

Independence Local School District

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

Board of Education
Independence Local School District
7733 Stone Road
Independence, Ohio 44131

We have reviewed the *Independent Auditor's Report* of the Independence Local School District, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 16, 2010

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INDEPENDENCE LOCAL SCHOOL DISTRICT

*For the Fiscal Year Ended June 30, 2008
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 28, 2009

The Board of Education
Independence Local School District
7733 Stone Road
Independence, Ohio 44131

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2008, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2009, on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independence Local School District
Independent Auditor's Report
December 28, 2009
Page 2

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

The discussion and analysis of the Independence School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- ◆ In total, net assets of governmental activities increased \$1,874,939 which represents a 16 percent increase from 2007.
- ◆ Revenues for governmental activities totaled \$19,386,733 in 2008. Of this total, \$18,619,699 or 96 percent consisted of general revenues while program revenues accounted for the balance of \$767,034 or 4 percent.
- ◆ Total assets of governmental activities increased by \$664,511 which primarily includes cash and cash equivalent increase of \$1,207,497, taxes receivable increase of \$466,382, and net capital asset decrease of \$997,557.
- ◆ Program expenses totaled \$17,511,794. Instructional expenses made up \$8,713,408 or 50 percent of this total while support services accounted for \$6,996,564 or 40 percent. Other expenses, \$1,801,822 rounded out the remaining 10 percent.
- ◆ Long term bonds and notes (net) decreased from \$17,344,559 to \$16,462,038 during the fiscal year.

Using this Annual Report

This annual report consists of the management's discussion and analysis, the basic financial statements and the notes to the basic financial statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2008?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the readers 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 restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, central, operation of noninstructional activities, operation of food services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The financial statements of the School District's major funds begin on page 14. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund.

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007:

Table 1
Net Assets
Governmental Activities

	2008	2007
Assets		
Current and Other Assets	\$18,752,589	\$17,090,521
Capital Assets, Net	27,308,879	28,306,436
<i>Total Assets</i>	46,061,468	45,396,957
Liabilities		
Current Liabilities	14,472,037	14,817,523
Long-term Liabilities		
Due within One Year	1,022,314	1,035,045
Due within More Than One Year	16,874,638	17,726,849
<i>Total Liabilities</i>	32,368,989	33,579,417
Net Assets		
Invested in Capital Assets, net of Related Debt	11,685,319	12,252,708
Restricted For:		
Debt Service	1,463,641	1,075,773
Capital Outlay	353,457	16,473
Other Purpose	112,872	84,807
Unrestricted	77,190	(1,612,221)
<i>Total Net Assets</i>	\$13,692,479	\$11,817,540

Total assets increased by \$664,511 and was made up of several factors. Of the total increase, \$1,207,497 can be attributed directly to equity in pooled cash and cash equivalents. In addition, an increase of \$466,382 in taxes receivable was primarily due to an increase in delinquencies reported by the County. However, the overall asset increase was offset by a decrease of \$997,557 to capital assets, with depreciation exceeding the current year capital asset additions.

Total liabilities decreased by \$1,210,428. A combination of increases and decreases contributed to this overall decrease. Within this total were decreases in long-term liabilities of \$864,942, which were attributed to debt retirement, as well as a decrease in deferred revenue. This resulted from an increase in property tax amounts available for advances. By comparing assets and liabilities, one can see that the overall position of the School District has improved as evidenced by the increase in net assets of \$1,874,939.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

Table 2 shows the changes in net assets for fiscal year 2008 and 2007.

Table 2
Changes in Net Assets
Governmental Activities

	2008	2007
Program Revenues		
Charges for Services	\$ 439,311	\$ 435,411
Operating Grants	327,723	348,323
General Revenue		
Property Taxes	15,859,134	14,480,161
Grants and Entitlements	2,420,236	2,038,758
Investments	96,236	89,827
Miscellaneous	244,093	71,386
<i>Total Revenues</i>	<u>19,386,733</u>	<u>17,463,866</u>
Program Expenses		
Instruction	8,713,408	8,923,218
Support Services:		
Pupils	735,308	513,850
Instructional Staff	1,490,083	1,371,889
Board of Education	204,039	184,455
Administration	947,431	952,399
Fiscal	446,935	439,603
Business	226,001	201,137
Operation and Maintenance of Plant	2,112,042	1,665,602
Pupil Transportation	829,725	761,069
Central	5,000	5,000
Operation of Non-Instructional Services	205,348	253,048
Food Service Operations	303,269	299,457
Extracurricular Activities	500,590	389,368
Interest and Fiscal Charges	792,615	782,130
<i>Total Program Expenses</i>	<u>17,511,794</u>	<u>16,742,225</u>
<i>Change in Net Assets</i>	1,874,939	721,641
<i>Net Assets Beginning of Year</i>	<u>11,817,540</u>	<u>11,095,899</u>
<i>Net Assets End of Year</i>	<u>\$ 13,692,479</u>	<u>\$ 11,817,540</u>

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

Governmental Activities

The majority of revenues supporting governmental activities are general revenue. General revenue totaled \$18,619,699 or 96 percent of total revenue. The most significant portion of the general revenue is local property taxes and grants and entitlements not restricted for specific programs. The remaining amount of revenue received was in the form of program revenues, which equated to \$767,034 or only 4 percent of total revenue.

The most significant change in the overall increase in revenues of \$1,922,867 is the property taxes which make up 82 percent of revenues for governmental activities for the School District in fiscal year 2008. Grants and entitlements increased \$381,478 from fiscal year 2007. The primary reason for this increase was the tax loss reimbursement due to the implementation of House Bill No. 66 that phases out the tax on tangible personal property. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years.

