



Rea & associates *a brighter way*

Independence Local School District Cuyahoga County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Independence Local School District, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

April 8, 2016

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Cuyahoga County, Ohio
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January 29, 2016

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio, as of June 30, 2014, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Rea & Associates, Inc.

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The discussion and analysis of the Independence Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Net position decreased \$2,393,665, which represents a 12 percent decrease from 2013.
- Capital assets decreased \$1,083,777 during fiscal year 2014.
- During the year, outstanding debt decreased from \$14,564,989 to \$13,764,989 due to principal payments made by the School District.
- In fiscal year 2014, the School District reported an Extraordinary Item of \$5.3 million due to a major tax payer's delinquent real estate taxes being deemed uncollectible. See Note 2-O for further explanation.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and bond retirement fund.

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

Reporting the School District's Fiduciary Responsibilities

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Position

	Governmental Activities	
	2014	2013
Assets		
Current and Other Assets	\$ 26,067,117	\$ 25,800,231
Capital Assets	21,116,709	22,200,486
<i>Total Assets</i>	<u>47,183,826</u>	<u>48,000,717</u>
Deferred Outflows of Resources	<u>685,308</u>	<u>730,202</u>
Liabilities		
Other Liabilities	1,596,041	1,578,673
Long-Term Liabilities	16,803,882	17,432,340
<i>Total Liabilities</i>	<u>18,399,923</u>	<u>19,011,013</u>
Deferred Inflows of Resources	<u>12,663,046</u>	<u>10,520,076</u>
Net Position		
Net Investment in Capital Assets	8,064,999	8,632,047
Restricted	3,433,587	2,804,740
Unrestricted	5,307,579	7,763,043
<i>Total Net Position</i>	<u>\$ 16,806,165</u>	<u>\$ 19,199,830</u>

At year end, capital assets represented 45 percent of total assets. Capital assets include, land, land improvements, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets was \$8,064,999 at June 30, 2014. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$3,433,587 or 20 percent represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$5,307,579 may be used to meet the government's ongoing obligations to students and creditors.

Current and other assets increased by \$266,886 during fiscal year 2014. There was a \$4.0 million decrease in property taxes receivable which was caused by an extraordinary item decrease of \$5.3 million in delinquent property taxes which was offset by an increase in the tax rate on assessed valuations. During fiscal year 2014, the Tax Commissioner of Ohio determined a major taxpayer was tax exempt in Cuyahoga County. As a result, this taxpayer's delinquent real estate taxes have been deemed uncollectable and this is being reported as an extraordinary item. See Note 2-O. There was also a \$2.5 million increase in cash and cash equivalents as receipts outpaced expenditures in the general fund.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Table 2 shows the changes in net position for fiscal year 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 505,784	\$ 472,221
Operating Grants	432,896	433,592
<i>Total Program Revenues</i>	<u>938,680</u>	<u>905,813</u>
<i>General Revenues:</i>		
Property Taxes	14,931,495	15,286,672
Grants and Entitlements Not Restricted	2,633,591	2,508,123
Payments in Lieu of Taxes	2,208,600	2,157,690
Other	195,013	170,144
<i>Total General Revenues</i>	<u>19,968,699</u>	<u>20,122,629</u>
<i>Total Revenues</i>	<u>20,907,379</u>	<u>21,028,442</u>
Program Expenses		
<i>Instruction:</i>		
Regular	8,493,473	8,143,521
Special	1,377,947	950,621
Vocational	506	1,011
Student Intervention Services	20,554	27,726
Other	130,188	162,297
<i>Support Services:</i>		
Pupils	779,674	899,232
Instructional Staff	584,578	1,307,171
Board of Education	176,359	172,677
Administration	1,056,631	1,078,126
Fiscal	602,136	510,981
Business	149,408	189,642
Operation and Maintenance of Plant	1,621,833	1,712,939
Pupil Transportation	924,170	908,572
Central	39,952	0
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	300,409	316,996
Community Services	200,884	318,278
Other	10,130	0
Extracurricular Activities	605,326	567,925
<i>Debt Service:</i>		
Interest and Fiscal Charges	903,874	531,046
<i>Total Expenses</i>	<u>17,978,032</u>	<u>17,798,761</u>
<i>Increase (Decrease) Before Extraordinary Item</i>	2,929,347	3,229,681
Extraordinary Item (See Note 2-O)	(5,323,012)	0
<i>Increase (Decrease) in Net Position</i>	(2,393,665)	3,229,681
<i>Net Position at Beginning of Year</i>	<u>19,199,830</u>	<u>15,970,149</u>
<i>Net Position at End of Year</i>	<u>\$ 16,806,165</u>	<u>\$ 19,199,830</u>

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Fluctuations between regular and special instruction and instructional staff support services expenses can be attributed to the re-coding of expenses in accordance with the revised expenditure standards approved by the State Board of Education on December 22, 2012. The expenditure standards revisions addressed operating expenditures and classroom instruction versus non-classroom expenditures.

