

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

Audited Financial Statements

*For the Fiscal Year Ended
June 30, 2011*



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Independence Local School District, Cuyahoga County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. 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

January 25, 2012

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INDEPENDENCE LOCAL SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2011
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December 6, 2011

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Independence Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, as of June 30, 2011, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the Independence Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independence Local School District
Independent Auditor's Report
Page 2

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

The discussion and analysis of the Independence Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- ◆ In total, net assets of governmental activities increased \$.8 million which represents a 5 percent increase from fiscal year 2010.
- ◆ Total assets of governmental activities increased by \$1.1 million which primarily includes cash and cash equivalent increase of \$1.0 million, taxes receivable increase of \$1.2 million, and net capital asset decrease of \$1.1 million.
- ◆ Revenues for governmental activities totaled \$19.7 million in fiscal year 2011. Of this total, \$18.7 million or 95 percent consisted of general revenues while program revenues accounted for the balance of \$1.0 million or 5 percent.
- ◆ Program expenses totaled \$18.9 million, of which, 5 percent were covered by program revenues. General revenues, provided by community support, covered the remaining 95 percent.
- ◆ Long term bonds and notes (net) decreased from \$15.1 million to \$14.7 million through principal payments made during the fiscal year.

Using this Annual Report

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

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2011?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional activities, operation of food services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2011 compared to 2010:

Table 1
 Net Assets
 Governmental Activities

	2011	2010
Assets		
Current and Other Asset	\$ 22,245,138	\$ 20,002,873
Capital Assets, Net	24,113,886	25,226,709
<i>Total Assets</i>	46,359,024	45,229,582
Liabilities		
Current Liabilities	13,601,392	12,972,729
Long-term Liabilities		
Due within One Year	226,912	528,720
Due in More than One Year	15,768,397	15,744,464
<i>Total Liabilities</i>	29,596,701	29,245,913
Net Assets		
Invested in Capital Assets, Net of Related Debt	9,857,886	10,497,485
Restricted for:		
Debt Service	2,559,612	2,248,832
Capital Projects	689,482	302,073
Other Purposes	77,313	108,336
Unrestricted	3,578,030	2,826,943
<i>Total Net Assets</i>	\$ 16,762,323	\$ 15,983,669

Current assets increased \$2.2 million over fiscal year 2010. Taxes receivable increased \$1.2 million over the prior year due to the passage of the increased renewal levy along with an additional \$.4 million in delinquent taxes receivable over fiscal year 2010. The timing of receipts to cover expenditures contributed to a \$1.0 million increase in cash. The decrease of \$1.1 in capital assets was depreciation exceeding the net of the current year capital asset additions and disposals.

Current liabilities increased \$.7 million, mainly due to deferred tax revenue. Long-term liabilities decreased \$.3 million from fiscal year 2010 though principal payments and reductions in long-term liabilities.

The overall position of the School District has improved as evidenced by the increase in net assets of \$.8 million.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

Table 2 shows the changes in net assets for fiscal year 2011 and 2010.

Table 2
 Changes in Net Assets
 Governmental Activities

	2011	2010
Program Revenues		
Charges for Services	\$ 575,189	\$ 554,562
Operating Grants	453,666	534,218
General Revenues		
Property Taxes	15,395,166	14,775,861
Grants and Entitlements	3,145,482	3,065,660
Payment in Lieu of Taxes	50,000	0
Investments Earnings	19,779	13,489
Miscellaneous	84,085	273,957
<i>Total Revenues</i>	19,723,367	19,217,747
Program Expenses		
Instruction	9,207,945	8,607,518
Support Services:		
Pupils	902,315	803,912
Instructional Staff	2,071,525	2,012,414
Board of Education	212,736	188,288
Administration	1,144,089	997,450
Fiscal	574,311	618,962
Business	251,530	220,029
Operation and Maintenance of Plant	1,805,441	1,725,017
Pupil Transportation	936,345	921,802
Central	5,000	5,000
Operation of Non-Instructional Services	184,389	191,108
Food Service Operations	330,346	302,536
Extracurricular Activities	590,591	550,498
Interest and Fiscal Charges	728,150	736,323
<i>Total Program Expenses</i>	18,944,713	17,880,857
<i>Change in Net Assets</i>	\$ 778,654	\$ 1,336,890

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

Governmental Activities

The majority of revenues supporting governmental activities are general revenue. General revenue totaled \$18.7 million or 95 percent of total revenue. The most significant portion of the general revenue is local property taxes and grants and entitlements not restricted for specific programs. The remaining amount of revenue received was in the form of program revenues, which equated to \$1.0 million or only 5 percent of total revenue.