Instructional expenses comprise 50 percent of governmental program expenses. Additional supporting services, including program expenses of pupils, instructional staff and operation and maintenance of plant, encompassed an additional 40 percent. The remaining 10 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and the food service program.

	<u>2008</u>
Instruction	\$ 8,713,408
Support Services	6,996,564
Other	<u>1,801,822</u>
Total	<u><u>\$17,511,794</u></u>

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 these services are supported by tax revenue and unrestricted State entitlements.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Governmental Activities				
Instruction:				
Regular	\$8,004,496	\$7,972,669	\$8,266,592	\$8,248,201
Special	245,520	215,087	229,358	201,934
Vocational	1,011	1,011	0	0
Other	462,381	462,381	427,268	427,268
Support Services:				
Pupil	735,308	732,377	513,850	513,850
Instructional Staff	1,490,083	1,470,064	1,371,889	1,360,189
Board of Education	204,039	204,039	184,455	184,455
Administration	947,431	947,431	952,399	952,399
Fiscal	446,935	446,935	439,603	439,603
Business	226,001	226,001	201,137	201,137
Operation and Maintenance of Plant	2,112,042	2,060,303	1,665,602	1,610,725
Pupil Transportation	829,725	829,725	761,069	761,069
Central	5,000	0	5,000	0
Operation of Non-Instructional Services	205,348	(32,442)	253,048	(5,725)
Food Service Operations	303,269	51,457	299,457	31,265
Extracurricular Activities	500,590	365,107	389,368	249,991
Interest and Fiscal Charges	792,615	792,615	782,130	782,130
Total	\$17,511,794	\$16,744,760	\$16,742,225	\$15,958,491

The dependence upon the general revenues for governmental activities is apparent. 96 percent of expenses are not supported by program specific revenues. General revenues, primarily local property taxes and “grant and entitlements not restricted to specific programs” are used to provide program services. The community, as a whole, is by far the primary supporter for the School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,842,072 and expenditures of \$17,363,614. The net change in fund balances for the year was most significant in the non-major permanent improvement fund, with an increase of \$299,602. The general fund reported a net increase in fund balance of \$818,922.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

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 fund to be budgeted is the main operating fund of the School District, the General fund.

During fiscal 2008, the School District amended its general fund budget numerous times. The most significant changes were to increase the budget for operations and maintenance, as well as pupil transportation. For the other non-significant budget amendments, the School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$14,769,132, which was higher than the original budget estimate of \$14,418,170 due mainly to property taxes and intergovernmental revenues. The actual revenue of \$15,738,647 was \$969,515 above the final budget amount as a result of property tax revenue.

General fund original appropriations of \$14,984,245 were increased to \$15,513,425 in the final appropriations caused mainly from anticipated increases in operation and maintenance of plant. The actual expenditures of \$15,124,454 were \$388,971 below the final budget of \$15,513,425 due to timing of repair and maintenance expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the School District had \$27,308,879 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2008 values compared to 2007. More detailed information is presented in Note 10 of the notes to the basic financial statements.

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

	2008	2007
Land	\$ 147,099	\$ 147,099
Land Improvements	805,191	857,139
Building Improvements	25,649,612	26,623,062
Furniture and Equipment	294,531	324,568
Vehicles	412,446	354,568
Total Capital Assets	<u>\$ 27,308,879</u>	<u>\$ 28,306,436</u>

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2008

All capital assets, except land, are reported net of depreciation.

For fiscal year 2008, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2008, this amounted to \$177,472 for each set aside. For fiscal year 2008, the School District had qualifying disbursements or offsets exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement.

Debt

At June 30, 2008 the School District has \$15,962,038 in net bonds outstanding for construction of the new high school and conversion of the old high school into the middle school. The School District also had \$500,000 in tax anticipation notes outstanding. More detailed information about the School District's outstanding debt is presented in Note 15 of the notes to the basic financial statements.

School District Outlook

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

The financial future of the School District improved between the end of fiscal years 2008 and 2007 when the unencumbered cash balance increased to \$1,430,388 from \$768,034 in fiscal year 2007. The challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Due to a depressed economy and the foreclosure crisis, the School District has placed even more of a watchful eye on its spending. The three-year emergency renewal operating levy passed in November 2007 must last through the end of calendar year 2011. Thus management must diligently plan expenses and monitor revenues from this levy, staying carefully within its timeframe.

As a result of the challenges mentioned above, it is imperative that the School District's management continues to carefully and prudently plan to provide the resources required to meet student needs over the next three years.

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 show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information you may contact Mr. Gerald Zelenka, Treasurer/Chief Financial Officer, at Independence Local School District, 7733 Stone Road, Independence, Ohio 44131 or e-mail at gzelenka@independence.k12.oh.us.

Basic Financial Statements

Independence Local School District
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,818,162
Taxes Receivable	16,745,166
Intergovernmental Receivable	2,934
Deferred Charges	181,309
Inventory Held for Resale	5,018
Non-Depreciable Capital Assets	147,099
Depreciable Capital Assets, Net	27,161,780
<i>Total Assets</i>	46,061,468
Liabilities	
Accounts Payable	207,911
Accrued Wages	1,080,985
Intergovernmental Payable	460,370
Accrued Interest Payable	59,740
Vacation Benefits Payable	94,330
Matured Compensated Absences Payable	46,064
Deferred Revenue	12,522,637
Long -Term Liabilities:	
Due Within One Year	1,022,314
Due In More Than One Year	16,874,638
<i>Total Liabilities</i>	32,368,989
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,685,319
Restricted for:	
Debt Service	1,463,641
Capital Outlay	353,457
Other Purposes	112,872
Unrestricted	77,190
<i>Total Net Assets</i>	\$ 13,692,479

