Instructional Staff	684,523	679,123
Board of Education	158,244	158,244
Administration	1,239,196	1,239,196
Fiscal	586,218	586,218
Business	162,090	162,090
Operation and Maintenance of Plant	1,735,944	1,735,944
Pupil Transportation	722,939	722,150
Central	34,941	34,941
Operation of Non-Instructional Services:		
Food Service Operations	297,662	44,330
Community Services	204,578	(146,534)
Extracurricular Activities	616,756	544,855
Capital Outlay	454,603	454,603
Debt Service:		
Principal Retirement	805,000	805,000
Interest and Fiscal Charges	339,753	339,753
Total	\$ 18,076,212	\$ 17,093,827

The dependence upon tax receipts and general receipt entitlements from the state for governmental activities is apparent. Program receipts only account for 5 percent of all governmental disbursements. The community is the largest area of 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, 2016
(Unaudited)

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund balance of \$12,484,683, which is higher than the restated prior year balance of \$11,355,705.

The general fund's fund balance of \$8,822,636 is an increase of \$585,147 from fiscal year 2015. The increase in fund balance can be attributed to receipts outpacing disbursements.

The bond retirement fund balance of \$3,080,151 is an increase of \$488,194 from fiscal year 2015. The increase in fund balance can be partially attributed to a refund from a bond refinancing in a prior year.

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 2016, the School District amended its general fund budget. For the general fund, final budget basis receipts and other financing sources were \$16,253,853, representing an increase of \$1,223 from the original estimate of \$16,252,630. Actual receipts and other financing sources of \$16,304,754 were \$50,901 higher than the final budget.

For fiscal year 2016, the general fund original and final budget basis disbursements and other financing uses were \$16,225,276. Actual disbursements and financing uses of \$15,845,525 were \$379,751 lower than final budget, mainly in regular instruction and pupil support, due to cost cutting measures by the School District.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2016 and 2015.

Table 4
Outstanding Debt at June 30

	Governmental Activities	
	2016	2015
2011 School Improvement Serial and Capital Appreciation Bonds	\$ 7,254,993	\$ 7,379,993
2012 School Improvement Serial and Term Bonds	4,480,000	5,080,000
Energy Conservation Bonds	935,000	1,015,000
<i>Total</i>	\$ 12,669,993	\$ 13,474,993

For further information regarding the School District's debt, refer to Note 11 of the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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 2016 and 2015 when the general fund unencumbered cash balance increased to \$8,657,258 from \$8,167,572. This was a result of revenues exceeding expenditures. 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 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 - Cash Basis
June 30, 2016

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 12,484,683
Net Position	
Restricted for:	
Capital Outlay	\$ 508,860
Debt Service	3,080,151
Other Purposes	73,036
Unrestricted	8,822,636
<i>Total Net Position</i>	\$ 12,484,683

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 7,591,771	\$ 148,119	\$ 22,463	\$ (7,421,189)
Special	1,444,403	30,902	98,340	(1,315,161)
Student Intervention Services	22,161	0	0	(22,161)
Other	152,948	0	27	(152,921)
Support Services:				
Pupils	822,482	0	0	(822,482)
Instructional Staff	684,523	0	5,400	(679,123)
Board of Education	158,244	0	0	(158,244)
Administration	1,239,196	0	0	(1,239,196)
Fiscal	586,218	0	0	(586,218)
Business	162,090	0	0	(162,090)
Operation and Maintenance of Plant	1,735,944	0	0	(1,735,944)
Pupil Transportation	722,939	0	789	(722,150)
Central	34,941	0	0	(34,941)
Operation of Non-Instructional Services:				
Food Service Operations	297,662	208,592	44,740	(44,330)
Community Services	204,578	82,101	269,011	146,534
Extracurricular Activities	616,756	71,901	0	(544,855)
Capital Outlay	454,603	0	0	(454,603)
Debt Service:				
Principal Retirement	805,000	0	0	(805,000)
Interest and Fiscal Charges	339,753	0	0	(339,753)
Totals	<u>\$ 18,076,212</u>	<u>\$ 541,615</u>	<u>\$ 440,770</u>	<u>(17,093,827)</u>

General Receipts

Property Taxes Levied for:

General Purposes	12,133,802
Debt Service	965,674
Capital Outlay	486,740
Grants and Entitlements not Restricted to Specific Programs	2,589,561
Payments in Lieu of Taxes	1,551,440
Investment Earnings	36,414
Miscellaneous	459,174