There was an increase of \$.6 million in tax revenue over fiscal year 2010. This is attributable to the fluctuation in the taxes available at year end from the County from year to year. Property tax receivable amounts available at year end are recognized as revenue. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years.

Total expenses increased \$1.1 million or 6 percent over fiscal year 2010. Although most expenses increased, the largest were in instruction and repair and maintenance. Instructional expenses comprise 49 percent of governmental program expenses. Additional supporting services, including program expenses of pupils, instructional staff, administrative and operation and maintenance of plant, encompassed an additional 42 percent. The remaining 9 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and the food service program.

	<u>2011</u>
Instruction	\$ 9,207,945
Support Services	7,903,292
Other	<u>1,833,476</u>
Total	<u><u>\$18,944,713</u></u>

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

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Governmental Activities				
Instruction:				
Regular	\$ 8,503,488	\$ 8,438,336	\$ 8,055,170	\$ 7,998,701
Special	490,908	406,241	400,001	301,326
Vocational	1,011	1,011	1,011	1,011
Student Intervention Services	185,530	185,530	135,053	135,053
Other	27,008	27,008	16,283	16,283
Support Services:				
Pupil	902,315	902,315	803,912	803,008
Instructional Staff	2,071,525	2,062,031	2,012,414	1,952,515
Board of Education	212,736	212,736	188,288	188,288
Administration	1,144,089	1,097,128	997,450	885,140
Fiscal	574,311	574,311	618,962	618,962
Business	251,530	251,530	220,029	220,029
Operation and Maintenance of Plant	1,805,441	1,805,441	1,725,017	1,670,793
Pupil Transportation	936,345	936,345	921,802	916,749
Central	5,000	0	5,000	0
Operation of Non-Instructional Services	184,389	(94,697)	191,108	(11,604)
Food Service Operations	330,346	32,163	302,536	23,922
Extracurricular Activities	590,591	350,279	550,498	335,578
Interest and Fiscal Charges	728,150	728,150	736,323	736,323
Total	\$18,944,713	\$17,915,858	\$17,880,857	\$16,792,077

The dependence upon the general revenues for governmental activities is apparent. 94 percent of expenses are not supported by program specific revenues. General revenues, primarily local property taxes and “grant and entitlements not restricted to specific programs” are used to provide program services. The community, as a whole, is by far the primary supporter for the School District students.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$19.4 million and expenditures of \$18.1 million. The net change in fund balances for the year was most significant in the general fund with an increase of \$.5 million. The bond retirement fund had an increase of \$.3 million.

The general fund showed an increase in taxes revenue over fiscal year 2010 of \$.7 million due to an increase in taxes available for advance at year end which are recognized as revenue. Expenditures in total increased \$.9 million in total over fiscal year 2010. There is no individually significant line item accounting for this increase.

The bond retirement fund balance increase was the result of the increase in taxes available for advance at year end which are recognized as revenue.

General Fund Budgeting Highlights

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

During fiscal year 2011, the School District amended its general fund budget numerous times. The most significant changes were to increase the budget for special instruction and decrease the budget for student intervention services. For the other non-significant budget amendments, the School District uses a site-based style of budgeting and has in place systems that are designed to tightly control expenses but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$16.0 million, \$.9 million above the original budget estimates of \$15.1 million. Intergovernmental revenues were original estimated lower. Original and final budget expenditures were \$16.7 million. Other financing uses were originally estimated to be a \$.2 million but the final budget reflects \$.1 million. No individually significant line item accounts for this difference.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the School District had \$24.1 million invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2011 values compared to 2010. All capital assets, except land, are reported net of depreciation. More detailed information is presented in Note 10 of the notes to the basic financial statements.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

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

	2011	2010
Land	\$ 147,099	\$ 147,099
Land Improvements	649,347	701,295
Buildings and Improvements	22,735,498	23,702,712
Furniture and Equipment	262,099	270,225
Vehicles	319,843	405,378
Total Capital Assets	\$ 24,113,886	\$ 25,226,709

In fiscal year 2011, the School District acquired \$33,373 in equipment and recorded depreciation of \$1.1 million.

For fiscal year 2011, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2011, this amounted to \$174,230 for each set aside. For fiscal year 2011, the School District had qualifying disbursements or offsets exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement.

Debt

At June 30, 2011 the School District has \$14.7 million in net bonds outstanding for construction of the new high school and conversion of the old high school into the middle school. More detailed information about the School District's outstanding debt is presented in Note 15 of the notes to the basic financial statements.