Independence Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Function/Program	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities					
Current:					
Instruction:					
Regular	\$ 8,004,496	\$ 31,530	\$ 297	\$	(7,972,669)
Special	245,520	9,600	20,833		(215,087)
Vocational	1,011	0	0		(1,011)
Other	462,381	0	0		(462,381)
Support Services:					
Pupils	735,308	0	2,931		(732,377)
Instructional Staff	1,490,083	0	20,019		(1,470,064)
Board of Education	204,039	0	0		(204,039)
Administration	947,431	0	0		(947,431)
Fiscal	446,935	0	0		(446,935)
Business	226,001	0	0		(226,001)
Operation and Maintenance of Plant	2,112,042	51,739	0		(2,060,303)
Central	5,000	0	5,000		0
Pupil Transportation	829,725	0	0		(829,725)
Operation of Non-Instructional Services	205,348	0	237,790		32,442
Food Service Operations	303,269	210,959	40,853		(51,457)
Extracurricular Activities	500,590	135,483	0		(365,107)
Interest and Fiscal Charges	792,615	0	0		(792,615)
<i>Total Governmental Activities</i>	<u>\$ 17,511,794</u>	<u>\$ 439,311</u>	<u>\$ 327,723</u>		<u>(16,744,760)</u>

General Revenues

Property Taxes Levied for:

General Purposes	13,855,297
Debt Service	1,371,327
Capital Outlay	632,510
Grants and Entitlements not Restricted to Specific Programs	2,420,236
Investment Earnings	96,236
Miscellaneous	244,093
<i>Total General Revenues</i>	<u>18,619,699</u>

Change in Net Assets 1,874,939

Net Assets Beginning of Year 11,817,540
Net Assets End of Year \$ 13,692,479

Independence Local School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Bond Retirement	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 787,875	\$ 671,398	\$ 358,889	\$ 1,818,162
Taxes Receivable	14,647,294	1,408,380	689,492	16,745,166
Intergovernmental Receivable	0	0	2,934	2,934
Interfund Receivable	708,040	497,000	52,000	1,257,040
Inventory Held for Resale	0	0	5,018	5,018
<i>Total Assets</i>	<u>\$ 16,143,209</u>	<u>\$ 2,576,778</u>	<u>\$ 1,108,333</u>	<u>\$ 19,828,320</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 177,386	\$ -	\$ 30,525	\$ 207,911
Accrued Wages	1,060,061	0	20,924	1,080,985
Interfund Payable	0	0	1,257,040	1,257,040
Intergovernmental Payable	448,293	0	12,077	460,370
Matured Compensated Absences Payable	46,064	0	0	46,064
Deferred Revenue	13,045,398	1,254,399	614,063	14,913,860
<i>Total Liabilities</i>	<u>14,777,202</u>	<u>1,254,399</u>	<u>1,934,629</u>	<u>17,966,230</u>
Fund Balances				
Reserved for Encumbrances	23,099	0	61,108	84,207
Reserved for Property Taxes	1,601,896	153,981	75,726	1,831,603
Unreserved:				
Undesignated, Reported in:				
General Fund	(258,988)	0	0	(258,988)
Special Revenue Funds	0	0	24,942	24,942
Debt Service Fund	0	1,168,398	0	1,168,398
Capital Projects Funds	0	0	(988,072)	(988,072)
<i>Total Fund Balances</i>	<u>1,366,007</u>	<u>1,322,379</u>	<u>(826,296)</u>	<u>1,862,090</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 16,143,209</u>	<u>\$ 2,576,778</u>	<u>\$ 1,108,333</u>	<u>\$ 19,828,320</u>

Independence Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2008*

Total Governmental Fund Balances		\$ 1,862,090
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		27,308,879
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:		
Delinquent Property Taxes	\$ 2,390,926	
Intergovernmental	<u>297</u>	2,391,223
Long-term liabilities that are not due and payable in the current period and therefore, are not reported in the funds.		
Current Interest Serial Bonds	(4,575,000)	
Current Interest Term Bonds	(10,905,000)	
Capital Appreciation Bonds	(140,000)	
Accretion of Capital Appreciation Bonds	(157,169)	
Unamortized Bond Premium	(184,869)	
Notes Payable	<u>(500,000)</u>	(16,462,038)
Bond issuance costs will be amortized over the life of the bond on the statement of net assets.		181,309
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Vacations Benefits Payable	(94,330)	
Accrued Interest Payable	(59,740)	
Compensated Absences	<u>(1,434,914)</u>	<u>(1,588,984)</u>
Net Assets of Governmental Activities		<u><u>\$ 13,692,479</u></u>

