



Mary Taylor, CPA
Auditor of State

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	20
Notes to the Basic Financial Statements	21
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Schedule of Findings	51
Schedule of Prior Audit Findings	59

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 Independence Local School District, Cuyahoga County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 21 to the basic financial statements, the District experienced financial difficulties at June 30, 2007. The difficulties have resulted in a deficit fund balance in the Building Fund which exceeds the total General Fund balance. Management's corrective action plan is described in Note 21 to the financial statements. Also as described in Note 3, for the year ended June 30, 2006, the District increased its capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 21, 2008

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

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, 2007. 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 2007 are as follows:

- ◆ In total, net assets of governmental activities increased \$721,641 which represents a 6.5 percent increase from 2006.
- ◆ Revenues for governmental activities totaled \$17,463,866 in 2007. Of this total, \$16,680,132 or 96 percent consisted of general revenues while program revenues accounted for the balance of \$783,734 or 4 percent.
- ◆ Total assets of governmental activities decreased by \$275,956 which primarily includes cash and cash equivalent decrease of \$215,391, taxes receivable increase of \$964,283, and net capital asset decrease of \$1,013,486.
- ◆ Program expenses totaled \$16,742,225. Instructional expenses made up \$8,923,218 or 53 percent of this total while support services accounted for \$6,095,004 or 36 percent. Other expenses, \$1,724,003 rounded out the remaining 11 percent.
- ◆ Long term bonds and notes (net) decreased from \$18,507,092 to \$17,344,559 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, 2007
(Unaudited)

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 2007?" The *Statement of Net Assets* and the *Statement of Activities* answers 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 debt service 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, 2007
(Unaudited)

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 2007 compared to 2006:

Table 1
Net Assets
Governmental Activities

	2007	Restated 2006
Assets		
Current and Other Assets	\$17,090,521	\$16,352,991
Capital Assets, Net	28,306,436	29,319,922
<i>Total Assets</i>	45,396,957	45,672,913
Liabilities		
Current Liabilities	14,817,523	14,382,890
Long-term Liabilities		
Due within One Year	1,035,045	740,796
Due within More Than One Year	17,726,849	19,453,328
<i>Total Liabilities</i>	33,579,417	34,577,014
Net Assets		
Invested in Capital Assets, net of Related Debt	12,252,708	12,596,026
Restricted For:		
Debt Service	1,075,773	955,393
Capital Outlay	16,473	129,030
Other Purpose	84,807	56,560
Unrestricted	(1,612,221)	(2,641,110)
<i>Total Net Assets</i>	\$11,817,540	\$11,095,899

Total assets decreased by \$275,956 and was made up of several factors. Of the total decrease, \$1,013,486 can be attributed directly to capital assets, with depreciation exceeding the current year capital asset additions, as well as a decrease of \$215,391 in equity in pooled cash and cash equivalents. However, the overall asset decrease was offset by an increase in taxes receivable of \$964,283. This increase was primarily due to an increase in delinquencies reported by the County.

Total liabilities decreased by \$997,597. A combination of increases and decreases contributed to this overall increase. Within this total decrease was a decrease in long-term liabilities of \$1,432,230. This decrease was due primarily to debt retirement. Offsetting this decrease in total liabilities, was an increase in deferred revenue. This resulted from an increase in taxes receivable. 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 \$721,641.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2007 and 2006.

Table 2
Changes in Net Assets
Governmental Activities

	2007	2006
Program Revenues		
Charges for Services	\$ 435,411	\$ 387,506
Operating Grants	348,323	1,015,211
General Revenue		
Property Taxes	14,480,161	12,794,488
Grants and Entitlements	2,038,758	1,863,393
Investments	89,827	57,550
Miscellaneous	71,386	294,180
<i>Total Revenues</i>	17,463,866	16,412,328
Program Expenses		
Instruction	8,923,218	7,567,256
Support Services:		
Pupils	513,850	604,480
Instructional Staff	1,371,889	1,353,490
Board of Education	184,455	126,299
Administration	952,399	973,149
Fiscal	439,603	460,171
Business	201,137	198,752
Operation and Maintenance of Plant	1,665,602	1,895,616
Pupil Transportation	761,069	703,961
Central	5,000	5,000
Operation of Non-Instructional Services	253,048	244,312
Food Service Operations	299,457	355,653
Extracurricular Activities	389,368	711,632
Interest and Fiscal Charges	782,130	947,068
<i>Total Program Expenses</i>	16,742,225	16,146,839
 <i>Change in Net Assets</i>	 721,641	 265,489
 <i>Net Assets Beginning of Year</i>	 11,095,899	 15,672,888
<i>Restatement due to Change in Capital Assets (See Note 3)</i>	0	(4,842,478)
<i>Net Assets End of Year</i>	\$ 11,817,540	\$ 11,095,899

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

Governmental Activities

The majority of revenues supporting governmental activities are general revenue. General revenue totaled \$16,680,132 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 \$783,734 or only 4 percent of total revenue.

The most significant change in the overall increase in revenues of \$1,051,538 is the property taxes which make up 83 percent of revenues for governmental activities for the School District in fiscal year 2007. Operating grants, contributions and interest decreased \$666,888 from fiscal year 2006. The primary reason for this decrease was the result of grant proceeds received in fiscal year 2006 related to last year's construction of a 55,000 sq. ft. facilities building (with the City of Independence) used for athletic events and resident use.

