



OHIO AUDITOR OF STATE
KEITH FABER



**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio (the District), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Efficient • Effective • Transparent

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, Ohio, as of June 30, 2019 and 2018, and the respective changes in cash financial position and the budgetary comparisons for the General Fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

March 13, 2020

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The discussion and analysis of the Independence Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- Net position increased \$1,077,332, which represents a 7 percent increase over 2018.
- During the fiscal year, outstanding debt decreased from \$11,009,993 to \$10,639,050 due to principal payments made by the School District.

Using this Annual Report

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

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

Basis of Accounting

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

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2019?" The *Statement of Net Position* and the *Statement of Activities* answer this question.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2019 compared to 2018.

Table 1
Net Position –Cash Basis

	Governmental Activities		
	2019	2018	Change
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 15,869,925	\$ 14,792,593	\$ 1,077,332
Net Position			
Restricted for:			
Capital Outlay	287,752	380,051	(92,299)
Debt Service	3,717,038	3,562,697	154,341
Other Purposes	93,543	159,785	(66,242)
Unrestricted	11,771,592	10,690,060	1,081,532
<i>Total Net Position</i>	<u>\$ 15,869,925</u>	<u>\$ 14,792,593</u>	<u>\$ 1,077,332</u>

A portion of the School District's net position, \$4,098,333 represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$11,771,592 may be used to meet the School District's ongoing obligations to students and creditors.

Table 2 shows the changes in net position for fiscal year 2019 compared to the fiscal year 2018 for governmental activities.

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Table 2
Changes in Net Position –Cash Basis

	Governmental Activities		
	2019	2018	Change
Receipts			
<i>Program Receipts</i>			
Charges for Services and Sales	\$ 626,665	\$ 610,160	\$ 16,505
Operating Grants, Contributions and Interest	575,520	543,893	31,627
<i>Total Program Receipts</i>	1,202,185	1,154,053	48,132
<i>General Receipts</i>			
Property Taxes	14,437,424	14,760,580	(323,156)
Grants and Entitlements not Restricted	2,150,596	2,215,810	(65,214)
Payments in Lieu of Taxes	3,498,298	2,298,695	1,199,603
Investment Earnings	377,446	188,396	189,050
Miscellaneous	187,901	158,967	28,934
<i>Total General Receipts</i>	20,651,665	19,622,448	1,029,217
<i>Total Receipts</i>	21,853,850	20,776,501	1,077,349
<i>Program Disbursements</i>			
Instruction:			
Regular	8,478,165	8,119,018	359,147
Special	2,061,997	1,742,845	319,152
Student Intervention Services	19,082	17,352	1,730
Other	301,068	289,108	11,960
Support Services:			
Pupils	781,646	901,440	(119,794)
Instructional Staff	739,453	761,474	(22,021)
Board of Education	148,014	178,270	(30,256)
Administration	1,494,147	1,419,270	74,877
Fiscal	607,352	647,190	(39,838)
Business	160,766	131,648	29,118
Operation and Maintenance of Plant	1,822,119	1,794,015	28,104
Pupil Transportation	1,054,795	1,033,306	21,489
Central	48,475	45,616	2,859
Operation of Non-Instructional Services:			
Food Service Operations	311,944	303,150	8,794
Community Services	348,383	175,706	172,677
Extracurricular Activities	683,926	663,913	20,013
Capital Outlay	563,451	417,374	146,077
Debt Service:			
Principal Retirement	370,943	840,000	(469,057)
Interest and Fiscal Charges	780,792	306,496	474,296
<i>Total Program Disbursements</i>	20,776,518	19,787,191	989,327
<i>Change in Net Position</i>	1,077,332	989,310	88,022
<i>Net Position Beginning of Year</i>	14,792,593	13,803,283	989,310
<i>Net Position End of Year</i>	\$ 15,869,925	\$ 14,792,593	\$ 1,077,332

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Program receipts remained fairly constant; however, payments in lieu of taxes increased over prior year due to a compensation agreement with the Educational Service Center. An increase in costs for professional services contributed to the increase in special instruction and a matured capital appreciation bond accounts for the substantial increase in interest and fiscal charges and offsetting the decrease in principal disbursements.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services, that is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements for fiscal year ended 2019 compared to the fiscal year ended 2018.