There was a \$372,828 increase in interest and fiscal charges expense during 2014. The primary reason for this increase is the implementation of GASB 65, which requires all issuance costs to be expensed rather than amortized. \$250,112 of debt issuance costs from prior year was expensed in fiscal year 2014.

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

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2014	2013	2014	2013
Instruction:				
Regular	\$ 8,493,473	\$ 8,143,521	\$ 8,320,005	\$ 8,065,136
Special	1,377,947	950,621	1,277,863	849,068
Vocational	506	1,011	506	1,011
Student Intervention Services	20,554	27,726	20,554	27,726
Other	130,188	162,297	130,188	162,297
Support Services:				
Pupils	779,674	899,232	779,674	899,232
Instructional Staff	584,578	1,307,171	579,178	1,307,171
Board of Education	176,359	172,677	176,359	172,677
Administration	1,056,631	1,078,126	1,056,631	1,078,126
Fiscal	602,136	510,981	602,136	510,981
Business	149,408	189,642	149,408	189,642
Operation and Maintenance of Plant	1,621,833	1,712,939	1,621,833	1,712,939
Pupil Transportation	924,170	908,572	924,170	908,572
Central	39,952	0	39,952	0
Operation of Non-Instructional Services:				
Food Service Operations	300,409	316,996	60,801	74,986
Community Services	200,884	318,278	(141,547)	(9,914)
Other	10,130	0	10,130	0
Extracurricular Activities	605,326	567,925	527,637	412,252
Debt Service:				
Interest and Fiscal Charges	903,874	531,046	903,874	531,046
Total Expenses	\$ 17,978,032	\$ 17,798,761	\$ 17,039,352	\$ 16,892,948

The dependence upon general revenues for governmental activities is apparent. Over 95 percent of governmental activities are supported through taxes and other general revenues; such revenues are 95 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Governmental Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,035,485 and expenditures of \$17,256,784 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2014 was an increase of \$2,438,968. Revenue and expenditures were consistent with prior year and revenues continued to outpace expenditures in fiscal year 2014.

The fund balance of the bond retirement fund increased by \$191,313, due to the timing of property tax revenue compared to debt payments.

General Fund Budgeting Highlights

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

During the course of fiscal year 2014, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue was \$17,106,723, which is higher than the final budget basis revenue by \$529,651. Most of this difference is due to an underestimation of property tax revenue. The final budget basis revenue of \$16,577,072 was \$767,818 higher than the original budget basis revenue of \$15,809,254. These primarily increased as the School District anticipated additional property and other local tax revenue.

Final expenditure appropriations of \$15,427,578 were \$592,858 higher than the actual expenditures of \$14,834,720, as cost savings were recognized for instruction and student support services throughout the year. Final appropriations of \$15,427,578 were \$169,061 lower than original appropriations as the School District saw a decrease in salary and benefits expense for regular instruction.

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the School District had \$21,116,709 invested in capital assets. Table 4 shows fiscal year 2014 balances compared with 2013.

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

	Governmental Activities	
	2014	2013
Land	\$ 147,099	\$ 147,099
Land Improvements	496,054	573,650
Buildings and Building Improvements	19,905,884	20,835,716
Furniture and Fixtures	284,967	295,787
Vehicles	282,705	348,234
<i>Totals</i>	\$ 21,116,709	\$ 22,200,486

The \$1,083,777 decrease in capital assets was attributable to current year depreciation and disposals exceeding additional purchases. See Note 10 for more information about the capital assets of the School District.

Debt

At June 30, 2014, the School District had \$13,764,989 in bonds outstanding. See Note 15 for additional details. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2014	2013
2011 School Improvement Serial and Capital Appreciation Bonds	\$ 7,504,993	7,629,993
2012 School Improvement Serial, Term and Capital Appreciation Bonds	5,164,996	5,759,996
Energy Conservation Bonds	1,095,000	1,175,000
<i>Total</i>	\$ 13,764,989	\$ 14,564,989

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Current Issues

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

The financial future of the School District improved between the end of fiscal year 2014 and 2013 when the general fund unencumbered cash balance increased to \$6,409,717 from \$4,251,651. This was a result of various staffing, benefit and budget adjustments and an increase in real estate collections in fiscal year 2014. The School District's goal is to maintain positive, unreserved fund balances for an extended period of time. To meet this goal, revenue must be equal to, or greater than expenditures each year for the extended period and the unreserved balance ending in the extended period, must be at least zero. Our immediate goals are to end fiscal year 2015 with a positive balance, and end future fiscal years with positive balances, by continuing to reduce expenditure costs and requesting revenue growth to retain positions and programs.