Independence Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 13,391,280	\$ 1,328,363	\$ 595,128	\$ 15,314,771
Intergovernmental	2,218,919	157,723	377,964	2,754,606
Interest	96,236	0	2,095	98,331
Tuition and Fees	107,103	0	8,938	116,041
Extracurricular Activities	22,685	0	36,747	59,432
Rentals	51,739	0	0	51,739
Gifts and Donations	0	0	1,140	1,140
Charges for Services	0	0	201,918	201,918
Miscellaneous	163,255	0	80,839	244,094
<i>Total Revenues</i>	<u>16,051,217</u>	<u>1,486,086</u>	<u>1,304,769</u>	<u>18,842,072</u>
Expenditures				
Current:				
Instruction:				
Regular	6,830,149	0	145,934	6,976,083
Special	228,905	0	15,819	244,724
Other	462,381	0	0	462,381
Support Services:				
Pupils	703,077	0	2,281	705,358
Instructional Staff	1,357,576	0	76,241	1,433,817
Board of Education	204,039	0	0	204,039
Administration	965,149	0	584	965,733
Fiscal	443,095	928	260	444,283
Business	191,991	0	34,010	226,001
Operation and Maintenance of Plant	1,939,336	0	165,831	2,105,167
Pupil Transportation	898,495	0	2,900	901,395
Central	0	0	5,000	5,000
Operation of Non-Instructional Services	0	0	204,112	204,112
Food Service Operations	175	0	301,417	301,592
Extracurricular Activities	412,598	0	83,045	495,643
Capital Outlay	0	0	19,813	19,813
Debt Service:				
Principal	500,000	430,000	0	930,000
Interest and Fiscal Charges	26,253	712,220	0	738,473
<i>Total Expenditures</i>	<u>15,163,219</u>	<u>1,143,148</u>	<u>1,057,247</u>	<u>17,363,614</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>887,998</u>	<u>342,938</u>	<u>247,522</u>	<u>1,478,458</u>
Other Financing Sources (Uses)				
Transfers In	0	0	69,076	69,076
Transfers Out	(69,076)	0	0	(69,076)
<i>Total Other Financing Sources (Uses)</i>	<u>(69,076)</u>	<u>0</u>	<u>69,076</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	818,922	342,938	316,598	1,478,458
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>547,085</u>	<u>979,441</u>	<u>(1,142,894)</u>	<u>383,632</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,366,007</u>	<u>\$ 1,322,379</u>	<u>\$ (826,296)</u>	<u>\$ 1,862,090</u>

Independence Local School District
*Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds \$ 1,478,458

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

Governmental funds report capital outlays as expenditures;
however, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which
depreciation exceeded additions in the current period.

Capital Asset Additions	\$ 166,643	
Current Year Depreciation	(1,164,200)	(997,557)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the funds:

Property Taxes	544,364	
Intergovernmental	297	544,661

Repayment of bond and note principal are expenditures in the
governmental funds, but the repayment reduces long-term liabilities in the
statement of net assets:

Current Interest Serial Bonds	430,000	
Anticipation Note Principal	500,000	930,000

Some expenses reported in the statement of activities do not
use the current financial resources and therefore, are not reported
as expenditures in governmental funds.

Increase in Compensated Absences	(17,579)	
Increase in Vacation Benefits Payable	(8,902)	(26,481)

In statement of activities, interest is accrued and amortized on outstanding bonds and notes,
whereas in governmental funds, an interest expenditure is reported when due.

Decrease in Accrued Interest	1,965	
Current Year Bond Premium Amortization	8,796	
Current Year Bond Issuance Costs Amortization	(8,628)	
Current Year Bond Accretion	(56,275)	(54,142)

Change in Net Assets of Governmental Activities \$ 1,874,939

Independence Local School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 11,937,430	\$ 12,082,079	\$ 13,068,304	\$ 986,225
Intergovernmental	2,192,490	2,394,546	2,218,919	(175,627)
Interest	83,000	83,000	96,236	13,236
Tuition and Fees	78,175	82,432	107,103	24,671
Rentals	37,000	37,000	51,739	14,739
Extracurricular Activities	24,575	24,575	22,685	(1,890)
Miscellaneous	65,500	65,500	173,661	108,161
<i>Total Revenues</i>	<u>14,418,170</u>	<u>14,769,132</u>	<u>15,738,647</u>	<u>969,515</u>
Expenditures				
Current:				
Instruction:				
Regular	6,996,739	6,969,580	6,965,056	4,524
Special	238,402	248,395	229,919	18,476
Other	565,015	458,915	454,619	4,296
Support Services:				
Pupils	652,817	697,818	698,466	(648)
Instructional Staff	1,230,555	1,309,851	1,301,867	7,984
Board of Education	176,888	188,388	176,574	11,814
Administration	958,335	956,335	942,889	13,446
Fiscal	498,602	498,152	450,073	48,079
Business	258,018	249,238	206,015	43,223
Operation and Maintenance of Plant	1,688,278	2,087,670	1,865,050	222,620
Pupil Transportation	755,014	908,064	900,332	7,732
Operation of Non-Instructional Services	600	600	175	425
Extracurricular Activities	438,582	414,019	407,166	6,853
Debt Service:				
Principal	500,000	500,000	500,000	0
Interest	26,400	26,400	26,253	147
Total Expenditures	<u>14,984,245</u>	<u>15,513,425</u>	<u>15,124,454</u>	<u>388,971</u>
Excess of Revenues Over (Under) Expenditures	<u>(566,075)</u>	<u>(744,293)</u>	<u>614,193</u>	<u>1,358,486</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	250	250	0	(250)
Transfers Out	(50,000)	(83,160)	(69,893)	13,267
Advances Out	(15,000)	(15,000)	(15,000)	0
Other Financing Uses	(50,000)	(36,764)	0	36,764
<i>Total Other Financing Sources (Uses)</i>	<u>(114,750)</u>	<u>(134,674)</u>	<u>(84,893)</u>	<u>49,781</u>
<i>Net Change in Fund Balance</i>	(680,825)	(878,967)	529,300	1,408,267
<i>Fund Balance (Deficit) at Beginning of Year</i>	768,034	768,034	768,034	0
<i>Prior Year Encumbrances Appropriated</i>	133,054	133,054	133,054	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 220,263</u>	<u>\$ 22,121</u>	<u>\$ 1,430,388</u>	<u>\$ 1,408,267</u>

Independence Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private Purpose Trust Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,701	\$ 187,012
Liabilities		
Undistributed Monies	0	\$ 187,012
Due to Students	0	0
<i>Total Liabilities</i>	0	\$ 187,012
Net Assets		
Held in Trust for Scholarships	8,701	
<i>Total Net Assets</i>	\$ 8,701	

Independence Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2008

	Private Purpose Trust Scholarship
Additions	
Interest	\$ 204
Deductions	
Payments in Accordance with Trust Agreements	0
<i>Net Change in Net Assets</i>	204
<i>Net Assets Beginning of Year</i>	8,497
<i>Net Assets End of Year</i>	\$ 8,701

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 staffed by a total of 162 certified and non-certified employees who provide services to 1,124 students and other community members.