Table 3
Governmental Activities –Cash Basis

	Total Costs of Services		Net Costs of Services	
	2019	2018	2019	2018
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 8,478,165	\$ 8,119,018	\$ 8,167,974	\$ 7,829,871
Special	2,061,997	1,742,845	1,790,759	1,511,461
Student Intervention Services	19,082	17,352	19,082	17,352
Other	301,068	289,108	301,068	289,108
Support Services:				
Pupils	781,646	901,440	781,646	901,440
Instructional Staff	739,453	761,474	734,053	756,074
Board of Education	148,014	178,270	148,014	178,270
Administration	1,494,147	1,419,270	1,494,147	1,419,270
Fiscal	607,352	647,190	607,352	647,190
Business	160,766	131,648	160,766	131,648
Operation and Maintenance of Plant	1,822,119	1,794,015	1,816,068	1,794,015
Pupil Transportation	1,054,795	1,033,306	1,003,030	982,327
Central	48,475	45,616	48,475	45,616
Operation of Non-Instructional Services:				
Food Service Operations	311,944	303,150	54,002	56,294
Community Services	348,383	175,706	97,521	(74,789)
Extracurricular Activities	683,926	663,913	635,190	584,121
Capital Outlay	563,451	417,374	563,451	417,374
Debt Service:				
Principal Retirement	370,943	840,000	370,943	840,000
Interest and Fiscal Charges	780,792	306,496	780,792	306,496
<i>Total</i>	<u>\$20,776,518</u>	<u>\$19,787,191</u>	<u>\$19,574,333</u>	<u>\$18,633,138</u>

The dependence upon tax receipts and general receipt entitlements from the state for governmental activities is apparent. Program receipts only account for 6 percent of all governmental disbursements. The community, as a whole, is by far the primary support for the School District students.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$15,869,925, which is higher than the prior year balance of \$14,792,593.

The general fund's fund balance increased \$1,084,925 from fiscal year 2018. The increase in fund balance can be mainly attributed to an increase in TIF collections as discussed previously.

The bond retirement fund balance increased \$154,341 from fiscal year 2018. This increase is attributed to the timing of debt service payments compared to receipts.

General Fund Budgeting Highlights

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

Original Budget Compared to Final Budget For the general fund, final budget basis receipts and other financing sources were higher than original budget mainly due to payment in lieu of taxes originally being estimated lower. There were no amendments made to budget basis disbursements and other financing uses.

Final Budget Compared to Actual Results Actual receipts and other financing sources were higher than the final budget with actual payment in lieu of taxes and interest received being higher than estimates. There were no significant differences in final budget basis disbursements and other financing uses to actual disbursements and other financing uses.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2019 and 2018.

Table 4
Outstanding Debt at June 30

	Governmental Activities	
	2019	2018
Energy Conservation Bonds	\$ 685,000	\$ 770,000
2011 School Improvement Serial and Capital Appreciation Bonds	6,739,050	7,004,993
2012 School Improvement Serial and Term Bonds	3,215,000	3,235,000
<i>Total</i>	\$ 10,639,050	\$ 11,009,993

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Current Issues

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

The financial future of the School District improved between the end of fiscal year 2019 and 2018 when the general fund unencumbered cash balance increased to \$11,669,573 from \$10,576,747. The growth is largely due to an increase in the School District's Tax Increment Financing (TIF) property valuations, which resulted in increased collections and expenditures trending below projections. Also a decrease in Board of Revisions complaints led to the School District experiencing lower than estimated refunds back to taxpayers. The School District is projecting to begin deficit spending at the end of fiscal year 2020, at which time the School District will evaluate the need to request additional receipts or reduce disbursements.

Contacting the School District's Financial Management

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

Independence Local School District
Cuyahoga County, Ohio
Statement of Net Position - Cash Basis
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 15,869,925</u>
Net Position	
Restricted for:	
Capital Outlay	287,752
Debt Service	3,717,038
Other Purposes	93,543
Unrestricted	<u>11,771,592</u>
<i>Total Net Position</i>	<u><u>\$ 15,869,925</u></u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2019

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 8,478,165	\$ 310,191	\$ 0	\$ (8,167,974)
Special	2,061,997	49,869	221,369	(1,790,759)
Student Intervention Services	19,082	0	0	(19,082)
Other	301,068	0	0	(301,068)
Support Services:				
Pupils	781,646	0	0	(781,646)
Instructional Staff	739,453	0	5,400	(734,053)
Board of Education	148,014	0	0	(148,014)
Administration	1,494,147	0	0	(1,494,147)
Fiscal	607,352	0	0	(607,352)
Business	160,766	0	0	(160,766)
Operation and Maintenance of Plant	1,822,119	0	6,051	(1,816,068)
Pupil Transportation	1,054,795	0	51,765	(1,003,030)
Central	48,475	0	0	(48,475)
Operation of Non-Instructional Services:				
Food Service Operations	311,944	219,752	38,190	(54,002)
Community Services	348,383	0	250,862	(97,521)
Extracurricular Activities	683,926	46,853	1,883	(635,190)
Capital Outlay	563,451	0	0	(563,451)
Debt Service:				
Principal Retirement	370,943	0	0	(370,943)
Interest and Fiscal Charges	780,792	0	0	(780,792)
Totals	\$ 20,776,518	\$ 626,665	\$ 575,520	\$ (19,574,333)