Contacting the School District's Financial Management

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

Independence Local School District
Cuyahoga County, Ohio
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 9,204,033
Receivables:	
Intergovernmental	57,472
Property Taxes	14,910,101
Revenue in Lieu of Taxes	1,895,511
Nondepreciable Capital Assets	147,099
Depreciable Capital Assets (Net)	20,969,610
<i>Total Assets</i>	47,183,826
 Deferred Outflows of Resources	
Deferred Charges on Refunding	685,308
 Liabilities	
Accounts Payable	80,895
Accrued Wages and Benefits	1,137,190
Intergovernmental Payable	194,987
Accrued Vacation Leave Payable	63,257
Matured Compensated Absences Payable	90,960
Accrued Interest Payable	28,752
Long Term Liabilities:	
Due Within One Year	791,419
Due In More Than One Year	16,012,463
<i>Total Liabilities</i>	18,399,923
 Deferred Inflows of Resources	
Property Taxes Levied for the Next Year	10,767,535
Payment in Lieu of Taxes for the Next Year	1,895,511
<i>Total Deferred Inflows of Resources</i>	12,663,046
 Net Position	
Net Investment in Capital Assets	8,064,999
Restricted For:	
Capital Outlay	655,562
Debt Service	2,679,877
Other Purposes	98,148
Unrestricted	5,307,579
<i>Total Net Position</i>	\$ 16,806,165

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 8,493,473	\$ 173,398	\$ 70	\$ (8,320,005)
Special	1,377,947	0	100,084	(1,277,863)
Vocational	506	0	0	(506)
Student Intervention Services	20,554	0	0	(20,554)
Other	130,188	0	0	(130,188)
Support Services:				
Pupils	779,674	0	0	(779,674)
Instructional Staff	584,578	0	5,400	(579,178)
Board of Education	176,359	0	0	(176,359)
Administration	1,056,631	0	0	(1,056,631)
Fiscal	602,136	0	0	(602,136)
Business	149,408	0	0	(149,408)
Operation and Maintenance of Plant	1,621,833	0	0	(1,621,833)
Pupil Transportation	924,170	0	0	(924,170)
Central	39,952	0	0	(39,952)
Operation of Non-Instructional Services:				
Food Service Operations	300,409	190,909	48,699	(60,801)
Community Services	200,884	63,866	278,565	141,547
Other	10,130	0	0	(10,130)
Extracurricular Activities	605,326	77,611	78	(527,637)
Debt Service:				
Interest and Fiscal Charges	903,874	0	0	(903,874)
Total	<u>\$ 17,978,032</u>	<u>\$ 505,784</u>	<u>\$ 432,896</u>	<u>(17,039,352)</u>

General Revenues

Property Taxes Levied for:

General Purposes	13,382,012
Debt Service	1,018,832
Capital Outlay	530,651
Grants and Entitlements Not Restricted to Specific Programs	2,633,591
Payments in Lieu of Taxes	2,208,600
Gain on Sale of Capital Assets	2,478
Investment Earnings	19,779
Miscellaneous	172,756
Total General Revenues	<u>19,968,699</u>

Extraordinary Item (See Note 2-O)

	<u>(5,323,012)</u>
Total General Revenues and Extraordinary Item	<u>14,645,687</u>

Change in Net Position (2,393,665)

Net Position Beginning of Year 19,199,830

Net Position End of Year \$ 16,806,165

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 6,506,362	\$ 2,075,267	\$ 622,404	\$ 9,204,033
Receivables:				
Interfund	0	347,000	0	347,000
Intergovernmental	57,472	0	0	57,472
Property Taxes	13,365,181	1,015,838	529,082	14,910,101
Revenue in Lieu of Taxes	1,699,558	128,846	67,107	1,895,511
<i>Total Assets</i>	<u>\$ 21,628,573</u>	<u>\$ 3,566,951</u>	<u>\$ 1,218,593</u>	<u>\$ 26,414,117</u>
Liabilities				
Accounts Payable	\$ 70,692	\$ 0	\$ 10,203	\$ 80,895
Accrued Wages and Benefits	1,107,679	0	29,511	1,137,190
Intergovernmental Payable	188,435	0	6,552	194,987
Matured Compensated Absences Payable	90,960	0	0	90,960
Interfund Payable	0	0	347,000	347,000
<i>Total Liabilities</i>	<u>1,457,766</u>	<u>0</u>	<u>393,266</u>	<u>1,851,032</u>
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	9,658,125	729,476	379,934	10,767,535
Unavailable Revenue	1,004,629	76,565	39,877	1,121,071
Payment in Lieu of Taxes for the Next Year	1,699,558	128,846	67,107	1,895,511
<i>Total Deferred Inflows of Resources</i>	<u>12,362,312</u>	<u>934,887</u>	<u>486,918</u>	<u>13,784,117</u>
Fund Balances				
Restricted	0	2,632,064	713,833	3,345,897
Assigned	59,008	0	0	59,008
Unassigned	7,749,487	0	(375,424)	7,374,063
<i>Total Fund Balances</i>	<u>7,808,495</u>	<u>2,632,064</u>	<u>338,409</u>	<u>10,778,968</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 21,628,573</u>	<u>\$ 3,566,951</u>	<u>\$ 1,218,593</u>	<u>\$ 26,414,117</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2014