Total General Receipts 18,222,805

Change in Net Position 1,128,978

Net Position Beginning of Year, Restated (See Note 3) 11,355,705

Net Position End of Year \$ 12,484,683

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 8,822,636	\$ 3,080,151	\$ 581,896	\$ 12,484,683
<i>Total Assets</i>	<u>\$ 8,822,636</u>	<u>\$ 3,080,151</u>	<u>\$ 581,896</u>	<u>\$ 12,484,683</u>
Fund Balances				
Restricted	\$ 0	\$ 3,080,151	\$ 581,896	\$ 3,662,047
Assigned	596,754	0	0	596,754
Unassigned	8,225,882	0	0	8,225,882
<i>Total Fund Balances</i>	<u>\$ 8,822,636</u>	<u>\$ 3,080,151</u>	<u>\$ 581,896</u>	<u>\$ 12,484,683</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 12,133,801	\$ 965,673	\$ 486,740	\$ 13,586,214
Intergovernmental	2,410,826	142,649	476,856	3,030,331
Investment Income	36,414	0	0	36,414
Tuition and Fees	179,021	0	0	179,021
Extracurricular Activities	32,320	0	39,581	71,901
Charges for Services	1,350	0	207,242	208,592
Payments in Lieu of Taxes	1,400,182	100,642	50,616	1,551,440
Rent	82,101	0	0	82,101
Miscellaneous	107,913	331,288	19,975	459,176
<i>Total Receipts</i>	<u>16,383,928</u>	<u>1,540,252</u>	<u>1,281,010</u>	<u>19,205,190</u>
Disbursements				
Current:				
Instruction:				
Regular	7,373,582	0	218,189	7,591,771
Special	1,343,766	0	100,637	1,444,403
Student Intervention Services	22,161	0	0	22,161
Other	152,948	0	0	152,948
Support Services:				
Pupils	822,482	0	0	822,482
Instructional Staff	679,123	0	5,400	684,523
Board of Education	158,244	0	0	158,244
Administration	1,239,196	0	0	1,239,196
Fiscal	566,082	13,418	6,718	586,218
Business	162,090	0	0	162,090
Operation and Maintenance of Plant	1,597,011	0	138,933	1,735,944
Pupil Transportation	722,939	0	0	722,939
Central	34,941	0	0	34,941
Extracurricular Activities	508,410	0	108,346	616,756
Operation of Non-Instructional Services:				
Food Service Operations	366	0	297,296	297,662
Community Services	0	0	204,578	204,578
Capital Outlay	31,690	0	422,913	454,603
Debt Service:				
Principal Retirement	0	725,000	80,000	805,000
Interest and Fiscal Charges	0	313,640	26,113	339,753
<i>Total Disbursements</i>	<u>15,415,031</u>	<u>1,052,058</u>	<u>1,609,123</u>	<u>18,076,212</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>968,897</u>	<u>488,194</u>	<u>(328,113)</u>	<u>1,128,978</u>
Other Financing Sources (Uses)				
Transfers In	0	0	383,750	383,750
Transfers Out	(383,750)	0	0	(383,750)
<i>Total Other Financing Sources (Uses)</i>	<u>(383,750)</u>	<u>0</u>	<u>383,750</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	585,147	488,194	55,637	1,128,978
<i>Fund Balances Beginning of Year , Restated (See Note 3)</i>	<u>8,237,489</u>	<u>2,591,957</u>	<u>526,259</u>	<u>11,355,705</u>
<i>Fund Balances End of Year</i>	<u>\$ 8,822,636</u>	<u>\$ 3,080,151</u>	<u>\$ 581,896</u>	<u>\$ 12,484,683</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts and other financing sources	\$ 16,252,630	\$ 16,253,853	\$ 16,304,754	\$ 50,901
Disbursements and other financing uses	<u>16,225,276</u>	<u>16,225,276</u>	<u>15,845,525</u>	<u>379,751</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	27,354	28,577	459,229	430,652
<i>Fund Balance Beginning of Year</i>	8,167,572	8,167,572	8,167,572	0
Prior Year Encumbrances Appropriated	<u>30,457</u>	<u>30,457</u>	<u>30,457</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 8,225,383</u>	<u>\$ 8,226,606</u>	<u>\$ 8,657,258</u>	<u>\$ 430,652</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 7,486	\$ 272,013
Net Position		
Held in Trust for Scholarships	\$ 7,486	\$ 0
Held for Student Activities	0	272,013
<i>Total Net Position</i>	\$ 7,486	\$ 272,013

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2016

	Scholarship
Additions	\$ 0
Deductions	\$ 0
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	7,486
<i>Net Position End of Year</i>	\$ 7,486

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, 2016

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.