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. The School District's revenue growth is mostly dependent upon property tax increases and new construction.

Instructional expenses comprise 53 percent of governmental program expenses. Additional supporting services, including program expenses of pupils, instructional staff and operation and maintenance of plant, encompassed an additional 36 percent. The remaining 11 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>2007</u>
Instruction	\$ 8,923,218
Support Services	6,095,004
Other	<u>1,724,003</u>
 Total	 <u><u>\$ 16,742,225</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 supported by tax revenue and unrestricted State entitlements.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Governmental Activities				
Instruction:				
Regular	\$8,266,592	\$8,248,201	\$6,873,052	\$6,842,381
Special	229,358	201,934	232,624	204,710
Other	427,268	427,268	461,580	461,580
Support Services:				
Pupil	513,850	513,850	604,480	604,480
Instructional Staff	1,371,889	1,360,189	1,353,490	1,340,840
Board of Education	184,455	184,455	126,299	126,299
Administration	952,399	952,399	973,149	973,149
Fiscal	439,603	439,603	460,171	460,171
Business	201,137	201,137	198,752	198,752
Operation and Maintenance of Plant	1,665,602	1,610,725	1,895,616	1,873,791
Pupil Transportation	761,069	761,069	703,961	330,400
Central	5,000	0	5,000	0
Operation of Non-Instructional Services	253,048	(5,725)	244,312	19,515
Food Service Operations	299,457	31,265	355,653	80,348
Extracurricular Activities	389,368	249,991	711,632	280,638
Interest and Fiscal Charges	782,130	782,130	947,068	947,068
Total	\$16,742,225	\$15,958,491	\$16,146,839	\$14,744,122

The dependence upon the general revenues for governmental activities is apparent as 95 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 \$16,939,132 and expenditures of \$17,175,569. The net change in fund balance for the year was most significant in the non-major permanent improvement fund, with a decrease of \$142,413. The general fund reported a net decrease in fund balance of \$123,112.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

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 2007, the School District amended its general fund budget numerous times. The most significant change was to increase the budget for debt service payments on the outstanding tax anticipation notes. 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 \$13,765,710, \$360,456 below the original budget estimates of \$14,126,166.

Total actual expenditures, including other financing uses, on the budget basis (cash outlays plus transfers out) were \$14,308,449, \$124,489 more than actual revenues and other financing sources. The School District's unencumbered ending balance totaled \$768,034, which was above the final budgeted amount of \$452,983.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the School District had \$28,306,436 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2007 values compared to 2006. More detailed information is presented in Note 11 of the notes to the basic financial statements.

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

	2007	Restated 2006
Land	\$ 147,099	\$ 147,099
Land Improvements	857,139	909,086
Building Improvements	26,623,062	27,596,512
Furniture and Equipment	324,568	361,914
Vehicles	354,568	305,311
Total Capital Assets	\$ 28,306,436	\$ 29,319,922

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2007
(Unaudited)

During the year the School District had an inventory performed and increased their capitalization threshold to \$5,000. These changes account for most of the decrease in capital assets.

For fiscal year 2007, 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 2007, this amounted to \$169,172 for each set aside. For fiscal year 2007, 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, 2007, the School District has \$16,344,559 in net bonds outstanding for construction of a new high school and to convert the current high school into a middle school. The School District also had \$1,000,000 in notes outstanding. More detailed information about the School District's outstanding debt is presented in Note 16 of the notes to the basic financial statements.

School District Outlook

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

The financial future of the School District is not without its challenges though. The challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Due to a flat-line economy, the School District has placed a three-year emergency renewal operating levy on the ballot. Thus management must diligently plan expenses 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 several 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 jzelenka@independence.k12.oh.us.

Basic Financial Statements

Independence Local School District
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 610,665
Taxes Receivable	16,278,784
Intergovernmental Receivable	5,052
Deferred Charges	189,937
Inventory Held for Resale	6,083
Non-Depreciable Capital Assets	147,099
Depreciable Capital Assets, Net	28,159,337
<i>Total Assets</i>	45,396,957
Liabilities	
Accounts Payable	63,766
Accrued Wages	1,098,700
Intergovernmental Payable	495,362
Accrued Interest Payable	61,705
Vacation Benefits Payable	85,428
Matured Compensated Absences Payable	31,799
Deferred Revenue	12,980,763
Long -Term Liabilities:	
Due Within One Year	1,035,045
Due In More Than One Year	17,726,849
<i>Total Liabilities</i>	33,579,417
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,252,708
Restricted for:	
Debt Service	1,075,773
Capital Outlay	16,473
Other Purposes	84,807
Unrestricted	(1,612,221)
<i>Total Net Assets</i>	\$ 11,817,540