Total Governmental Fund Balances		\$ 10,778,968
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,116,709
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. Property Taxes		1,121,071
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(28,752)
In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		685,308
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(13,185,000)	
Capital Appreciation Bonds	(579,989)	
Bond Premium	(1,042,386)	
Accretion of Interest - Capital Appreciation Bonds	(610,490)	
Capital Lease Obligation	(24,643)	
Vacations Payable	(63,257)	
Compensated Absences	(1,361,374)	
	(16,867,139)	
 <i>Net Position of Governmental Activities</i>		 <u>\$ 16,806,165</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 12,614,248	\$ 962,751	\$ 501,443	\$ 14,078,442
Intergovernmental	2,410,207	141,260	514,945	3,066,412
Investment Income	15,820	3,959	0	19,779
Tuition and Fees	173,398	0	0	173,398
Extracurricular Activities	37,154	0	40,457	77,611
Rentals	63,866	0	0	63,866
Charges for Services	1,445	0	189,464	190,909
Contributions and Donations	0	0	78	78
Payments in Lieu of Taxes	1,984,772	147,175	76,653	2,208,600
Miscellaneous	134,724	73	21,593	156,390
<i>Total Revenues</i>	<u>17,435,634</u>	<u>1,255,218</u>	<u>1,344,633</u>	<u>20,035,485</u>
Expenditures				
Current:				
Instruction:				
Regular	7,136,199	0	281,011	7,417,210
Special	1,278,309	0	109,174	1,387,483
Student Intervention Services	20,554	0	0	20,554
Other	130,188	0	0	130,188
Support Services:				
Pupils	788,880	0	2,900	791,780
Instructional Staff	632,576	0	6,060	638,636
Board of Education	176,359	0	0	176,359
Administration	1,104,714	0	0	1,104,714
Fiscal	579,663	17,227	8,972	605,862
Business	149,408	0	0	149,408
Operation and Maintenance of Plant	1,497,987	0	150,639	1,648,626
Pupil Transportation	817,103	0	38,219	855,322
Central	39,952	0	0	39,952
Extracurricular Activities	488,045	0	98,647	586,692
Operation of Non-Instructional Services:				
Food Service Operations	200	0	295,935	296,135
Community Services	0	0	180,229	180,229
Other	0	0	10,130	10,130
Capital Outlay	0	0	33,055	33,055
Debt Service:				
Principal Retirement	23,474	720,000	80,000	823,474
Interest and Fiscal Charges	1,824	326,678	32,473	360,975
<i>Total Expenditures</i>	<u>14,865,435</u>	<u>1,063,905</u>	<u>1,327,444</u>	<u>17,256,784</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,570,199</u>	<u>191,313</u>	<u>17,189</u>	<u>2,778,701</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	2,478	0	0	2,478
Transfers In	0	0	133,709	133,709
Transfers Out	(133,709)	0	0	(133,709)
<i>Total Other Financing Sources (Uses)</i>	<u>(131,231)</u>	<u>0</u>	<u>133,709</u>	<u>2,478</u>
<i>Net Change in Fund Balance</i>	2,438,968	191,313	150,898	2,781,179
<i>Fund Balances Beginning of Year</i>	<u>5,369,527</u>	<u>2,440,751</u>	<u>187,511</u>	<u>7,997,789</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,808,495</u>	<u>\$ 2,632,064</u>	<u>\$ 338,409</u>	<u>\$ 10,778,968</u>

See accompanying notes to the basic financial statements.

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

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds	\$	2,781,179
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	\$ 104,002	
Current Year Depreciation	<u>(1,162,929)</u>	(1,058,927)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(24,850)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	869,416	
Extraordinary Item (See Note 2-O)	<u>(5,323,012)</u>	(4,453,596)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Capital Leases	23,474	
General Obligation Bonds	<u>800,000</u>	823,474
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	6,807	
Amortization of Issuance Costs	(250,112) *	
Amortization of Premium on Bonds	68,261	
Amortization of Refunding Loss	<u>(44,894)</u>	(219,938)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	59,684	
Vacations Payable	<u>22,270</u>	81,954
Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.		
		<u>(322,961)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$</u>	<u>(2,393,665)</u>

* Prior year issuance costs were written off in current year (immaterial) with the implementation of GASB 65.