School District Outlook

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

The financial future of the School District improved between the end of fiscal years 2011 and 2010 when the general fund unencumbered cash balance increased to \$2,177,173 from \$1,851,042 in fiscal year 2010. The challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Due to a depressed economy and the foreclosure crisis, the School District has placed even more of a watchful eye on its spending. The November 2007 three-year emergency renewal operating levy was renewed with an increase of \$1,500,000 or 3.2 mils in February 2011 with collections beginning in 2012. Thus management must diligently plan expenses and monitor revenues from this levy, staying carefully within its timeframe. The School District is projected to lose approximately \$612,000 in fiscal year 2012 due to the loss of TPP, Electric Deregulation reimbursements and state funding formula changes.

Independence Local School District
Management's Discussion and Analysis
For the Fiscal Year June 30, 2011

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

Contacting the School District's Financial Management

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

Independence Local School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,406,749
Receivables:	
Taxes	17,674,696
Interest	1,582
Intergovernmental	6,686
Deferred Charges	155,425
Nondepreciable Capital Assets	147,099
Depreciable Capital Assets (Net)	<u>23,966,787</u>
<i>Total Assets</i>	<u>46,359,024</u>
Liabilities	
Accounts Payable	85,404
Accrued Wages and Benefits	1,175,716
Intergovernmental Payable	279,408
Accrued Interest	54,309
Vacation Benefits Payable	92,566
Matured Compensated Absences Payable	68,160
Deferred Revenue	11,845,829
Long Term Liabilities:	
Due Within One Year	226,912
Due in More Than One Year	<u>15,768,397</u>
<i>Total Liabilities</i>	<u>29,596,701</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	9,857,886
Restricted for:	
Capital Projects	689,482
Debt Service	2,559,612
Other Purposes	77,313
Unrestricted	<u>3,578,030</u>
<i>Total Net Assets</i>	<u>\$ 16,762,323</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 8,503,488	\$ 32,921	\$ 32,231	\$ (8,438,336)
Special	490,908	0	84,667	(406,241)
Vocational	1,011	0	0	(1,011)
Student Intervention	185,530	0	0	(185,530)
Other	27,008	0	0	(27,008)
Support services:				
Pupils	902,315	0	0	(902,315)
Instructional Staff	2,071,525	0	9,494	(2,062,031)
Board of Education	212,736	0	0	(212,736)
Administration	1,144,089	0	46,961	(1,097,128)
Fiscal	574,311	0	0	(574,311)
Business	251,530	0	0	(251,530)
Operation and Maintenance of Plant	1,805,441	0	0	(1,805,441)
Pupil Transportation	936,345	0	0	(936,345)
Central	5,000	0	5,000	0
Operation of Non-Instructional Services	184,389	45,618	233,468	94,697
Food Service Operations	330,346	257,138	41,045	(32,163)
Extracurricular Activities	590,591	239,512	800	(350,279)
Interest and Fiscal Charges	728,150	0	0	(728,150)
Totals	\$ 18,944,713	\$ 575,189	\$ 453,666	(17,915,858)

General Revenues

Property Taxes Levied for:

General Purposes	13,386,901
Debt Service	1,300,281
Capital Outlay	707,984
Grants and Entitlements not Restricted to Specific Programs	3,145,482
Payment in Lieu of Taxes	50,000
Investment Earnings	19,779
Miscellaneous	84,085

Total General Revenues 18,694,512

Change in Net Assets 778,654

Net Assets Beginning of Year 15,983,669

Net Assets End of Year \$ 16,762,323

See accompanying notes to the basic financial statements.

Independence Local School District

Balance Sheet

Governmental Funds

June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 2,265,442	\$ 1,581,370	\$ 559,937	\$ 4,406,749
Receivables:				
Taxes	15,560,390	1,409,912	704,394	17,674,696
Interfund	0	497,000	0	497,000
Interest	1,582	0	0	1,582
Intergovernmental	0	0	6,686	6,686
<i>Total Assets</i>	<u>\$ 17,827,414</u>	<u>\$ 3,488,282</u>	<u>\$ 1,271,017</u>	<u>\$ 22,586,713</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 72,001	\$ 0	\$ 13,403	\$ 85,404
Accrued Wages and Benefits	1,150,007	0	25,709	1,175,716
Matured Compensated Absences	68,160	0	0	68,160
Interfund Payable	0	0	497,000	497,000
Intergovernmental Payable	267,988	0	11,420	279,408
Deferred Revenue	14,205,285	1,274,650	639,405	16,119,340
<i>Total Liabilities</i>	15,763,441	1,274,650	1,186,937	18,225,028
Fund Balances				
Restricted	0	2,213,632	600,442	2,814,074
Assigned	38,237	0	0	38,237
Unassigned	2,025,736	0	(516,362)	1,509,374
<i>Total Fund Balances</i>	<u>2,063,973</u>	<u>2,213,632</u>	<u>84,080</u>	<u>4,361,685</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 17,827,414</u>	<u>\$ 3,488,282</u>	<u>\$ 1,271,017</u>	<u>\$ 22,586,713</u>