Independence Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest	
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 8,266,592	\$ 16,360	\$ 2,031	\$ (8,248,201)
Special	229,358	9,520	17,904	(201,934)
Other	427,268	0	0	(427,268)
Support Services:				
Pupils	513,850	0	0	(513,850)
Instructional Staff	1,371,889	0	11,700	(1,360,189)
Board of Education	184,455	0	0	(184,455)
Administration	952,399	0	0	(952,399)
Fiscal	439,603	0	0	(439,603)
Business	201,137	0	0	(201,137)
Operation and Maintenance of Plant	1,665,602	54,877	0	(1,610,725)
Central	5,000	0	5,000	0
Pupil Transportation	761,069	0	0	(761,069)
Operation of Non-Instructional Services	253,048	0	258,773	5,725
Food Service Operations	299,457	231,606	36,586	(31,265)
Extracurricular Activities	389,368	123,048	16,329	(249,991)
Interest and Fiscal Charges	782,130	0	0	(782,130)
<i>Total Governmental Activities</i>	<u>\$ 16,742,225</u>	<u>\$ 435,411</u>	<u>\$ 348,323</u>	<u>\$ (15,958,491)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	12,635,179
Debt Service	1,376,960
Capital Outlay	468,022
Grants and Entitlements not Restricted to Specific Programs	2,038,758
Investment Earnings	89,827
Miscellaneous	71,386
<i>Total General Revenues</i>	<u>16,680,132</u>
<i>Change in Net Assets</i>	721,641
<i>Net Assets Beginning of Year (Restated, See Note 3)</i>	11,095,899
<i>Net Assets End of Year</i>	<u>\$ 11,817,540</u>

Independence Local School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Bond Retirement	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1	\$ 528,651	\$ 82,013	\$ 610,665
Taxes Receivable	14,344,027	1,402,368	532,389	16,278,784
Intergovernmental Receivable	0	0	5,052	5,052
Interfund Receivable	909,533	326,568	52,000	1,288,101
Inventory Held for Resale	0	0	6,083	6,083
<i>Total Assets</i>	<u>15,253,561</u>	<u>2,257,587</u>	<u>677,537</u>	<u>18,188,685</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	58,952	0	4,814	63,766
Accrued Wages	1,073,561	0	25,139	1,098,700
Interfund Payable	0	0	1,288,101	1,288,101
Intergovernmental Payable	477,057	0	18,305	495,362
Matured Compensated Absences Payable	31,799	0	0	31,799
Deferred Revenue	13,065,107	1,278,146	484,072	14,827,325
<i>Total Liabilities</i>	<u>14,706,476</u>	<u>1,278,146</u>	<u>1,820,431</u>	<u>17,805,053</u>
Fund Balances				
Reserved for Encumbrances	117,947	0	7,027	124,974
Reserved for Property Taxes	1,278,920	124,222	48,317	1,451,459
Unreserved:				
Undesignated, Reported in:				
General Fund	(849,782)	0	0	(849,782)
Special Revenue Funds	0	0	25,861	25,861
Debt Service Fund	0	855,219	0	855,219
Capital Projects Funds	0	0	(1,224,099)	(1,224,099)
<i>Total Fund Balances</i>	<u>547,085</u>	<u>979,441</u>	<u>(1,142,894)</u>	<u>383,632</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 15,253,561</u>	<u>\$ 2,257,587</u>	<u>\$ 677,537</u>	<u>\$ 18,188,685</u>

Independence Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2007*

Total Governmental Fund Balances		\$ 383,632
<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.		28,306,436
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:		
Delinquent Property Taxes		1,846,562
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	\$ (5,005,000)	
Current Interest Term Bonds	(10,905,000)	
Capital Appreciation Bonds	(140,000)	
Accretion of Capital Appreciation Bonds	(100,894)	
Unamortized Bond Premium	(193,665)	
Notes Payable	<u>(1,000,000)</u>	(17,344,559)
Bond issuance costs will be amortized over the life of the bond on the statement of net assets.		189,937
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	\$ (85,428)	
Accrued Interest Payable	(61,705)	
Compensated Absences	<u>(1,417,335)</u>	<u>(1,564,468)</u>
Net Assets of Governmental Activities		<u><u>\$ 11,817,540</u></u>

Independence Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 12,170,259	\$ 1,345,252	\$ 438,166	\$ 13,953,677
Intergovernmental	1,868,693	135,456	403,154	2,407,303
Interest	85,571	0	4,257	89,828
Tuition and Fees	79,060	0	9,602	88,662
Extracurricular Activities	25,324	0	33,308	58,632
Rentals	54,877	0	0	54,877
Gifts and Donations	0	0	1,634	1,634
Charges for Services	0	0	214,384	214,384
Miscellaneous	33,927	0	36,208	70,135
<i>Total Revenues</i>	<u>14,317,711</u>	<u>1,480,708</u>	<u>1,140,713</u>	<u>16,939,132</u>
Expenditures				
Current:				
Instruction:				
Regular	7,054,940	0	214,130	7,269,070
Special	212,842	0	14,915	227,757
Other	426,257	0	0	426,257
Support Services:				
Pupils	581,451	0	0	581,451
Instructional Staff	1,254,075	0	125,085	1,379,160
Board of Education	184,455	0	0	184,455
Administration	965,385	0	0	965,385
Fiscal	482,919	0	92	483,011
Business	170,619	0	30,518	201,137
Operation and Maintenance of Plant	1,417,790	0	187,696	1,605,486
Pupil Transportation	691,002	0	127,000	818,002
Central	0	0	5,000	5,000
Operation of Non-Instructional Services	0	0	251,089	251,089
Food Service Operations	525	0	294,607	295,132
Extracurricular Activities	400,089	0	71,160	471,249
Capital Outlay	0	0	72,298	72,298
Debt Service:				
Principal	500,000	670,000	0	1,170,000
Interest and Fiscal Charges	44,000	724,630	0	768,630
<i>Total Expenditures</i>	<u>14,386,349</u>	<u>1,394,630</u>	<u>1,393,590</u>	<u>17,174,569</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(68,638)</u>	<u>86,078</u>	<u>(252,877)</u>	<u>(235,437)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	251	0	0	251
Transfers In	0	0	54,725	54,725
Transfers Out	(54,725)	0	0	(54,725)
<i>Total Other Financing Sources (Uses)</i>	<u>(54,474)</u>	<u>0</u>	<u>54,725</u>	<u>251</u>
<i>Net Change in Fund Balance</i>	(123,112)	86,078	(198,152)	(235,186)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>670,197</u>	<u>893,363</u>	<u>(944,742)</u>	<u>618,818</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 547,085</u>	<u>\$ 979,441</u>	<u>\$ (1,142,894)</u>	<u>\$ 383,632</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, 2007*