Independence Local School District
Cuyahoga County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 11,343,603	\$ 11,979,288	\$ 12,404,808	\$ 425,520
Intergovernmental	2,147,917	2,259,734	2,352,735	93,001
Investment Income	14,858	15,573	16,051	478
Tuition and Fees	156,888	164,435	169,487	5,052
Extracurricular Activities	34,392	36,047	37,154	1,107
Rentals	59,119	61,962	63,866	1,904
Charges for Services	1,338	1,402	1,445	43
Payments in Lieu of Taxes	1,980,413	1,984,503	1,984,772	269
Miscellaneous	70,726	74,128	76,405	2,277
<i>Total Revenues</i>	<u>15,809,254</u>	<u>16,577,072</u>	<u>17,106,723</u>	<u>529,651</u>
Expenditures				
Current:				
Instruction:				
Regular	7,461,819	7,292,758	7,012,508	280,250
Special	1,346,026	1,346,026	1,294,300	51,726
Student Intervention Services	21,375	21,375	20,554	821
Other	135,391	135,391	130,188	5,203
Support Services:				
Pupils	825,555	825,555	793,830	31,725
Instructional Staff	726,322	726,322	698,411	27,911
Board of Education	186,477	186,477	179,311	7,166
Administration	1,183,269	1,183,269	1,137,798	45,471
Fiscal	611,562	611,562	588,061	23,501
Business	118,398	118,398	113,848	4,550
Operation and Maintenance of Plant	1,576,388	1,576,388	1,515,810	60,578
Pupil Transportation	857,856	857,856	824,890	32,966
Central	41,549	41,549	39,952	1,597
Extracurricular Activities	504,444	504,444	485,059	19,385
Operation of Non-Instructional Services:				
Food Service Operations	208	208	200	8
<i>Total Expenditures</i>	<u>15,596,639</u>	<u>15,427,578</u>	<u>14,834,720</u>	<u>592,858</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>212,615</u>	<u>1,149,494</u>	<u>2,272,003</u>	<u>1,122,509</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	2,248	2,356	2,478	122
Transfers Out	0	0	(133,709)	(133,709)
<i>Total Other Financing Sources (Uses)</i>	<u>2,248</u>	<u>2,356</u>	<u>(131,231)</u>	<u>(133,587)</u>
<i>Net Change in Fund Balance</i>	214,863	1,151,850	2,140,772	988,922
<i>Fund Balance Beginning of Year</i>	4,251,651	4,251,651	4,251,651	0
<i>Prior Year Encumbrances Appropriated</i>	17,294	17,294	17,294	0
<i>Fund Balance End of Year</i>	<u>\$ 4,483,808</u>	<u>\$ 5,420,795</u>	<u>\$ 6,409,717</u>	<u>\$ 988,922</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 7,986	\$ 255,729
Liabilities		
Intergovernmental Payable	0	\$ 233
Undistributed Monies	0	2,414
Due to Students	0	253,082
<i>Total Liabilities</i>	0	\$ 255,729
Net Position		
Held in Trust for Scholarships	\$ 7,986	

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	<u>Private Purpose Trust</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>\$ 250</u>
<i>Change in Net Position</i>	(250)
<i>Net Position Beginning of Year</i>	<u>8,236</u>
<i>Net Position End of Year</i>	<u><u>\$ 7,986</u></u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the School District and Reporting Entity

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

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

Reporting Entity

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

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

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

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

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

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

C. Measurement Focus

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

D. Basis of Accounting

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

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources A deferred inflow of resources is an acquisition of assets by the School District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of assets by the School District that is applicable to a future reporting period.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows of resources in governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as a deferred inflow of resources.

On the accrual basis of accounting, unamortized deferred charges on debt refunding are reported as a deferred outflow of resources. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

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 Investments

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 investments."

During fiscal year 2014, the School District's investments were limited to STAROhio, STAR Plus and a certificate of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. The certificate of deposit is reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2014.

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 2014 amounted to \$15,820, which includes \$2,081 assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase and maintenance of capital assets of the School District. See Note 20 for additional information regarding set asides.

G. Bond Premium

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

H. Capital Assets

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

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

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

I. Interfund Balances

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

J. 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.

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Activity

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

M. Fund Balance

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

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

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

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

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

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

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

Independence Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2014, there was no net position restricted by enabling legislation.

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

O. 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. The Tax Commissioner of Ohio determined a major taxpayer was tax exempt in Cuyahoga County. As a result, this taxpayer's delinquent real estate taxes have been deemed uncollectable and this is being reported as an extraordinary item for fiscal year 2014. The School District had no special items during fiscal year 2014.