Reporting Entity

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

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

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District will apply Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, to any governmental activities provided they do not conflict with or contradict GASB pronouncements.

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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 whose use is restricted to a particular purpose.

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

C. Measurement Focus

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue within the basic financial statements.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2008, the School District’s investments were limited to investments in STAROhio, and an overnight repurchase agreement account. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$96,236, which includes \$37,383 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

F. Restricted Assets

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

G. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when consumed. Inventories of the food service special revenue fund are stated as cost, which is determined on a first-in, first-out basis. Inventory consists of donated food and purchased food held for resale and is expensed when consumed.

H. Deferred Charges

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

I. Bond Premium

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

J. Capital Assets

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

K. Interfund Balances

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

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-term Obligations

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

N. Interfund Activity

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

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, notes receivable, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Net Assets

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

S. Implementation of New Accounting Policies

For the year ended 2008, the School District has implemented GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”, GASB Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*”, GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”, and GASB Statement No. 50, “*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.*”

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*”, and GASB Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*”, to conform with requirements of GASB Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, and GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

T. Budgetary Data

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

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

Note 3 – Accountability and Compliance

A. Accountability

The following funds had GAAP deficit balances at June 30, 2008:

<u>Nonmajor special revenue funds:</u>	<u>Fund Balance</u>
Building fund	\$ 1,128,507
Food service fund	30,707
Uniform school supplies fund	775
District managed activities fund	8,861
Title VI fund	124

The building fund deficit is due to cash basis expenditures, in prior year(s), exceeding revenues and available resources. The other fund deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, rather than when accruals occur.

B. Compliance

The general fund and the permanent improvement fund had immaterial expenditures plus encumbrances in excess of appropriations plus prior year encumbrances, which is contrary to Ohio Revised Code Section 5705.41:

<u>Fund</u>	<u>Function</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
General fund	Support services-pupils	\$ 697,818	\$ 698,466	\$ 648
Permanent Improvement Fund	N/A	\$ 344,189	\$ 407,562	\$ 63,373

Contrary to Ohio Revised Code Section 5705.10(H), the building fund and Title IV fund had negative balances of \$683,508 and \$533, respectively, as of June 30, 2008, and contrary to the Ohio Revised Code Section 5705.391(A), the School District did not update their five year forecast to consider these negative balances.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 4 - Budgetary Basis of Accounting

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

	Net Change in Fund Balance	
GAAP Basis		\$ 818,922
Net Adjustment for Revenue Accruals		(311,753)
Net Adjustment for Expenditure Accruals		(29,536)
Adjustment for Encumbrances		52,484
Budget Basis		<u>\$ 530,117</u>

Note 5 - Deposits and Investments

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

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

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

Independence Local School District
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For the Fiscal Year Ended June 30, 2008

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

Undeposited Cash At year-end, the School District had no undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$1,828,348 and the bank balance was \$1,913,164, \$225,381 of which was covered by Federal depository insurance (FDIC).

Investments

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the School District. During the year, the School District's ending investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2008.

Credit Risk - The School District's investments during fiscal year 2008 included an overnight repurchase account, with a year ending balance of \$138,346. This account is not rated by Standard & Poor's or Moody's Investors Service, because underlying securities are exempt. The School District's investment at June 30, 2008 in STAROhio, is rated AAAM by Standard & Poor's, with a year ending balance of \$47,181.

Concentration of Credit Risk – The School District places no limit on the amount it may invest in any one issuer. At the end of fiscal year 2008, the investment in an overnight repurchase account was 75 percent of the total investments and STAROhio was 25 percent.

Custodial Credit Risk - for an investment is the risk that in the event of 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. Securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Note 6 – Property Taxes

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property tax revenue received in calendar year 2008 were levied after April 1, 2007, on the assessed valuation listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007 on the value as of December 31, 2006. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006 – 2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes measurable as of June 30, 2008 and for which there is an enforceable legal claim, and a delayed personal property settlement made in July. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred/unearned revenue, respectively.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The amount available as an advance at June 30, 2008 was \$1,601,896 in the general fund, \$153,981 in the bond retirement fund and \$75,726 in the permanent improvement fund.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	<u>2007 Second-Half Collections</u>		<u>2008 First-Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 485,685,070	90.45%	\$ 495,500,440	91.95%
Public Utility Personal	19,924,470	3.71%	11,074,010	2.06%
Tangible Personal Property	31,350,145	5.84%	32,265,242	5.99%
Total	<u>\$ 536,959,685</u>	<u>100.00%</u>	<u>\$ 538,839,692</u>	<u>100.00%</u>
Tax Rate per \$1,000 Of assessed valuation	\$ 31.50		\$ 31.50	

Note 7 - Receivables

Receivables at June 30, 2008, consisted of taxes, intergovernmental and interfund receivables (see Note 8). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds.

Note 8 - Interfund Balances

The account balances reported in the fund financial statements for “interfund receivable” and “interfund payable” as of June 30, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$708,040	\$0
Bond Retirement fund	497,000	0
Nonmajor governmental funds	52,000	1,257,040
Total Governmental Funds	<u>\$1,257,040</u>	<u>\$1,257,040</u>

Interfund receivables and payables can result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. Included within the balances, are loans made from the general fund (\$684,050) to the building fund in the amount of \$683,507, and \$533 to the Title IV Drug Free special revenue fund. These loans were made on an accrual basis to offset unencumbered negative cash balances reported as of the end of fiscal year 2008.