Net Change in Fund Balances - Total Governmental Funds	\$	(235,186)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded additions in the current period.		
Capital Asset Additions	\$ 134,925	
Current Year Depreciation	<u>(1,148,411)</u>	(1,013,486)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property Taxes	\$ 526,483	
Intergovernmental	<u>(3,000)</u>	523,483
 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	\$ 670,000	
Anticipation Note Principal	<u>500,000</u>	1,170,000
 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.		
Decrease in Compensated Absences	\$ 269,697	
Decrease in Vacation Benefits Payable	<u>20,633</u>	290,330
 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	\$ 2,595	
Current Year Bond Premium Amortization	8,796	
Current Year Bond Issuance Costs Amortization	(8,628)	
Current Year Bond Accretion	<u>(16,263)</u>	<u>(13,500)</u>
 Change in Net Assets of Governmental Activities	 \$	 <u>721,641</u>

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, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 12,012,446	\$ 11,651,990	\$ 12,036,257	\$ 384,267
Intergovernmental	1,871,270	1,871,270	1,868,693	(2,577)
Interest	57,000	57,000	85,571	28,571
Tuition and Fees	72,650	72,650	79,060	6,410
Rentals	20,000	20,000	54,877	34,877
Extracurricular Activities	31,300	31,300	25,324	(5,976)
Gifts and Donations	1,500	1,500	0	(1,500)
Miscellaneous	60,000	60,000	33,927	(26,073)
<i>Total Revenues</i>	<u>14,126,166</u>	<u>13,765,710</u>	<u>14,183,709</u>	<u>417,999</u>
Expenditures				
Current:				
Instruction:				
Regular	6,736,725	6,751,610	6,923,258	(171,648)
Special	195,711	202,181	210,809	(8,628)
Other	522,500	398,484	419,740	(21,256)
Support Services:				
Pupils	680,107	639,808	592,574	47,234
Instructional Staff	1,116,328	1,110,974	1,229,057	(118,083)
Board of Education	129,730	129,731	196,117	(66,386)
Administration	970,224	970,224	948,301	21,923
Fiscal	468,234	468,234	483,855	(15,621)
Business	158,952	200,928	198,490	2,438
Operation and Maintenance of Plant	1,576,151	1,587,225	1,438,879	148,346
Pupil Transportation	715,816	701,817	669,109	32,708
Operation of Non-Instructional Services	200	200	525	(325)
Extracurricular Activities	398,949	398,949	399,010	(61)
Debt Service:				
Principal	44,000	500,000	500,000	0
Interest	0	44,000	44,000	0
Total Expenditures	<u>13,713,627</u>	<u>14,104,365</u>	<u>14,253,724</u>	<u>(149,359)</u>
Excess of Revenues Over (Under) Expenditures	<u>412,539</u>	<u>(338,655)</u>	<u>(70,015)</u>	<u>268,640</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	250	251	1
Transfers Out	(50,000)	(55,000)	(54,725)	275
Advances Out	(15,000)	(10,000)	0	10,000
Other Financing Uses	(25,000)	(36,135)	0	36,135
<i>Total Other Financing Sources (Uses)</i>	<u>(90,000)</u>	<u>(100,885)</u>	<u>(54,474)</u>	<u>46,411</u>
<i>Net Change in Fund Balance</i>	322,539	(439,540)	(124,489)	315,051
<i>Fund Balance (Deficit) at Beginning of Year</i>	840,880	840,880	840,880	0
Prior Year Encumbrances Appropriated	51,643	51,643	51,643	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,215,062</u>	<u>\$ 452,983</u>	<u>\$ 768,034</u>	<u>\$ 315,051</u>

Independence Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,497	\$ 168,512
Liabilities		
Undistributed Monies	0	169
Due to Students	0	168,343
<i>Total Liabilities</i>	0	\$ 168,512
Net Assets		
Held in Trust for Scholarships	8,497	
<i>Total Net Assets</i>	\$ 8,497	

Independence Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust Scholarship
Additions	
Interest	\$ 415
Deductions	
Payments in Accordance with Trust Agreements	300
<i>Net Change in Net Assets</i>	115
<i>Net Assets Beginning of Year</i>	8,382
<i>Net Assets End of Year</i>	\$ 8,497

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 1,123 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 17 and 18 to the basic financial statements.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 7). 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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue within the basic financial statements.