The School District participates in Connect, the Cuyahoga Valley Career Center, and the Ohio Schools’ Council Association, 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 12 and 13 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limitations. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general receipts 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.

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.

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. 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 constraints imposed upon the use of the resources.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 net position) and do not involve measurement of results of operations. The School District's agency funds account for student managed activities and miscellaneous agency activities.

Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and receipt for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued liabilities and the related disbursements) are not recorded in these financial statements.

Budgetary Process

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 of Education's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board of Education. The legal level of control has been established by the Board of Education at the fund level for all funds. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given the authority to allocate Board of Education appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

The appropriation resolution is subject to amendment by the Board of Education throughout the year with the restriction that appropriations may not exceed estimated receipts. 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Cash and Investments

To improve cash management, all 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 records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

Investments of the School District's 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 initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2016, the School District's investments were limited to STAR Ohio, STAR Plus and certificates of deposit. Investments are reported at cost, except for Star Ohio.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2016.

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 general fund to receive allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2016 amounted to \$36,414 with \$11,052 assigned from other funds.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when made.

Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include instructional activities, food service operations and grants.

The School District applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

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:

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 interfund loans.

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 receipt 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 disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School District.

Note 3 – Change in Basis of Accounting and Restatement of Net Position and Fund Balance

Change in Basis of Accounting

For fiscal year 2016, the School District ceased to report using the generally accepted accounting principles and reported on cash basis as described in Note 2.

Restatement of Fund Equity

The implementation of the change in the basis of accounting had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The effect on net position and on governmental activities is also presented.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total
Fund Balances, June 30, 2015	\$ 9,550,666	\$ 2,819,615	\$ 387,594	\$ 12,757,875
Eliminate:				
Taxes Receivable	(12,524,845)	(937,034)	(478,156)	(13,940,035)
Revenue in Lieu of Taxes Receivable	(1,699,558)	(128,846)	(67,107)	(1,895,511)
Fair Market Adjustment	(1,550)	0	0	(1,550)
Accounts Payable	84,052	0	4,212	88,264
Accrued Wages and Benefits	1,140,612	0	14,800	1,155,412
Contracts Payable	13,633	0	225,934	239,567
Intergovernmental Payable	184,319	0	4,667	188,986
Matured Compensated Absences Payable	180,293	0	7,624	187,917
Deferred Inflows - Property Taxes	9,023,178	665,467	337,203	10,025,848
Deferred Inflows - Payment in Lieu of Taxes	1,699,558	128,846	67,107	1,895,511
Unavailable Revenue	587,131	43,909	22,381	653,421
Adjusted Fund Balances, July 1, 2015	<u>\$ 8,237,489</u>	<u>\$ 2,591,957</u>	<u>\$ 526,259</u>	<u>\$ 11,355,705</u>

	Governmental Activities
Net Position, June 30, 2015	\$ (2,084,644)
Eliminate:	
Taxes Receivable	(13,940,035)
Revenue in Lieu of Taxes Receivable	(1,895,511)
Fair Market Value Adjustment	(1,550)
Capital Assets	(21,208,471)
Deferred Outflows - Refunding	(640,414)
Deferred Outflows - Pension	(1,393,960)
Accounts Payable	88,264
Accrued Wages and Benefits	1,155,412
Contracts Payable	239,567
Intergovernmental Payable	188,986
Accrued Vacation Leave	53,622
Matured Compensated Absences Payable	187,917
Accrued Interest Payable	28,517
Due within one Year	912,959
Due in more than one year	15,100,540
Net pension Liability	19,176,004
Deferred Inflows-Property Taxes	10,025,848
Deferred Inflows - Pmt in Lieu of Taxes	1,895,511
Deferred Inflows - Pension	3,467,143
Adjusted Net Position, July 1, 2015	<u>\$ 11,355,705</u>

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 4 - Budgetary Basis of Accounting

The statement of receipts, disbursements and changes in fund balance - budget and actual (budget basis) 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 the cash basis are that:

- a. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- b. Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance

Cash Basis		\$	585,147
Funds Budgeted Elsewhere **			(910)
Adjustment for Encumbrances			(125,008)
			(125,008)
Budget Basis		\$	459,229

** 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 cash basis. This includes the uniform school supplies and public school support funds.