P. 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.

Q. Budgetary Data

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

Independence Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

R. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2014, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2014 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School District.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School District.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 3 – Accountability

The following funds had a GAAP deficit fund balances at June 30, 2014:

Nonmajor Governmental Funds:	Amount
Building Fund	\$ 347,000
Food Service Fund	27,651
Athletics Fund	773

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

Note 4 - Budgetary Basis of Accounting

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

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

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

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

Independence Local School District
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Net Change in Fund Balance

GAAP Basis	\$	2,438,968
Net adjustments for revenue accruals		80,319
Net adjustments for expenditure accruals		(317,286)
Funds budgeted elsewhere**		(123)
Adjustments for encumbrances		<u>(61,106)</u>
 Budget Basis	 \$	 <u>2,140,772</u>

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

Note 5 - Deposits and Investments

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

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

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

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

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

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

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

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

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

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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.

Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$8,609,022. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$2,462,441 of the School District's bank balance of \$8,740,233 was exposed to custodial risk as discussed above, while \$6,277,792 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$5,663,177 held in a STAR Plus account.

Investments

As of June 30, 2014, the District had the following investment and maturity:

Investment Type	Fair Value	Investment Maturity < 3 Months
STAROhio	\$ 858,726	\$ 858,726

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

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2014, is 51 days and carries a rating of AAAM by Standard and Poor's.

Concentration of Credit Risk – The School District places no limit on the amount it may invest in any one issuer. At the end of fiscal year 2014, 100 percent of the School District's investments were in STAROhio.

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$2,702,427 in the general fund, \$209,797 in the bond retirement fund and \$109,271 in the permanent improvement capital projects fund (a non-major governmental fund). The amount available for advance at June 30, 2013, was \$2,492,987 in the general fund, \$199,087 in the bond retirement fund and \$103,684 in the permanent improvement capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2014 and for which there is an enforceable legal claim. 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 inflows of resources.

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

Independence Local School District
Cuyahoga County, Ohio
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The assessed values upon which the fiscal year 2014 taxes were collected are:

	2014 First-Half Collections		2013 Second-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other				
Real Estate	\$ 438,840,560	96.16%	\$ 439,613,450	96.47%
Public Utility	17,533,550	3.84%	16,106,220	3.53%
Total	\$ 456,374,110	100.00%	\$ 455,719,670	100.00%
Tax rate per \$1,000 of assessed valuation	\$ 36.00		\$ 35.20	

Note 7 - Receivables

Receivables at June 30, 2014, consisted of taxes, revenue in lieu of taxes, intergovernmental and interfund (See Note 8) receivables. 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 fiscal year guarantee of federal funds. All are expected to be received within one year.

In prior years, tax abatement agreements were entered into between Cuyahoga County, various townships and local businesses and were accepted by the School District to encourage economic growth in the County. In return for the abatements, the businesses agreed to make payments in lieu of taxes to the School District. Each agreement states a specified percentage that the businesses will pay based on the amount of real property taxes the School District would have received. The receivables have been recorded in the funds pursuant to the agreements. The receivable is recorded in the amount the School District will receive in the subsequent fiscal year.

Note 8 - Interfund Balances

The account balances reported in the fund financial statements for “interfund receivable” and “interfund payable” as of June 30, 2014 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Bond Retirement Fund	\$ 347,000	\$ 0
Nonmajor Governmental Funds	0	347,000
Total Governmental Funds	\$ 347,000	\$ 347,000

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

Independence Local School District
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During the fiscal year, the School District issued a treasury investment in the amount of \$347,000, which was authorized under Chapter 133.29 of the Ohio Revised Code between the debt service and building capital projects fund. The purpose of this treasury investment was to finance the costs of constructing, furnishing and equipping a new high school and renovating, improving, furnishing and equipping existing school facilities and their sites. The maximum maturity of the note is June 18, 2028, which is 20 years from the date of issuance of the original notes issued for this purpose.