See accompanying notes to the basic financial statements.

Independence Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2011*

Total Governmental Fund Balances		\$	4,361,685
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			24,113,886
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			
Delinquent Property Taxes			4,273,511
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.			
Current Interest Serial Bonds	\$	(3,211,000)	
Current Interest Term Bonds		(10,905,000)	
Capital Appreciaiton Bonds		(140,000)	
Accretion of Capital Appreciation Bonds		(312,228)	
Unamortized Bond Premium		(158,481)	(14,726,709)
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on an accrual basis.			155,425
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in the governmental funds.			
Vacation Benefits Payable		(92,566)	
Compensated Absences		(1,268,600)	
Accrued Interest Payable		(54,309)	(1,415,475)
Net Assets of Governmental Activities		\$	<u>16,762,323</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Local Taxes	\$ 13,113,098	\$ 1,294,300	\$ 613,115	\$ 15,020,513
Intergovernmental	2,905,093	163,590	600,432	3,669,115
Investment Income	19,780	4,970	0	24,750
Tuition and Fees	141,355	0	353	141,708
Extracurricular Activities	97,991	0	55,500	153,491
Rentals	45,618	0	0	45,618
Gifts and Donations	588	0	800	1,388
Charges for Services	510	0	235,859	236,369
Miscellaneous	79,362	0	4,137	83,499
<i>Total Revenues</i>	16,403,395	1,462,860	1,510,196	19,376,451
Expenditures:				
Current:				
Instruction:				
Regular	7,275,621	0	66,377	7,341,998
Special	388,049	0	98,508	486,557
Student Intervention	185,530	0	0	185,530
Other	27,008	0	0	27,008
Support Services:				
Pupils	891,805	0	0	891,805
Instructional Staff	1,861,809	0	175,653	2,037,462
Board of Education	212,736	0	0	212,736
Administration	1,121,360	0	86,936	1,208,296
Fiscal	567,201	0	0	567,201
Business	251,530	0	0	251,530
Operation and Maintenance of Plant	1,678,551	0	126,265	1,804,816
Pupil Transportation	867,650	0	0	867,650
Central	0	0	5,000	5,000
Operation of Non-Instructional Services	0	0	200,194	200,194
Food Service Operations	200	0	321,753	321,953
Extracurricular Activities	481,589	0	93,042	574,631
Debt Service:				
Principal Retirement	0	470,000	0	470,000
Interest and Fiscal Charges	0	670,565	4,970	675,535
<i>Total Expenditures</i>	15,810,639	1,140,565	1,178,698	18,129,902
<i>Excess of Revenues Over (Under) Expenditures</i>	592,756	322,295	331,498	1,246,549
Other Financing Sources (Uses):				
Proceeds From Sale of Capital Assets	133	0	0	133
Transfers In	0	0	67,970	67,970
Transfers Out	(67,970)	0	0	(67,970)
<i>Total Financing Sources and (Uses)</i>	(67,837)	0	67,970	133
<i>Net Change in Fund Balance</i>	524,919	322,295	399,468	1,246,682
<i>Fund Balance (Deficit) at Beginning of Year Restated, See Note 2T</i>	1,539,054	1,891,337	(315,388)	3,115,003
<i>Fund Balance (Deficit) at End of Year</i>	\$ 2,063,973	\$ 2,213,632	\$ 84,080	\$ 4,361,685

See accompanying notes to the basic financial statements.