The building fund advanced \$104,000 to the permanent improvement fund in fiscal year 2003. The permanent improvement fund returned \$52,000 in fiscal year 2005; however, the remaining \$52,000 is still owed to the building fund as of June 30, 2008.

Independence Local School District
Notes to the Basic Financial Statements
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During the fiscal year, the School District issued a treasury investment in the amount of \$497,000, which was authorized under Chapter 133.29 of the Ohio Revised Code between the debt service and building capital projects fund. The purpose of this treasurer investment was to finance the costs of constructing, furnishing and equipping a new high school and renovating, improving, furnishing and equipping existing school facilities and their sites. This is a one year note maturing on June 18, 2009, with an interest rate of 2.00% per year paid at maturity.

Note 9 - Interfund Transfers

During the fiscal year the general fund made transfers to three nonmajor governmental funds in the amount of \$69,076. The transfers were to the food service, uniform school supplies and district managed activities funds in the amounts of \$35,450, \$5,326 and \$28,300 respectively. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$ 147,099	\$ 0	\$ 0	\$ 147,099
<i>Total Capital Assets, nondepreciated</i>	<u>147,099</u>	<u>0</u>	<u>0</u>	<u>147,099</u>
<i>Depreciable Capital Assets</i>				
Land Improvements	1,235,279	0	0	1,235,279
Building and Improvements	33,069,573	0	0	33,069,573
Furniture and Equipment	558,527	15,143	0	573,670
Vehicles	1,271,624	151,500	0	1,423,124
<i>Total Capital Assets, being depreciated</i>	<u>36,135,003</u>	<u>166,643</u>	<u>0</u>	<u>36,301,646</u>
Less Accumulated Depreciation				
Land Improvements	(378,140)	(51,948)	0	(430,088)
Building and Improvements	(6,446,511)	(973,450)	0	(7,419,961)
Furniture and Equipment	(233,959)	(45,180)	0	(279,139)
Vehicles	(917,056)	(93,622)	0	(1,010,678)
<i>Total Accumulated Depreciation</i>	<u>(7,975,666)</u>	<u>(1,164,200)</u>	<u>0</u>	<u>(9,139,866)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>28,159,337</u>	<u>(997,557)</u>	<u>0</u>	<u>27,161,780</u>
<i>Governmental Activities, Capital Assets, Net</i>	<u>\$ 28,306,436</u>	<u>\$ (997,557)</u>	<u>\$ 0</u>	<u>\$ 27,308,879</u>

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,041,193
Vocational	1,011
Support Services:	
Instructional Staff	16,662
Pupil Transportation	94,256
Operation of Food services	6,131
Extracurricular Activities	4,947
Total Depreciation expense	<u>\$ 1,164,200</u>

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, these risks were covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

B. Workers' Compensation

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

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

Independence Local School District
Notes to the Basic Financial Statements
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C. Employee Health Benefits

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

Note 12 - Employee Benefits

A. Compensated Absences

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

B. Life Insurance

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

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the years ended June 30, 2008, 2007 and 2006 were \$194,810, \$220,481 and \$225,880 respectively; 60% has been contributed for fiscal year 2008, and 100% for the fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$914,516, \$888,320 and \$874,337 respectively; 85% has been contributed for fiscal year 2008, and 100% for the fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$2,944 made by the District and \$14,985 made by the plan members.

Note 14 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("STRS Ohio"), and to retired non-certified employees and their dependents through the School Employees Retirement System ("SERS"). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The School District's contributions for fiscal years ended June 30, 2008, 2007 and 2006 were \$70,347, \$68,332 and \$67,257 respectively.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2008, the balance in the Fund was \$3.7 billion. For the fiscal year ended June 30, 2008, net health care costs paid by STRS Ohio were \$288,878,000 and STRS Ohio had 126,506 eligible benefit recipients.

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 was \$93.50; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was .66 percent. The School District's contributions for the year ended June 30, 2008 were \$14,037, which equaled the required contributions for the year.

Independence Local School District
Notes to the Basic Financial Statements
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ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest information available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$88,898, \$73,200 and \$70,217 respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 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 2008, the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Note 15 - Long Term Obligations

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

	Original Issue Date	Interest Rate	Original Issue Amount	Date of Maturity
<i><u>General Obligation Bonds:</u></i>				
School Improvement	2003	2.00 - 5.25%	\$17,860,000	December 1, 2030
Capital Appreciation	2003	14.4980%	140,000	December 1, 2011
Notes Payable	2005	3.52%	1,500,000	December 1, 2008

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Notes Payable – During fiscal year 2005, the School District issued \$1,500,000 in notes in anticipation of the collection of proceeds from an emergency tax levy, in excess of the ten-mill limitation, which was approved by the electors of the School District on February 8, 2005. Collections from this levy will occur during the calendar years 2006 through 2008.

A schedule of changes in bonds and other long-term obligations of the School District during fiscal year 2008 follows:

	Amounts Outstanding 6/30/07	Additions	Reductions	Amounts Outstanding 6/30/08	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
School Improvement					
Current Interest Serial Bonds	\$ 5,005,000	\$ 0	\$ 430,000	\$ 4,575,000	\$ 440,000
Current Interest Terms Bonds	10,905,000	0	0	10,905,000	0
Capital Appreciation Bonds	140,000	0	0	140,000	0
Issuance Premiums	193,665	0	8,796	184,869	0
Accretion on Capital Appreciation Bonds	100,894	56,275	0	157,169	0
<i>Total General Obligation Bonds</i>	<u>16,344,559</u>	<u>56,275</u>	<u>438,796</u>	<u>15,962,038</u>	<u>440,000</u>
<i>Other Long-term Liabilities:</i>					
Notes Payable	1,000,000	0	500,000	500,000	500,000
Compensated Absences	1,417,335	26,322	8,743	1,434,914	82,314
<i>Total Other Long-term Liabilities</i>	<u>2,417,335</u>	<u>26,322</u>	<u>508,743</u>	<u>1,934,914</u>	<u>582,314</u>
<i>Total Governmental Long-term Obligations</i>	<u>\$ 18,761,894</u>	<u>\$ 82,597</u>	<u>\$ 947,539</u>	<u>\$ 17,896,952</u>	<u>\$ 1,022,314</u>

Compensated absences will be paid from the fund in which the employee is paid, which in prior years has primarily been the general fund. General obligation debt will be paid from the bond retirement debt service fund. Notes payable will be retired from the general fund with property settlements resulting from an emergency tax levy passed by the electors of the School District.