General Receipts

Property Taxes Levied for:	
General Purposes	12,750,645
Debt Service	1,063,314
Capital Outlay	623,465
Grants and Entitlements not Restricted to Specific Programs	2,150,596
Payments in Lieu of Taxes	3,498,298
Investment Earnings	377,446
Miscellaneous	187,901
Total General Receipts	20,651,665
Change in Net Position	1,077,332
Net Position Beginning of Year	14,792,593
Net Position End of Year	\$ 15,869,925

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2019

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 11,774,985	\$ 3,717,038	\$ 377,902	\$ 15,869,925
<i>Total Assets</i>	<u>\$ 11,774,985</u>	<u>\$ 3,717,038</u>	<u>\$ 377,902</u>	<u>\$ 15,869,925</u>
Fund Balances				
Nonspendable	\$ 3,393	\$ 0	\$ 0	\$ 3,393
Restricted	0	3,717,038	377,902	4,094,940
Assigned	561,200	0	0	561,200
Unassigned	<u>11,210,392</u>	<u>0</u>	<u>0</u>	<u>11,210,392</u>
<i>Total Fund Balances</i>	<u>\$ 11,774,985</u>	<u>\$ 3,717,038</u>	<u>\$ 377,902</u>	<u>\$ 15,869,925</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 12,750,645	\$ 1,063,314	\$ 623,465	\$ 14,437,424
Intergovernmental	2,111,550	152,176	458,463	2,722,189
Investment Income	377,446	0	2,044	379,490
Tuition and Fees	258,158	0	0	258,158
Extracurricular Activities	24,213	0	46,853	71,066
Gifts and Donations	0	0	1,883	1,883
Charges for Services	2,175	0	219,752	221,927
Payments in Lieu of Taxes	3,440,098	0	58,200	3,498,298
Rent	75,514	0	0	75,514
Miscellaneous	128,320	132	59,449	187,901
<i>Total Receipts</i>	<u>19,168,119</u>	<u>1,215,622</u>	<u>1,470,109</u>	<u>21,853,850</u>
Disbursements				
Current:				
Instruction:				
Regular	8,461,891	0	16,274	8,478,165
Special	1,953,255	0	108,742	2,061,997
Student Intervention Services	19,082	0	0	19,082
Other	301,068	0	0	301,068
Support Services:				
Pupils	781,646	0	0	781,646
Instructional Staff	734,053	0	5,400	739,453
Board of Education	148,014	0	0	148,014
Administration	1,494,147	0	0	1,494,147
Fiscal	584,291	15,090	7,971	607,352
Business	160,766	0	0	160,766
Operation and Maintenance of Plant	1,677,893	0	144,226	1,822,119
Pupil Transportation	949,083	0	105,712	1,054,795
Central	48,475	0	0	48,475
Extracurricular Activities	563,246	0	120,680	683,926
Operation of Non-Instructional Services:				
Food Service Operations	740	0	311,204	311,944
Community Services	0	0	348,383	348,383
Capital Outlay	0	0	563,451	563,451
Debt Service:				
Principal Retirement	85,000	285,943	0	370,943
Interest and Fiscal Charges	20,544	760,248	0	780,792
<i>Total Disbursements</i>	<u>17,983,194</u>	<u>1,061,281</u>	<u>1,732,043</u>	<u>20,776,518</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,184,925</u>	<u>154,341</u>	<u>(261,934)</u>	<u>1,077,332</u>
Other Financing Sources (Uses)				
Transfers In	0	0	100,000	100,000
Transfers Out	(100,000)	0	0	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,084,925	154,341	(161,934)	1,077,332
<i>Fund Balances Beginning of Year</i>	<u>10,690,060</u>	<u>3,562,697</u>	<u>539,836</u>	<u>14,792,593</u>
<i>Fund Balances End of Year</i>	<u>\$ 11,774,985</u>	<u>\$ 3,717,038</u>	<u>\$ 377,902</u>	<u>\$ 15,869,925</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts and Other Financing Sources	\$ 17,455,947	\$ 18,366,358	\$ 19,102,747	\$ 736,389
Disbursements and Other Financing Uses	18,450,964	18,450,964	18,061,190	389,774
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	(995,017)	(84,606)	1,041,557	1,126,163
<i>Fund Balance Beginning of Year</i>	10,576,747	10,576,747	10,576,747	0
Prior Year Encumbrances Appropriated	51,269	51,269	51,269	0
<i>Fund Balance End of Year</i>	<u>\$ 9,632,999</u>	<u>\$ 10,543,410</u>	<u>\$ 11,669,573</u>	<u>\$ 1,126,163</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2019