Independence Local School District
*Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds		\$ 1,246,682
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded additions in the current period.		
Capital Asset Additions	\$ 33,373	
Current Year Depreciation	(1,142,776)	(1,109,403)
Net effect of transactions involving disposal of capital assets are not reflected in the funds.		(3,420)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent Property Taxes	374,652	
Excess Costs	(22,764)	351,888
Repayment of bond and note principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Current Interest Serial Bonds		470,000
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
(Increase) Decrease in Compensated Absences	(141,858)	
(Increase) Decrease in Vacation Benefits Payable	22,350	(119,508)
In statement of activities, interest is accrued and amortized on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		
(Increase) Decrease in Accrued Interest	1,310	
Current Year Bond Premium Amortization	8,796	
Current Year Bond Issuance Costs Amortization	(8,628)	
Current Year Bond Accretion	(59,063)	(57,585)
Change in Net Assets of Governmental Activities		\$ 778,654

See accompanying notes to the basic financial statements.

Independence Local School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$ 12,527,262	\$ 12,787,262	\$ 12,910,644	\$ 123,382
Intergovernmental	2,336,092	2,844,915	2,855,093	10,178
Revenue in Lieu of Taxes	50,000	50,000	50,000	0
Investment Income	12,500	12,500	18,198	5,698
Tuition and Fees	80,750	130,750	133,545	2,795
Extracurricular Activities	51,321	45,321	45,538	217
Rentals	23,000	43,000	45,618	2,618
Charges for Services	1,000	500	510	10
Miscellaneous	40,350	76,760	79,361	2,601
<i>Total Revenues</i>	<u>15,122,275</u>	<u>15,991,008</u>	<u>16,138,507</u>	<u>147,499</u>
Expenditures:				
Current				
Instruction				
Regular	7,634,101	7,617,279	7,258,759	358,520
Special	316,229	469,954	396,095	73,859
Student Intervention	547,000	221,000	180,428	40,572
Other	11,000	27,625	27,008	617
Support Services				
Pupils	898,202	905,702	895,525	10,177
Instructional Staff	1,918,853	1,887,246	1,825,648	61,598
Board of Education	229,543	238,543	204,871	33,672
Administration	1,120,176	1,157,610	1,104,030	53,580
Fiscal	677,499	681,449	567,884	113,565
Business	197,323	257,323	191,103	66,220
Operation and Maintenance of Plant	1,850,058	1,921,094	1,694,367	226,727
Pupil Transportation	823,313	880,970	879,664	1,306
Operation of Non-Instructional Services	675	675	200	475
Extracurricular	507,555	507,555	480,736	26,819
<i>Total Expenditures</i>	<u>16,731,527</u>	<u>16,774,025</u>	<u>15,706,318</u>	<u>1,067,707</u>
Excess of Revenues Over (Under) Expenditures	(1,609,252)	(783,017)	432,189	1,215,206
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	0	0	133	133
Other Financing Uses	(100,000)	(57,502)	0	57,502
Advances Out	(15,000)	(15,000)	0	15,000
Transfers Out	(75,000)	(75,000)	(67,970)	7,030
<i>Total Other Financing Sources (Uses)</i>	<u>(190,000)</u>	<u>(147,502)</u>	<u>(67,837)</u>	<u>79,665</u>
<i>Net Change in Fund Balance</i>	(1,799,252)	(930,519)	364,352	1,294,871
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,759,901	1,759,901	1,759,901	0
Prior Year Encumbrances Appropriated	51,826	51,826	51,826	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 12,475</u>	<u>\$ 881,208</u>	<u>\$ 2,176,079</u>	<u>\$ 1,294,871</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,486	\$ 180,985
Liabilities		
Undistributed Monies	0	\$ 468
Due to Students	0	180,517
<i>Total Liabilities</i>	0	\$ 180,985
Net Assets		
Held in Trust for Scholarships	8,486	
<i>Total Net Assets</i>	\$ 8,486	

See accompanying notes to the basic financial statements.

Independence Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarship
Additions	
Donations	\$ 0
Deductions	
Payments in Accordance with Trust Agreements	250
<i>Change in Net Assets</i>	(250)
<i>Net Assets Beginning of Year</i>	8,736
<i>Net Assets End of Year</i>	\$ 8,486

See accompanying notes to the basic financial statements.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (“FASB”) to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

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

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

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e., revenues) and decreases

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

(i.e., expenses) in total net assets. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue within the basic financial statements.

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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, interest and contributions” program revenue account.

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

E. Cash and Cash Equivalents

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

During fiscal year 2011, the School District’s investments were limited to STAROhio 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, 2011.

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 2010 amounted to \$19,780, which includes \$9,943 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 of textbooks and other instructional material or for the purchase and maintaining of capital assets of the School District. See Note 19 for additional information regarding set asides.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

G. Deferred Charges

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

H. Bond Premium

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

I. Capital Assets

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

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

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

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

J. Interfund Balances

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-term Obligations

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

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

M. Interfund Activity

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

N. Fund Balance

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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.