School Improvement General Obligation Bonds – On January 15, 2003, the School District issued \$18,000,000 in voted general obligation bonds for the purpose of constructing, furnishing and equipping a new high school and renovating, improving, furnishing and equipping existing school facilities and their sites. The balance of the construction funds is to be contributed by the City of Independence in return for the City's joint use of certain facilities. The bond issue included current interest and capital appreciation bonds in the amount of \$17,200,000 and \$140,000, respectively. The bonds were issued at a premium of \$233,248. The bonds will be retired with a voted property tax levy from the bond retirement debt service fund.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2018 (with the balance of \$650,000 to be paid at stated maturity on December 1, 2019) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2018	\$615,000

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2020 (with the balance of \$715,000 to be paid at stated maturity on December 1, 2021) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2020	\$680,000

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, of each of the years 2022 through 2025 (with the balance of \$910,000 to be paid at stated maturity on December 1, 2026) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2022	\$755,000
2023	790,000
2024	830,000
2025	870,000

The term bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, of each of the years 2027 through 2029 (with the balance of \$1,095,000 to be paid at stated maturity on December 1, 2030) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2027	\$ 950,000
2028	1,000,000
2029	1,045,000

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The current interest bonds maturing after December 1 in 2013 are subject to optional redemption, in whole or in part of any date in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000 at the option of the School District on or after December 1, 2013 at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date.

The capital appreciation bonds will mature on December 1, 2011. The maturity amount of the bonds is \$485,000. In fiscal year 2008, \$56,275 was accreted.

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2008, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 440,000	\$ 700,575	\$ 0	\$ 0	\$ 0	\$ 0
2010	450,000	686,430	0	0	0	0
2011	470,000	670,565	0	0	0	0
2012	0	662,575	0	0	140,000	345,000
2013	485,000	652,875	0	0	0	0
2014 - 2018	2,730,000	2,950,741	0	0	0	0
2019 - 2023	0		3,415,000	2,228,219	0	0
2024 - 2028	0	0	4,350,000	1,281,313	0	0
2029 - 2031	0	0	3,140,000	228,237	0	0
Totals	<u>\$ 4,575,000</u>	<u>\$ 6,323,761</u>	<u>\$ 10,905,000</u>	<u>\$ 3,737,769</u>	<u>\$ 140,000</u>	<u>\$ 345,000</u>

Note 16 - Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by sixteen school districts. The primary function of LNOCA is to provide data services to the sixteen school districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the LNOCA 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 LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software package used. Independence Local School District paid \$17,403 to LNOCA during fiscal year 2008. Financial information can be obtained by contacting LNOCA, 5700 West Canal Road, Valley View, Ohio 44125.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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. The School District made a contribution of \$95.00 to Cuyahoga Valley Career Center during fiscal year 2008. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville Ohio 44141.

Ohio Schools' Council The Ohio Schools' Council (OSC) is a jointly governed organization among ninety-one 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 Council'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 2008, the School District paid \$800 to the Council as a program fee. Financial information can be obtained by contacting David A. Cottrell, Executive Secretary/Treasurer, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council'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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 17 – Public Entity Risk Pools

A. Risk Sharing Pool

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

B. Insurance Purchasing Pool

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

C. Liability Insurance

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

Professional liability is protected by the Indiana 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 Indiana Insurance Company and hold a \$250 and \$500 deductible for comprehensive and collision, respectively. Automobile liability has a \$1,000,000 combined single limit of liability.

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 18 – Contingencies

A. 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

The School District is party to a legal proceeding. The School District is of the opinion that ultimate disposition of claims will not have a material effect on the financial condition of the School District. See Note 21 (Subsequent Event) for additional information.

Note 19 - Set Asides

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

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

	Textbook Instructional Materials Reserve	Capital Improvements Reserve
Set-Aside Cash Balance as of June 30, 2007	\$ 0	\$ 0
Set-Aside Carryover Balance as of June 30, 2007	(1,819,390)	0
Current Year Set-aside Requirement	177,472	177,472
Qualifying Disbursements	(531,752)	(459,659)
Total	<u>\$ (2,173,670)</u>	<u>\$ (282,187)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (2,173,670)</u>	<u>\$ 0</u>

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

Note 20 – Contractual Commitments

On May 8, 2008 the Board authorized contractual commitments in the amount of \$219,833 with two vendors for the primary school window replacement project. As of the end of fiscal year 2008 no work has been completed and no payments have been made on these contracts.

Note 21 – Subsequent Event

On December 17, 2009, a final pre-trial was held and a settlement was reached whereby the School District agreed to pay \$343,333 to a contractor in regards to a school construction project. Management does not deem this to be material to the financial statements; therefore, a liability has not been recorded in the basic financial statements.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 28, 2009

To the Board of Education
Independence Local School District
7733 Stone Road
Independence, Ohio 44131

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independence Local School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Independence Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-003.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiency described above is not a material weakness. We also noted certain internal control matters that we reported to the District's management in a separate letter dated December 28, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002. We also noted certain immaterial instances that we have reported to management of Independence Local School District in a separate letter dated December 28, 2009.