Note 5 - Deposits and Investments

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding thirty days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (Star Ohio and STAR Plus);
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40 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 specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositors must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2016, the School District and public depositories complied with the provisions of these statutes.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$12,092,971. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$2,182,513 of the School District's bank balance of \$12,129,157 was exposed to custodial risk as discussed above, while \$9,946,644 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$9,253,806 held in a STAR Plus account.

Investments

As of June 30, 2016, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturity 6 Months or Less</u>	<u>Percent of Total</u>
STAR Ohio	<u>\$671,211</u>	<u>\$671,211</u>	<u>100.00%</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to two years or less for investments with a fixed interest rate, and one year or less for investments with a variable interest rate.

STAR Ohio 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 STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAM by S&P Global Ratings.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 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.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Half Collections		2016 First Half Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 439,062,350	95.86%	\$ 433,659,030	95.55%
Public Utility	18,952,480	4.14%	20,192,650	4.45%
Total	\$ 458,014,830	100.00%	\$ 453,851,680	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$ 35.80		 \$ 36.10	

Note 7 - Interfund Transfers

During the fiscal year the general fund made transfers to the permanent improvement fund in the amount of \$300,000, the food service fund in the amount of \$46,750 and the athletics fund in the amount of \$37,000. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

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Note 8 - Risk Management

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. These risks were covered by commercial insurance purchased from independent third parties.

During fiscal year 2016, 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 and purchased additional coverage of \$500,000 with a \$50,000 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. The School District also has an Umbrella policy with a limit of \$7,000,000.

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

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 13). 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.

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Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 13) 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.

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District’s contractually required contribution to SERS was \$337,544 for fiscal year 2016.

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Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,065,610 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.06426021%	0.07000600%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.06367380%</u>	<u>0.06778460%</u>	
Change in Proportionate Share	<u>-0.00058641%</u>	<u>0.00222140%</u>	
Proportionate Share of the Net Pension Liability	\$ 17,597,576	\$ 3,867,855	\$ 21,465,431

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

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Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 5,363,325	\$ 3,867,855	\$ 2,608,546

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00</u> %</u>	

*10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 24,444,360	\$ 17,597,576	\$ 11,807,598

Note 10 - Postemployment Benefits

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive

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Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2016, the School District's surcharge obligation was \$33,157. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$33,157, \$49,695 and \$35,877, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$73,095, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 11 - Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Outstanding Balance 6/30/2015	Additions	Deductions	Outstanding Balance 6/30/2016	Amount Due in One Year
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 1,015,000	\$ 0	\$ 80,000	\$ 935,000	\$ 80,000
2011 Refunding Bonds					
Current Interest Serial Bonds	6,885,000	0	125,000	6,760,000	125,000
Capital Appreciation Bonds	494,993	0	0	494,993	0
Accretion on CAB's	347,128	134,509	0	481,637	0
2012 Refunding Bonds					
Current Interest Serial Bonds	4,815,000	0	600,000	4,215,000	615,000
Current Interest Term Bonds	265,000	0	0	265,000	0
<i>Total Governmental Long-Term Obligation</i>	<u>\$ 13,822,121</u>	<u>\$ 134,509</u>	<u>\$ 805,000</u>	<u>\$ 13,151,630</u>	<u>\$ 820,000</u>

General obligation debt will be paid from the bond retirement fund and the permanent improvement fund.

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. 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.

The bonds were issued with a premium of \$713,264. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$471,323.

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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 and December 1, 2019, and are not subject to early redemption. 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. The maturity amount of the bonds is \$1,500,000. The fiscal year 2016 accretion amount was \$134,509.

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.

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. 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.

The bonds were issued with a premium of \$499,774. The issuance costs of \$119,465 were expensed. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$326,227.