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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 2007, the School District's investments were limited to investments in STAROhio and an overnight sweep account. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Certificates of deposit and repurchase agreements 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, 2007.

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 2007 amounted to \$85,571, which includes \$45,255 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.

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 20 for additional information regarding set asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

H. 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.

I. 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.

J. 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. Bond premiums are presented as an increase of the face amount of the bonds payable.

K. 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 five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

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

L. 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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

M. 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.

N. 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.

O. 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.

P. 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 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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Q. 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.

R. 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.

S. 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.

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 function level within each fund. The treasurer has been given the authority to allocate Board appropriations to the object levels within each function.

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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 – Restatement of Net Assets

Capital assets have been restated based on revised information obtained from an inventory performed during the year and an increase of the School District’s capitalization policy to \$5,000. As a result of this change the beginning net assets as of June 30, 2006 have been restated as follows:

	As previously Reported June 30, 2006	Adjustment	As Restated June 30, 2006
Capital assets, cost	\$ 34,162,400	\$ (4,842,478)	\$ 29,319,922
Total net assets	15,938,377	(4,842,478)	\$ 11,095,899

Note 4 – Accountability and Compliance

A. Accountability

The following funds had GAAP deficit fund balances at June 30, 2007:

	<u>Fund Balance</u>
<i><u>Nonmajor special revenue funds:</u></i>	
Building fund	\$1,128,507
Permanent improvement fund	45,016
Food service fund	19,560
District managed activities fund	7,514
Auxiliary services fund	17,975

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.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

B. Compliance

At June 30, 2007 the following funds had deficit fund cash balances contrary to Ohio Revised Code Section 5705.10 and the exemption under Ohio Revised Code 3315.20 did not apply.

Non-Major Funds	
Building	\$ 1,180,508
Auxiliary Services	5,257

Management is aware of these deficits and is analyzing the fund operations to determine the appropriate action to alleviate each fund's deficit.

The general fund had 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	Instruction-regular	\$ 6,751,610	\$ 6,923,258	\$ 171,648
General fund	Instruction-special	202,181	210,809	8,628
General fund	Instruction-other	398,484	419,740	21,256
General fund	Support services-instructional staff	1,110,974	1,229,057	118,083
General fund	Support services-board of education	129,731	196,117	66,386
General fund	Support services-fiscal	468,234	483,855	15,621
General fund	Operation of non-instructional services	200	525	325
General fund	Extracurricular activities	398,949	399,010	61

Note 5 - 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).

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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	\$ (123,112)
Net Adjustment for Revenue Accruals	(134,002)
Net Adjustment for Expenditure Accruals	(427)
Adjustment for Encumbrances	133,052
Budget Basis	<u>\$ (124,489)</u>

Note 6 - Deposits and Investments

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

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

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

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

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 \$600 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$6,584 and the bank balance was \$160,162, all 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, 2007.

Credit Risk - The School District's investments during fiscal year 2007 included an overnight repurchase account, with a year ending balance of \$448,723. 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, 2007 in STAROhio, is rated AAAM by Standard & Poor's, with a year ending balance of \$331,767.

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 2007, the investment in an overnight repurchase account was 60 percent of the total investments and STAROhio was 40 percent.

Note 7 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property tax revenue received in calendar year 2007 were levied after April 1, 2006, on the assessed valuation listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006 on the value as of December 31, 2005. 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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 District due to the phasing out of the tax. In calendar years 2006-2010, the 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, 2007, are available to finance fiscal year 2007 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, 2007 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.

The amount available as an advance at June 30, 2007 was \$1,278,920 in the general fund, \$124,222 in the bond retirement debt service fund and \$48,317 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second - Half Collections		2007 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 464,538,960	88.36%	\$ 485,685,070	90.45%
Public Utility Personal	20,241,990	3.85%	19,924,470	3.71%
Tangible Personal Property	40,970,389	7.79%	31,350,145	5.84%
Total	\$ 525,751,339	100.00%	\$ 536,959,685	100.00%
 Tax Rate per \$1,000 of assessed valuation	 \$ 31.50		 \$ 31.50	

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 8 - Receivables

Receivables at June 30, 2007, consisted of taxes, intergovernmental and interfund receivables (see Note 9). 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 9 - Interfund Balances

The account balances reported in the fund financial statements for “interfund receivable” and “interfund payable” as of June 30, 2007 are as follows:

Fund	Interfund Receivable	Interfund Payable
General fund	\$909,533	\$0
Bond Retirement fund	326,568	0
Nonmajor governmental funds	52,000	1,288,101
Total Governmental Funds	\$1,288,101	\$1,288,101

Interfund receivables and payables resulted 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 (\$900,533) and the bond retirement fund (\$326,568) to the auxiliary services special revenue fund in the amount of \$5,259, the building fund in the amount of \$1,180,508, and \$41,334 to the permanent improvement fund. These loans were made on a GAAP basis to offset unencumbered negative cash balances reported as of the end of fiscal year 2007. As of June 30, 2007, all interfund payables outstanding are anticipated to be repaid in fiscal year 2008.