Note 9 - Interfund Transfers

During the fiscal year the general fund made a transfer to the building capital projects fund in the amount of \$53,959 for the repayment of debt. The general fund also made transfers to the food service fund in the amount of \$55,000 and district managed activities fund in the amount of \$24,750. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$ 147,099	\$ 0	\$ 0	\$ 147,099
<i>Total Capital Assets, not depreciated</i>	<u>147,099</u>	<u>0</u>	<u>0</u>	<u>147,099</u>
<i>Depreciable Capital Assets</i>				
Land Improvements	1,265,968	0	(129,448)	1,136,520
Buildings and Improvements	33,092,317	33,630	(52,449)	33,073,498
Furniture and Equipment	741,331	46,701	0	788,032
Vehicles	1,467,661	23,671	0	1,491,332
<i>Total Capital Assets, being depreciated</i>	<u>36,567,277</u>	<u>104,002</u>	<u>(181,897)</u>	<u>36,489,382</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(692,318)	(53,482)	105,334	(640,466)
Buildings and Improvements	(12,256,601)	(962,726)	51,713	(13,167,614)
Furniture and Equipment	(445,544)	(57,521)	0	(503,065)
Vehicles	(1,119,427)	(89,200)	0	(1,208,627)
<i>Total Accumulated Depreciation</i>	<u>(14,513,890)</u>	<u>(1,162,929)</u>	<u>157,047</u>	<u>(15,519,772)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>22,053,387</u>	<u>(1,058,927)</u>	<u>(24,850)</u>	<u>20,969,610</u>
<i>Governmental Activities, Capital Assets, Net</i>	<u>\$ 22,200,486</u>	<u>\$ (1,058,927)</u>	<u>\$ (24,850)</u>	<u>\$ 21,116,709</u>

Independence Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,046,071
Vocational	506
Support Services:	
Instructional Staff	5,951
Operation and Maintenance of Plant	8,311
Pupil Transportation	90,338
Extracurricular Activities	6,634
Food Service Operations	5,118
	<u>\$1,162,929</u>

Note 11 - Risk Management

A. Property and Liability

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

Professional liability is protected by the Netherlands Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and with a \$2,500 deductible. Vehicles are also covered by the Netherlands Insurance Company and hold a \$250 and \$500 deductible for comprehensive and collision, respectively. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

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

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

C. Employee Health Benefits

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

Note 12 - Employee Benefits

A. Compensated Absences

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

B. Life Insurance

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
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Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$314,606, \$309,420 and \$304,460, respectively; 98 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

B. State Teachers Retirement System

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
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The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$950,237, \$961,820 and \$1,004,259, respectively; 89 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$13,105 made by the School District and \$10,297 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

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Cuyahoga County, Ohio
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Note 14 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

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

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$35,877, \$32,355, and \$13,237, respectively; 98 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$18,252, \$17,546, and \$18,051, respectively; 98 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$73,095, \$73,986, and \$77,251, respectively; 89 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 15 - Long Term Obligations

A schedule of changes in bonds and other long-term obligations of the School District during fiscal year 2014 follows:

	Balance 6/30/2013	Additions	Deductions	Balance 6/30/2014	Amount Due in One Year
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 1,175,000	\$ 0	\$ 80,000	\$ 1,095,000	\$ 80,000
2011 Refunding Bonds					
Current Interest Serial Bonds	7,135,000	0	125,000	7,010,000	125,000
Capital Appreciation Bonds	494,993	0	0	494,993	0
Accretion on CAB's	131,135	100,009	0	231,144	0
Issuance Premiums	650,329	0	41,957	608,372	0
2012 Refunding Bonds					
Current Interest Serial Bonds	5,410,000	0	595,000	4,815,000	0
Current Interest Term Bonds	265,000	0	0	265,000	0
Capital Appreciation Bonds	84,996	0	0	84,996	84,996
Accretion on CAB's	156,394	222,952	0	379,346	379,346
Issuance Premiums	460,318	0	26,304	434,014	0
<i>Total General Obligation Bonds</i>	<u>15,963,165</u>	<u>322,961</u>	<u>868,261</u>	<u>15,417,865</u>	<u>669,342</u>
<i>Other Long-Term Liabilities:</i>					
Compensated absences	1,421,058	21,192	80,876	\$ 1,361,374	97,434
Capital Lease Payable	48,117	0	23,474	24,643	24,643
<i>Total Other Long-Term Liabilities</i>	<u>1,469,175</u>	<u>21,192</u>	<u>104,350</u>	<u>1,386,017</u>	<u>122,077</u>
<i>Total Governmental Long-Term Obligations</i>	<u>\$ 17,432,340</u>	<u>\$ 344,153</u>	<u>\$ 972,611</u>	<u>\$ 16,803,882</u>	<u>\$ 791,419</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 and the permanent improvement capital projects fund. Capital leases are paid from the general fund. See Note 21 for additional details.

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

At the date of refunding, \$8,478,257 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. The advance refunding reduced cash flows required for debt service by \$1,225,842 over the next sixteen years and resulted in an economic gain of \$983,091.

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The bonds were issued with a premium of \$713,264, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2014 was \$41,957. The issuance costs of \$153,635 were expensed. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$471,323. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2014 was \$27,724.

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.125 percent. The capital appreciation bonds will mature December 1, 2018 and December 1, 2019. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as an increase to principal liability. The maturity amount of the bonds is \$1,500,000. The fiscal year 2014 accretion amount is \$100,009.

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

At the date of refunding, \$6,369,770 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. The advance refunding reduced cash flows required for debt service by \$628,841 over the next nineteen years and resulted in an economic gain of \$439,190.