O. Net Assets

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither of these occurred in fiscal year 2011.

Q. Estimates

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

R. Budgetary Data

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

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

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

S. Change in Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

T. Restatement of Fund Balances

On July 1, 2011, the School District implemented Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. As a result, the uniform school supplies and public school support funds, previously reported as Special Revenue Funds, were reclassified to the General Fund for GAAP reporting purposes. The following is the effect of that change in fund balances:

	General Fund	Other Governmental Funds
Fund Balance June 30, 2010	\$ 1,511,389	\$ (287,723)
Fund Reclassification	27,665	(27,665)
Restated Fund Balance July 1, 2011	\$ 1,539,054	\$ (315,388)

Note 3 – Accountability

The following funds had GAAP deficit balances at June 30, 2011:

<i>Nonmajor funds:</i>	<u>Fund Balance</u>
Building fund	\$ (496,999)
Food service fund	(19,363)

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

Independence Local School District
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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.

Net Change in Fund Balance

GAAP Basis	\$ 524,919
Net Adjustment for Revenue Accruals	(204,036)
Net Adjustment for Expenditure Accruals	105,326
Funds Budgeted Elsewhere **	5,153
Adjustment for Encumbrances	(67,010)
Budget Basis	<u>\$ 364,352</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 supplies and public school support funds.

Independence Local School District
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Note 5 - Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

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

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$4,345,267 and the bank balance was 4,380,534. Of the bank balance:

1. \$902,677 of the bank balance was covered by depository insurance; and
2. \$3,477,857 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Independence Local School District
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For the Fiscal Year Ended June 30, 2011

Investments

As of June 30, 2011, the District had the following investment and maturity:

Investment Type	Fair Value	Investment Maturity < 1 Year
STAROhio	\$ 250,953	\$ 250,953

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District’s policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the School District. During the year, the School District’s ending investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2011.

Credit Risk - The School District’s investment at June 30, 2011 was in STAROhio, and is rated AAAM by Standard & 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 2011, 100% of the School District’s investments were in STAROhio.

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

Note 6 – Property Taxes

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

Property taxes include amounts levied annually, on all real and public utility property and business tangible personal property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Real property taxes collected were based on assessed value equal to 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. The first payment is due December 31, and the remainder is payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Public utility property taxes attached as a lien on December 31 of the prior year, were levied on April 1 and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes measurable as of June 30, 2011 and for which there is an enforceable legal claim, and a delayed personal property settlement made in July. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred/unearned revenue, respectively.

The amount available as an advance at June 30, 2011 was \$1,355,105 in the general fund, \$135,262 in the bond retirement fund and \$64,989 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 469,842,430	97.32%	\$ 466,657,580	97.11%
Public Utility Personal	12,934,290	2.68%	13,884,090	2.89%
Total	<u>\$ 482,776,720</u>	<u>100.00%</u>	<u>\$ 480,541,670</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation	\$ 31.40		\$ 31.90	

Independence Local School District
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For the Fiscal Year Ended June 30, 2011

Note 7 - Receivables

Receivables at June 30, 2011, consisted of taxes, interfund (See Note 8), interest and intergovernmental 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 year guarantee of Federal funds.

Note 8 - Interfund Balances

The account balances reported in the fund financial statements for “interfund receivable” and “interfund payable” as of June 30, 2011 are as follows:

Fund	Interfund Receivable	Interfund Payable
Bond Retirement fund	\$ 497,000	\$ 0
Nonmajor governmental funds	0	497,000
Total Governmental Funds	\$ 497,000	\$ 497,000

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

During the fiscal year, the School District issued a treasury investment in the amount of \$497,000, which was authorized under Chapter 133.29 of the Ohio Revised Code between the debt service and building capital projects fund. The purpose of this 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. This note has a maximum maturity of 20 years which is June 18, 2028, with an interest rate of 1.00% per year paid annually.