Note 10 - Interfund Transfers

During the fiscal year the general fund made transfers to three nonmajor governmental funds in the amount of \$53,725. The transfers were to the food service, uniform school supplies and district managed activities funds in the amounts of \$18,725, \$14,500, and \$20,500 respectively. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 147,099	\$ 0	\$ 0	\$ 147,099
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,235,279	0	0	1,235,279
Buildings and Improvements	33,069,573	0	0	33,069,573
Furniture and Equipment	552,602	5,925	0	558,527
Vehicles	1,142,624	129,000	0	1,271,624
<i>Total Capital Assets, being depreciated</i>	36,000,078	134,925	0	36,135,003
Less Accumulated Depreciation:				
Land Improvements	(326,193)	(51,947)	0	(378,140)
Buildings and Improvements	(5,473,061)	(973,450)	0	(6,446,511)
Furniture and Equipment	(190,688)	(43,271)	0	(233,959)
Vehicles	(837,313)	(79,743)	0	(917,056)
<i>Total Accumulated Depreciation</i>	(6,827,255)	(1,148,411)	0	(7,975,666)
<i>Total Capital Assets being depreciated, net</i>	29,172,823	(1,013,486)	0	28,159,337
<i>Governmental Activities Capital Assets, Net</i>	\$ 29,319,922	\$ (1,013,486)	\$ 0	\$ 28,306,436

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Depreciation expense was charged to governmental functions as follows:

<i>Governmental Activities:</i>	
Instruction:	
Regular	\$ 1,041,192
Vocational	1,011
Support Services:	
Instructional Staff	14,557
Pupil Transportation	80,573
Food Service Operations	6,131
Extracurricular Activities	<u>4,947</u>
Total Governmental Activities	<u>\$ 1,148,411</u>

Note 12 - 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 2007, 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 18). 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.

C. Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 18) 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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 13 - 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 14 - 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 pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 School District 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 2007, 10.68 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 a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$233,048, \$223,553 and \$223,745 respectively. 57 percent has been

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

contributed for fiscal year 2007, and 100 percent for fiscal years 2006 and 2005. \$99,507 represents the unpaid contributions for fiscal year 2007, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 Defined Benefit 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 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal ended June 30, 2007, 2006, and 2005 were \$888,320, \$874,337 and \$1,097,256 respectively. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,555 made by the School District and \$14,227 made by the plan members. 81 percent has been contributed for fiscal year 2007, 100 percent for fiscal years 2006 and 2005. \$169,680 represents the unpaid contribution for fiscal year 2007, and is recorded as a liability within the respective funds.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

C. Social Security System

Effective July 1, 1991, employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/ State Teachers Retirement System of Ohio. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 15 - 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-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored 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. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Ohio Board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$68,332 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. The health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer rate,

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

provides for maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$75,625. The SERS surcharge is capped at 2 percent of the total qualifying payroll.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2007, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has approximately 59,492 participants eligible to receive benefits.

Note 16 - Long Term Obligations

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A schedule of changes in bonds and other long-term obligations of the School District during fiscal year 2007 follows:

	Amounts Outstanding 6/30/06	Additions	Reductions	Amounts Outstanding 6/30/07	Amounts Due in One Year
<i>General Obligation Bonds:</i>					
School Improvement					
Current Interest Serial Bonds	\$ 5,675,000	\$ 0	\$ 670,000	\$ 5,005,000	\$ 430,000
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	202,461	0	8,796	193,665	0
Accretion on Capital Appreciation Bonds	84,631	16,263	0	100,894	0
<i>Total General Obligation Bonds</i>	<u>17,007,092</u>	<u>16,263</u>	<u>678,796</u>	<u>16,344,559</u>	<u>430,000</u>
<i>Other Long-term Liabilities:</i>					
Notes Payable	1,500,000	0	500,000	1,000,000	500,000
Compensated Absences	1,687,032	0	269,697	1,417,335	105,045
<i>Total Other Long-term Liabilities</i>	<u>3,187,032</u>	<u>0</u>	<u>769,697</u>	<u>2,417,335</u>	<u>605,045</u>
<i>Total Governmental Long-term Obligations</i>	<u>\$ 20,194,124</u>	<u>\$ 16,263</u>	<u>\$ 1,448,493</u>	<u>\$ 18,761,894</u>	<u>\$ 1,035,045</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.

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:

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

<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.

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 2007, \$16,263 was accreted.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	430,000	712,220	0	0	0	0
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	0	0	0	140,000	345,000
2013 - 2017	2,625,000	3,059,644	0	0	0	0
2018 - 2022	590,000	543,972	2,660,000	1,854,512	0	0
2023 - 2027	0	0	4,155,000	1,483,306	0	0
2028 - 2031	0	0	4,090,000	399,950	0	0
Totals	<u>\$ 5,005,000</u>	<u>\$ 6,373,406</u>	<u>\$ 10,905,000</u>	<u>\$ 3,737,768</u>	<u>\$ 140,000</u>	<u>\$ 345,000</u>

Note 17 - 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 \$16,349 to LNOCA during fiscal year 2007. Financial information can be obtained by contacting LNOCA, 5700 West Canal Road, Valley View, Ohio 44125.