The bonds were issued with a premium of \$499,774, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2014 was \$26,304. The issuance costs of \$119,465 were expensed. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$326,227. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2014 was \$17,170.

The bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2028 with an interest rate of 3.00 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2027 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule.

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

The capital appreciation bond will mature December 1, 2014. This bond was purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as an increase to principal liability. The maturity amount of the bond is \$605,000. The fiscal year 2014 accretion amount is \$222,952.

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

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds							
	Serial & Term		Capital Appreciation		Energy Conservation		Total	
	Principal	Interest	Principal	Accretion	Principal	Interest	Principal	Interest/Accretion
2015	\$ 125,000	\$ 321,828	\$ 84,996	\$ 520,004	\$ 80,000	\$ 27,513	\$ 289,996	\$ 869,345
2016	725,000	313,640	0	0	80,000	26,112	805,000	339,752
2017	740,000	298,990	0	0	80,000	24,312	820,000	323,302
2018	755,000	284,040	0	0	85,000	22,456	840,000	306,496
2019	20,000	276,190	265,943	484,057	85,000	20,544	370,943	780,791
2020-2024	3,220,000	1,234,929	229,050	520,950	380,000	154,295	3,829,050	1,910,174
2025-2029	4,490,000	683,748	0	0	305,000	15,031	4,795,000	698,779
2030-2031	2,015,000	65,730	0	0	0	0	2,015,000	65,730
	\$ 12,090,000	\$ 3,479,095	\$ 579,989	\$ 1,525,011	\$ 1,095,000	\$ 290,263	\$ 13,764,989	\$ 5,294,369

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 16 - Jointly Governed Organizations

North Coast Council North Coast Council is a jointly governed computer service bureau owned and operated by 2 educational service centers (ESC's) and 31 school districts. The primary function of North Coast Council is to provide data services to school districts, community schools, joint vocational schools and ESCs. Major areas of service provided by North Coast Council include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the North Coast Council Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of North Coast Council. Each school district supports North Coast Council based upon a per pupil charge dependent upon the software package used. Independence Local School District paid \$40,200 to North Coast Council during fiscal year 2014. Financial information can be obtained by contacting North Coast Council, 5700 West Canal Road, Valley View, Ohio 44125.

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

Ohio Schools' Council The Ohio Schools' Council (OSC) is a jointly governed organization among 198 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the OSC by paying an annual participation fee. The OSC's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2014, the School District paid \$3,507 to the OSC as a program fee. Financial information can be obtained by contacting David A. Cottrell, Executive Secretary/Treasurer, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131. The School District participates in the OSC's electric purchase program, which was implemented during fiscal year 1998 and the natural gas program that was implemented during fiscal year 2000.

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

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

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

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

Note 17 – Public Entity Risk Pools

A. Risk Sharing Pool

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

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.

Note 18 – Contingencies and Commitments

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

B. Litigation

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

Note 19 – Capital Lease Payable

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

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

The following is a summary of the School District's future annual debt service requirement to maturity for the capital lease:

Fiscal Year Ending June 30,	2015	\$ 25,298
Less: amount representing interest		<u>(655)</u>
Present value of minimum lease payments		<u>\$ 24,643</u>

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Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

	Capital Acquisition
Set Aside Restricted Balance as of June 30, 2013	\$ 0
Current Year Set-Aside Requirement	179,730
Current Year Qualifying Expenditures	(187,038)
Total	\$ (7,308)
Balance Carried Forward Fiscal Year 2015	\$ 0
Amount to Restrict for Set-Asides	\$ 0
Set Aside Restricted Balance as of June 30, 2014	\$ 0

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

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Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 21 – Fund Balance

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

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

	General	Bond Retirement	Other Governmental	Total
Restricted for:				
Debt Service	\$ 0	\$ 2,632,064	\$ 0	\$ 2,632,064
Capital Outlay	0	0	615,685	615,685
Other Purposes	0	0	98,148	98,148
Total Restricted	<u>0</u>	<u>2,632,064</u>	<u>713,833</u>	<u>3,345,897</u>
Assigned for:				
Encumbrances:				
Instruction	15,230	0	0	15,230
Support Services	20,953	0	0	20,953
Other Purposes	22,825	0	0	22,825
Total Assigned	<u>59,008</u>	<u>0</u>	<u>0</u>	<u>59,008</u>
Unassigned	<u>7,749,487</u>	<u>0</u>	<u>(375,424)</u>	<u>7,374,063</u>
<i>Total Fund Balance</i>	<u>\$ 7,808,495</u>	<u>\$ 2,632,064</u>	<u>\$ 338,409</u>	<u>\$ 10,778,968</u>

January 29, 2016

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 29, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

INDEPENDENCE LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 21, 2016**