The bond issue consists of serial and term bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2028 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

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

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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, 2016, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds							
	Serial & Term		Capital Appreciation		Energy Conservation		Total	
	Principal	Interest	Principal	Accretion	Principal	Interest	Principal	Interest/Accretion
2017	\$ 740,000	\$ 298,990	\$ 0	\$ 0	\$ 80,000	\$ 24,312	\$ 820,000	\$ 323,302
2018	755,000	284,040	0	0	85,000	22,456	840,000	306,496
2019	20,000	276,190	265,943	484,057	85,000	20,544	370,943	780,791
2020	25,000	275,515	229,050	520,950	90,000	18,418	344,050	814,883
2021	775,000	266,890	0	0	90,000	16,078	865,000	282,968
2022 - 2026	4,135,000	1,046,843	0	0	400,000	133,125	4,535,000	1,179,968
2027 - 2031	4,790,000	395,159	0	0	105,000	1,706	4,895,000	396,865
	<u>\$ 11,240,000</u>	<u>\$ 2,843,627</u>	<u>\$ 494,993</u>	<u>\$ 1,005,007</u>	<u>\$ 935,000</u>	<u>\$ 236,639</u>	<u>\$ 12,669,993</u>	<u>\$ 4,085,273</u>

Note 12 - Jointly Governed Organizations

Connect, formerly known as North Coast Council, is a jointly governed computer service bureau owned and operated by 2 educational service centers (ESC's) and 31 school districts. The primary function of Connect is to provide data services to school districts, community schools, joint vocational schools and ESCs. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the Connect 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 Connect. Each school district supports Connect based upon a per pupil charge dependent upon the software package used. The School District paid \$41,686 to Connect during fiscal year 2016. Financial information can be obtained by contacting Connect, 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.

Ohio Schools' Council Association The Ohio Schools' Council (OSC) is a jointly governed organization among 200 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 2016, the School District paid \$4,575 to the OSC for various programs. Financial information can be obtained by contacting William Zelei, Executive Secretary/Treasurer, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 13 – Public Entity Risk Pools

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.

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.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 14 – Contingencies and Significant Commitments

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2016, if applicable, cannot be determined at this time.

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.

School District Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

Encumbrance Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the School District’s commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 125,008
Other Governmental	368,522
Total Governmental Funds	<u>\$ 493,530</u>

Contractual Commitments

The School District has contractual commitments at June 30, 2016 in the amount of \$419,440 for roofing repairs and replacement and \$93,192 for a school bus purchase.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 - 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Capital Acquisition
Set aside Restricted Balance as of June 30, 2015	\$ 0
Current Year Set-Aside Requirement	171,534
Current Year Qualifying Expenditures	(536,004)
 Total	 \$ (364,470)
 Cash Balance Carried Forward FY 2017	 \$ 0
 Set Aside Restricted Balance as of June 30, 2016	 \$ 0

Although the School District had offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvement set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

Note 16 - Fund Balance

Fund balance can be classified as non-spendable, 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 general fund and all other governmental funds are presented as follows:

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	General	Bond Retirement	Other Governmental	Total
Restricted for:				
Debt Service	\$ 0	\$ 3,080,151	\$ 0	\$ 3,080,151
Capital Outlay	0	0	508,860	508,860
Student Activities	0	0	4,603	4,603
Auxiliary Services	0	0	64,434	64,434
Other Purposes	0	0	3,999	3,999
Total Restricted	0	3,080,151	581,896	3,662,047
Assigned for:				
Encumbrances:				
Instruction	57,277	0	0	57,277
Support Services	55,400	0	0	55,400
Food Service	34	0	0	34
Extracurricular	1,250	0	0	1,250
Capital Outlay	11,047	0	0	11,047
Other Purposes	30,195	0	0	30,195
Subsequent Year Appropriations	441,551	0	0	441,551
Total Assigned	596,754	0	0	596,754
Unassigned	8,225,882	0	0	8,225,882
Total Fund Balance	\$ 8,822,636	\$ 3,080,151	\$ 581,896	\$ 12,484,683

Note 17 - Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2016, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.



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

Independence Local School District
Cuyahoga County
7733 Stone Road
Independence, Ohio 44131

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, (the District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 30, 2018, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016**

FINDING NUMBER 2017-001

GAAP Reporting – Noncompliance Finding

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires all schools to file annual financial reports in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than US GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while presumed material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District did not prepare its financial reports in accordance with US GAAP. We recommend the District prepare its annual financial reports in accordance with US GAAP to comply with state statute and to avoid being designated a Not Low Risk auditee for federal single audit purposes.

Official's Response: The Independence Local School District, Board of Education, examined the cost-benefits of GAAP reporting and believes that a cash-basis financial statement is the most cost-effective way to produce and provide the readers with an easy to understand report. Cash-basis financial statements are similar to other management reports produced throughout the fiscal year, such as the five year forecast, and can be compared without major adjustments.

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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
MAY 15, 2018