Cuyahoga Valley Career Center The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School District did not make a contribution to Cuyahoga Valley Career Center during fiscal year 2007. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville Ohio 44141.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 2007, the School District paid \$1,470 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.

Note 18 – Public Entity Risk Pools

A. Risk Sharing Pool

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

Note 19 – 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, 2007.

B. Litigation

The School District is party to legal proceedings. The School District management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 20 - 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, 2006	\$ 0	\$ 0
Set-Aside Carryover Balance as of June 30, 2006	(1,423,589)	0
Current Year Set-aside Requirement	169,172	169,172
Qualifying Offsets: Permanent Improvement Levy	0	(317,437)
Qualifying Disbursements	(564,973)	0
Total	<u>(\$1,819,390)</u>	<u>(\$148,265)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$1,819,390)</u>	<u>\$0</u>

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 offsets 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 21 – Subsequent Event

The School District has experienced a breach of contract with the general contractor of its' newly constructed high school facility, resulting in deficit spending in the 004 Building Fund at the close of June 30, 2007. This deficit was the result of expenditures made in order to complete the project. To alleviate the deficit in the Building Fund, the School District is developing a strategy to alleviate that deficit. This includes, but is not limited to, the issuance of Anticipation Notes in fiscal year 2008 in anticipation of issuance of long term bonds. These long term bonds will be purchased by the School District's accumulated excess resources within the Bond Retirement Debt Service Fund. The proceeds of which will be paid into the 004 Building Fund to assist with the elimination of the deficit in that fund. In addition, a lump sum payment of delinquent tax revenue, upon receipt, will be transferred into the 004 Building Fund. The remaining balance will be then covered by transfers from the General Fund, which should show (in dollars) some significant growth in fiscal year 2008.

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 21, 2008, wherein we noted the Building Fund has accumulated a significant deficit. Our report also noted the District changed its capital asset capitalization threshold. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-006.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also 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 July 21, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-005. We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated July 21, 2008.

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

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

July 21, 2008

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-001

Proper Encumbering – Noncompliance Finding

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty one out of sixty transactions tested (35%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-001 (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify that funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

We will be working toward better compliance with marking "then and now " purchases (while still striving to eliminate the need for them) as well as having blanket and super blanket purchase orders follow all time constraints as well as dollar amounts.

FINDING NUMBER 2007-002

Expenditures Plus Encumbrances Exceeding Appropriations – Noncompliance Finding

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated. **Ohio Rev. Code § 5705.41(D)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

As of June 30, 2007, the following functions of the general fund had expenditures plus encumbrances that exceeded total appropriations at the legal level of control:

Fund/Account	Appropriations	Expenditures Plus Encumbrances	Variance
General Fund:			
Other Instruction	\$398,484	\$419,740	(\$21,256)
Support Services – Instructional Staff	1,110,974	1,229,057	(118,083)
Support Services – Board of Education	129,731	196,117	(66,386)

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-002 (Continued)

In addition, at February 28, 2007 the following funds / accounts had expenditures plus encumbrances that exceeded appropriations at the legal level of control:

Fund/Account	Appropriations	Expenditures Plus Encumbrances	Variance
General Fund:			
Support Services – Board of Education	\$129,730	\$168,130	(\$38,400)
Support Services – Business	158,952	188,055	(29,103)
Operation of Non-Instructional Services - Food Service	200	350	(150)
Debt Service - Repayment of Debt	44,000	526,400	(482,400)
Building Fund:			
Facilities Acquisition and Construction Services – Architecture and Engineering	557	38,872	(38,315)
Facilities Acquisition and Construction Services – Building Improvement	183,412	214,848	(31,436)
IDEA, Part B Fund - Special Education, Education of Handicapped Children Fund – Community Services	0	15,116	(15,116)
Title V Fund - Innovative Education Programs Fund – Community Services	0	1,020	(1,020)

We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances. Further, on a regular basis, the District should compare appropriations to expenditures plus encumbrances, at the legal level of budgetary control, in all funds which are legally required to be budgeted and adjust the appropriations as necessary.

Official's Response:

We will comply with appropriate expenditures compared to appropriation levels. In addition, we have had a Board resolution passed changing the legal level of budgetary control to the fund level other than the General Fund which remains at fund and function.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-003

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 District’s general ledger disclosed the following funds had significant negative cash fund balances as of June 30, 2007:

<u>Fund</u>	<u>Amount</u>
Auxiliary Services	(\$5,259)
Building	(\$1,180,508)

We recommend the 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.

Official’s Response:

We will comply with all fund balances remaining positive. As you may know, we have cleared up the negative balance in the Auxiliary Services fund (401) and have cleared up nearly half of the negative balance in the 004 Building Fund. We placed \$497,000 into that fund at the end of Fiscal year 2008 so that the fund is now minus \$683,507.70 and based on our plan shall be clear by the end of Fiscal Year 2010. We will not wait for the lawsuit pending with Blaze Corp. to clear the fund.