Note 9 - Interfund Transfers

During the fiscal year the general fund made a transfer to the building capital projects fund in the amount of \$4,970 to pay interest on debt. The general fund also made transfers to the food service fund for \$30,000 and district managed activities fund in the amount of \$33,000. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Independence Local School District
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For the Fiscal Year Ended June 30, 2011

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
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	1,235,279	0	0	1,235,279
Buildings and Improvements	33,069,573	0	0	33,069,573
Furniture and Equipment	617,673	33,373	(50,432)	600,614
Vehicles	1,434,000	0	(48,040)	1,385,960
<i>Total Capital Assets, being depreciated</i>	<u>36,356,525</u>	<u>33,373</u>	<u>(98,472)</u>	<u>36,291,426</u>
Less Accumulated Depreciation				
Land Improvements	(533,984)	(51,948)	0	(585,932)
Buildings and Improvements	(9,366,861)	(967,214)	0	(10,334,075)
Furniture and Equipment	(347,448)	(38,079)	47,012	(338,515)
Vehicles	(1,028,622)	(85,535)	48,040	(1,066,117)
<i>Total Accumulated Depreciation</i>	<u>(11,276,915)</u>	<u>(1,142,776)</u>	<u>95,052</u>	<u>(12,324,639)</u>
<i>Total Capital Assets, being depreciated, Net</i>	<u>25,079,610</u>	<u>(1,109,403)</u>	<u>(3,420)</u>	<u>23,966,787</u>
<i>Governmental Activities, Capital Assets, Net</i>	<u>\$ 25,226,709</u>	<u>\$ (1,109,403)</u>	<u>\$ (3,420)</u>	<u>\$ 24,113,886</u>

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,031,735
Vocational	1,011
Support Services:	
Instructional Staff	10,958
Operation and Maintenance of Plant	1,220
Pupil Transportation	86,980
Operation of Food services	5,625
Extracurricular Activities	5,247
	<hr/>
Total Depreciation expense	<u>\$ 1,142,776</u>

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, these risks were covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

B. Workers' Compensation

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

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

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C. Employee Health Benefits

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

Note 12 - Employee Benefits

A. Compensated Absences

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

B. Life Insurance

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

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The School’s contributions to SERS for pension obligations for the years ended June 30, 2011, 2010 and 2009 were \$317,521, \$127,562 and \$248,700, respectively; 97 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. \$11,173 represents the unpaid contribution for fiscal year 2011, and is recorded as a liability within the respective funds.

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 stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement

Independence Local School District
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Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2011, 2010 and 2009 were \$966,948, \$985,242 and \$998,283, respectively; 88 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$9,984 made by the School and \$7,132 made by the plan members. \$124,807 represents the unpaid contribution for fiscal year 2011, and is recorded as a liability within the respective funds.

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, 2011, one member of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 14 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. 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.

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 allocated 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 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$30,832.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$38,447, \$4,591 and \$134,336 respectively; 97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was .76 percent. The School's contributions for the years ended June 30, 2011, 2010 and 2009 were \$20,433, \$7,586, and \$20,520, respectively; 97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health 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 report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (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 2011, 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, 2011, 2010, and 2009 were \$77,334, \$75,863 and \$76,791, respectively; 88 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 15 - Long Term Obligations

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

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

Independence Local School District
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A schedule of changes in bonds and other long-term obligations of the School District during fiscal year 2011 follows:

	Amounts Outstanding June 30, 2010	Additions	Reductions	Amounts Outstanding June 30, 2011	Amounts Due in One Year
<i><u>General Obligation Bonds:</u></i>					
School Improvement					
Current Interest Serial Bonds	\$ 3,681,000	\$ 0	\$470,000	\$ 3,211,000	\$ 0
Current Interest Terms Bonds	10,905,000	0	0	10,905,000	0
Capital Appreciation Bonds	140,000	0	0	140,000	140,000
Issuance Premiums	167,277	0	8,796	158,481	0
Accretion on CAB's	253,165	59,063	0	312,228	0
<i>Total General Obligation Bonds</i>	<u>15,146,442</u>	<u>59,063</u>	<u>478,796</u>	<u>14,726,709</u>	<u>140,000</u>
<i><u>Other Long-term Liabilities:</u></i>					
Compensated Absences	1,126,742	328,477	186,619	1,268,600	86,912
<i>Total Other Long-term Liabilities</i>	<u>1,126,742</u>	<u>328,477</u>	<u>186,619</u>	<u>1,268,600</u>	<u>86,912</u>
<i>Total Governmental Long-term Obligations</i>	<u>\$ 16,273,184</u>	<u>\$ 387,540</u>	<u>\$ 665,415</u>	<u>\$ 15,995,309</u>	<u>\$ 226,912</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.

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

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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

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

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

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

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

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

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

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

The capital appreciation bonds will mature on December 1, 2011. The maturity amount of the bonds is \$485,000. In fiscal year 2011, \$59,063 was accreted.