The School District's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School District's responses and accordingly we express no opinion on them.

This report is intended solely for the information and use of the Board of Education and management, and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Negative Cash Balances – Noncompliance Finding

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations. A review of the School District’s general ledger disclosed the following funds had negative cash fund balances as of June 30, 2008:

<u>Fund</u>	<u>Amount</u>
Building	(\$683,508)
Title IV	(\$533)

We recommend the School District review the cash fund balances on a regular basis and determine the reasons for any negative balances and how they are going to be addressed.

Management’s Response: The balances will be reviewed at the close of every month. The deficit in the Building Fund is being addressed.

FINDING NUMBER 2008-002

Adjusting for Negative Cash Balances in Five-Year Forecast – Noncompliance Finding

Ohio Rev. Code § 5705.391 (A) requires that school districts prepare a five year forecast of revenues and expenditures as part of the spending plans. Most of the guidance on how to prepare these projections is found in Ohio Admin. Code Section 3301-92-04. The plan must be submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31 of any fiscal year. The revised 5 year projection must be filed with the Department of Education between April 1 and May 31 of each fiscal year (Ohio Admin. Code Section 3301-92-04 (F))

When forecasting general fund monies, consideration should also be given to significant negative cash fund balances in a fund or operation which may require general fund subsidization if it is not capable of generating sufficient operating revenues to off-set its expenditures. Furthermore, effective utilization of the five year projections requires that it be updated as assumptions change and/or when the current year actual amounts differ significantly from the estimated amounts.

A review of the 2008 activity in the Building Fund disclosed it had a beginning cash balance of negative (\$683,508), with no revenues or expenditures and a negative cash balance of (\$683,508) at June 30, 2008, (see finding 2008-001). The amount of the deficit did not exceed the School District’s total General Fund unencumbered cash balance.

The forecast was not updated to reflect the reduction in the estimated June 30, 2008, cash balance, which was primarily attributable to actual tax revenues being less than estimated tax revenues in prior years and no anticipated revenues in the future to cover the balance.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2008-002 (Continued)

These weaknesses resulted in an inaccurate and/or incomplete forecast being utilized by management, the Board of Education and the Ohio Department of Education. This hampers the School District's ability to manage General Fund monies and reduces the effectiveness of oversight monitoring.

The School District has not developed a strategic plan to stabilize its cash shortfall in the Building Fund. This could impact future general fund resources and the School District's availability to meet future obligations as they come due.

We recommend the School District review Ohio Admin. Code Sections 3301-92-04 (F) and 3301-92-05 (G), as well as Auditor of State Audit Bulletin 98-015, for guidance on the proper preparation and practices relating to the Five-Year Forecast. We further recommend the School District revise its five-year projections to incorporate the negative cash balance in the Building Fund by reducing the overall estimated ending cash balance for all forecasted years. The School District should also develop a corrective action plan to address the negative balance in the Building Fund and to stabilize spending so as to prevent future negative cash fund balances.

Management's Response: The next forecast will reflect that as well as additional monies will be looked at for the next levy ballot, which will be in November 2010 to correct the deficit.

FINDING NUMBER 2008-003

Reconciliation of Bank Accounts – Significant Deficiency

During review of various journal entries posted by the School District, we noted an entry posted on June 30, 2008, for \$4,706. After reviewing the journal entry with supporting documentation and inquiring with management, it was determined that the School District was unable to reconcile their bank balance to the accounting system balance and in order to do so, this entry was posted.

Based on this information we reviewed all bank reconciliations for fiscal year 2008 and noted the June reconciliation was the only monthly reconciliation in which the bank balance agreed to the book balance. Reconciliation occurred because the transaction from above was recorded to the accounting system. Our review also indicated that for two months the book balance was higher than the bank balance, ranging from \$65 to \$139 and that for nine months the book balance was lower than the bank balance with a range of \$19,895 to \$62,338. The Treasurer was unable to substantiate why the system would not reconcile to the bank.

This weakness indicates that not all transactions are being recorded in the accounting system and because we have determined that the bank and system balance did not reconcile throughout fiscal year 2008, it appears that errors and/or irregularities are not being detected in a timely manner.

We recommend the School District identify the sources of the adjustments made each month to reconcile the accounting records to the bank balance. The School District should consider monitoring bank activity weekly to post automatic deposits and withdrawals to avoid the habit of posting a "plug" entry to balance at the end of the month.

Management's Response: The problem has been trying to discover a clear cut-off date on a monthly basis with the on line fee payments and lunch payments. These payments are now on-line. The district will attempt to enter the receipts on a weekly basis and then compare against the bank statements.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-001	Ohio Rev. Code § 5705.41(D)(1), transactions not certified at time the commitment was incurred	No	Partially Corrected; will be reported in management letter
2007-002	Ohio Rev. Code § 5705.41(B), expenditures plus encumbrances exceeded appropriations	No	Partially Corrected; will be reported in management letter
2007-003	Ohio Rev. Code § 5705.10(H), negative fund balance indicates money from one fund used to cover expenses of another fund	No	Not Corrected; Repeated as Finding 2008-001
2007-004	Ohio Rev. Code § 5705.39, appropriations exceeded resources	Yes	
2007-005	Ohio Rev. Code § 5705.391 (A), not updating five year forecast in consideration of negative fund balances	No	Not Corrected; Repeated as Finding 2008-002
2007-006	Bank balance and book balance do not reconcile on a monthly basis	No	Not Corrected; Repeated as Finding 2008-003



Mary Taylor, CPA
Auditor of State

INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 30, 2010