FINDING NUMBER 2007-004

Appropriations Exceed Estimated Resources and a “Does Not Exceed” Certificate was Not Obtained – Noncompliance Finding

Ohio Rev. Code § 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. Further, no appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

As of June 30, 2007, the Building Fund had appropriations of \$69,808 and total estimated resources of (\$1,110,517). Also, at February 28, 2007, the following funds had total current year appropriations that exceeded total estimated resources:

Fund	Total Estimated Resources	Total Appropriations	Variance
Permanent Improvement	\$476,719	\$612,432	(\$135,713)
Building	(1,110,517)	91,706	(1,202,223)
Auxiliary Services	189,505	225,825	(36,320)
Limited English Proficiency	826	1,608	(782)

In addition, the District did not obtain the required county auditor’s “Does Not Exceed Certificate” for all five amendment appropriations and the final appropriation resolutions passed in fiscal year 2007. These weaknesses may result in the District entering into obligations it does not have the financial resources for.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-004 (Continued)

We recommend the District compare appropriations to certified resources on a regular basis and make the necessary revisions to avoid future negative variances. Furthermore, the District should also obtain the required "Does Not Exceed Certificate" from the County Auditor for all appropriation documents approved by the Board. The certificate is a control mechanism which should ensure that appropriations do not exceed the total estimated resources.

Official's Response:

It is our intent to comply with all appropriations not exceeding Estimated Resources. In addition, there will be no appropriations to the Building Fund. We did not receive a Does Not Exceed certificate although it was requested. The new budget analyst seems better at complying with that.

FINDING NUMBER 2007-005

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)).

School districts must update projections if the revenue assumption or revenue estimates used as a basis for a "412" certificate differ from the existing five year projection (Ohio Admin. Code Section 3301-92-05 (G)).

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 2007 activity in the Building Fund disclosed it had a beginning cash balance of negative (\$1,018,254), no revenues, expenditures of \$162,254 and a negative cash balance of (\$1,180,508) at June 30, 2007 (see finding 2007-003). Furthermore, the amount of the deficit exceeded the District's total General Fund unencumbered cash balance of \$768,046. We also noted the 2007 forecast for the general fund projected tax revenues which were ten percent less than actual collections.

Despite these significant factors, neither the District's original 5-year forecast (October 2006) nor the May 2007 revision addressed it. Furthermore, the forecast was not updated to reflect the reduction in the estimated June 30, 2007 cash balance which was primarily attributable to actual tax revenues being less than estimated tax revenues.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-005 (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 District's ability to manage General Fund monies and reduces the effectiveness of oversight monitoring. Furthermore, when factoring in the negative Building Fund cash balance and the anticipated overall reduction of the cash balance due to actual current year tax revenue collections falling short of the estimate, it appears the District may experience fiscal distress late in fiscal 2008 or during fiscal year 2009. Despite the significance of these factors, the 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 District's availability to meet future obligations as they come due

We recommend the 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 District revise its 5-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 District should also revise its 5-year projections whenever actual revenues or expenditures differ significantly from the amounts estimated. Finally, the District should 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.

Official's Response:

The forecast will be updated as required. The Building Fund (004) does not get reflected in the Five Year Forecast as that is only relevant to the General Fund (001)

FINDING NUMBER 2007-006

Reconciliation of Bank Accounts - Significant Deficiency

During a review of the District's bank reconciliation as of June 30, 2007, we noted the District had an outstanding check in the amount of \$34,585 included in the list of outstanding checks. When requesting support for the outstanding check we were informed by the Treasurer's Office that it was not an outstanding check but a posting error instead and that a negative receipt was also posted to the treasury reconciliation for \$30,007 in order to reconcile the book balance to the bank balance. The net effect of these transactions was the bank balance was \$4,578 over the book balance.

Based on this information we reviewed all bank reconciliations for fiscal year 2007 and noted the June reconciliation was the only monthly reconciliation in which the bank balance agreed to the book balance which was due to the above postings. The review also indicated that for five months the book balance was higher than the bank balance, ranging from \$.02 to \$314 and that for six months the book balance was lower than the bank balance with a range of \$79 to \$7,926.

We also reviewed the bank reconciliations after June 30, 2007 and noted the District was unable to reconcile book to bank each month for the period July 1, 2007 through January 31, 2008. The July 2007 reconciliation reflected that the bank balance was lower than the book balance by \$64 and in January 2008 the bank balance exceeded the book balance by \$58,443. The Treasurer was unable to substantiate why the book has not been reconciled to the bank but he stated that he is always off in his reconciliations.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
SCHEDULE OF FINDINGS**

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

FINDING NUMBER 2007-006 (Continued)

These weaknesses result in accounting records that are not being reconciled and may result in errors and/or irregularities not being detected in a timely manner.

We recommend the District identify the sources of the adjustments made each month to reconcile the accounting records. The District should consider performing a proof of cash each month.

Official's Response:

The error in the purchase order for \$34,585 is what caused the problem in reconciling. Only through working with LNOCA was the Accounts Payable coordinator able to reconcile that correctly. Reconciliations of both Payroll and Warrants do occur each month.

This page intentionally left blank.

**INDEPENDENCE LOCAL SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Contrary to Ohio Rev. Code § 5705.10(H) various funds had negative cash fund balances.	No	Not Corrected, repeated as Finding 2007-003
2006-002	Contrary to Ohio Rev. Code § 5705.41(B) various funds had expenditures plus encumbrances in excess of appropriations.	No	Not corrected and repeated as Finding 2007-002



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
OCTOBER 16, 2008**