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 0	\$ 662,575	\$ 0	\$ 0	\$ 140,000	\$ 345,000
2013	485,000	652,875	0	0	0	0
2014	505,000	633,454	0	0	0	0
2015	525,000	613,232	0	0	0	0
2016	545,000	591,560	0	0	0	0
2017 - 2021	1,151,000	1,112,495	1,945,000	1,444,106	0	0
2022 - 2026	0	0	3,960,000	1,677,825	0	0
2027 - 2031	0	0	5,000,000	615,838	0	0
Totals	<u>\$ 3,211,000</u>	<u>\$ 4,266,191</u>	<u>\$ 10,905,000</u>	<u>\$ 3,737,769</u>	<u>\$ 140,000</u>	<u>\$ 345,000</u>

Note 16 - Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by sixteen school districts. The primary function of LNOCA is to provide data services to the sixteen school districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software package used. Independence Local School District paid \$50,670 to LNOCA during fiscal year 2010. Financial information can be obtained by contacting LNOCA, 5700 West Canal Road, Valley View, Ohio 44125.

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Ohio Schools' Council The Ohio Schools' Council (OSC) is a jointly governed organization among ninety-one School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the OSC by paying an annual participation fee. The 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 2011, the School District paid \$1,085 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 Council's electric purchase program, which was implemented during fiscal year 1998 and the natural gas program that was implemented during fiscal year 2000.

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

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

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

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

Note 17 – Public Entity Risk Pools

A. Risk Sharing Pool

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

B. Insurance Purchasing Pool

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

C. Liability Insurance

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

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

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

Note 18 – Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 19 – Set-asides

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

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

	Capital Improvement Set-aside	Textbook Instructional Materials Set-aside
Set Aside Reserve Balance June 30, 2010	\$ 0	\$ 0
Current Year Set-Aside Requirement	174,230	174,230
Contributions in Excess of the Current Fiscal Year		
Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(247,601)	(450,784)
Excess Qualified Expenditures from Prior Years	0	(3,263,417)
Current Year Offsets	0	0
Waiver Granted by the Department of Education	0	0
Prior Year Offset from Bond Proceeds	0	0
Total	<u>\$ (73,371)</u>	<u>\$ (3,539,971)</u>
Balance Carried Forward to Fiscal Year 2012	<u>\$ 0</u>	<u>\$ 0</u>
Set Aside Reserve Balance June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the textbook set-asides below zero. Effective July 1, 2011, textbook set-aside laws have been repealed.

Note 20 – Fund Balance

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

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

Independence Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total
Restricted for:				
Debt Service	\$ 0	\$ 2,213,632	\$ 0	\$ 2,213,632
Capital Outlay	0	0	523,110	523,110
Extracurricular	0	0	1,674	1,674
Non-Public School	0	0	47,928	47,928
Special Education	0	0	7	7
Targeted Academic Assistance	0	0	3,493	3,493
Other Purposes	0	0	24,230	24,230
Total Restricted	<u>0</u>	<u>2,213,632</u>	<u>600,442</u>	<u>2,814,074</u>
Assigned for:				
Encumbrances	27,281	0	0	27,281
Public School Support	<u>10,956</u>	<u>0</u>	<u>0</u>	<u>10,956</u>
Total Assigned	38,237	0	0	38,237
Unassigned	<u>2,025,736</u>	<u>0</u>	<u>(516,362)</u>	<u>1,509,374</u>
Total Fund Balance (Deficit)	<u>\$ 2,063,973</u>	<u>\$ 2,213,632</u>	<u>\$ 84,080</u>	<u>\$ 4,361,685</u>

Note 21 – Subsequent Events

On November 16, 2011, the School District entered into a contract with H.E.A.T. Total Facility Solutions in the amount of \$1,255,217 for projects related to the School District's implementation of House Bill 264.

In fiscal year 2012, the Board of Education also authorized issuance of general obligation bonds not to exceed \$13,635,000 for the purpose of refunding at a lower interest cost certain outstanding School Improvement Bonds, Series 2003.

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December 6, 2011

The Board of Education
Independence Local School District
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 the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Local School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Independence Local School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Independence Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independence Local School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independence Local School District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Independence Local School District
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
Page 2

Compliance and Other Matters

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

We noted certain matters that we reported to management of Independence Local School District in a separate letter dated December 6, 2011.

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

Rea & Associates, Inc.

December 6, 2011

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

Independent Accountant's Report on Applying Agreed-Upon Procedure

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Independence Local School District (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Rea & Associates, Inc.

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Dave Yost • Auditor of State

INDEPENDENCE LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 7, 2012