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 9,219	\$ 220,919
Net Position		
Held in Trust for Scholarships	9,219	\$ 0
Held for Student Activities	0	220,919
<i>Total Net Position</i>	\$ 9,219	\$ 220,919

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2019

	Scholarship
Additions	
Gifts and Contributions	\$ 2,983
Deductions	
Scholarships	250
<i>Change in Net Position</i>	2,733
<i>Net Position Beginning of Year</i>	6,486
<i>Net Position End of Year</i>	\$ 9,219

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 1 – Description of the School District and Reporting Entity

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

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

Reporting Entity

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

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

The School District participates in Connect, the Cuyahoga Valley Career Center, and the Ohio Schools’ Council Association, which are defined as jointly governed organizations, the Suburban Health Consortium, which is a risk sharing pool and the Ohio Association of School Business Officials (OASBO) Workers’ Compensation Group Rating Plan which is an insurance purchasing pool. These organizations are presented in Notes 11 and 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Basis of Accounting

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

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

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

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

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

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

Cash and Investments

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

During fiscal year 2019, investments were limited to a money market, government agency securities, certificates of deposit, commercial paper and STAR Ohio.

Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2019, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2019 amounted to \$377,446 with \$105,907 assigned from other funds.

Capital Assets

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

Interfund Receivables/Payables

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Accumulated Leave

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

Pensions and Other Postemployment Benefits (OPEB)

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

Long-Term Obligations

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

Interfund Transactions

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

Net Position

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

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

Fund Balance

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

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

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

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

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

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

Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School District.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School's fiscal year 2019 financial statements; however, there was no effect on beginning net position/fund balance.

Note 3 - Budgetary Basis of Accounting

The statement of receipts, disbursements and changes in fund balance - budget and actual (budget basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

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

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

Net Change in Fund Balance

Cash Basis	\$ 1,084,925
Funds budgeted elsewhere**	17,620
Adjustments for encumbrances	(60,988)
 Budget Basis	 \$ 1,041,557

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

Note 4 - Deposits and Investments

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

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

Protection of the 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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding thirty days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAR Ohio);
- 7) Certain bankers' acceptance and commercial paper notes in an amount not to exceed 40 percent of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days and two hundred seventy days, respectively; and,
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Deposits At year-end, \$836,550 of the School District’s bank balance of \$2,429,332 was exposed to custodial credit risk. Although the securities were held by the pledging financial institutions’ trust department in the School District’s name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

- Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
- Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS required the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2019, the School District had the following investments and maturities:

Rating	Investment	Measurement Amount	Investment Maturity in Months			% Total
			0-12	13-36	Over 36	
	Net Asset Value:					
AAAm	STAR Ohio	\$ 8,665,391	\$ 8,665,391	\$ 0	\$ 0	62.75%
AAAm	Money Market Mutual Fund	2,228	2,228	0	0	0.02%
	Cost:					
AA+	Federal Home Loan Mortgage Corp	250,000	0	250,000	0	1.81%
AAA	Federal Farm Credit Bank	250,000	0	0	250,000	1.81%
N/A	Negotiable Certificates of Deposit	3,201,384	0	1,720,131	1,481,253	23.19%
A-1+	Commercial Paper	1,438,966	1,438,956	0	0	10.42%
		<u>\$ 13,807,969</u>	<u>\$ 10,106,575</u>	<u>\$ 1,970,131</u>	<u>\$ 1,731,253</u>	<u>100.00%</u>

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

Credit Risk The School District has no investment policy dealing with credit risk beyond the requirements in State statutes. Ohio law requires government and agency mutual funds and STAR Ohio to maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2019, is 53 days.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

Note 5 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2019 represents collections of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed value listed as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2019 represents collections of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2017, were levied after April 1, 2018 and are collected in 2019 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Half Collections		2019 First Half Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 434,933,010	95%	\$ 446,145,650	94%
Public Utility	24,612,240	5%	29,497,910	6%
Total	<u>\$ 459,545,250</u>	<u>100%</u>	<u>\$ 475,643,560</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 36.70</u>		<u>\$ 36.70</u>	

Note 6 - Interfund Transfers

During the fiscal year the general fund made transfers to the food service fund in the amount of \$50,000 and the athletics fund in the amount of \$50,000. 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
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 7 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks were covered by commercial insurance purchased from independent third parties.

During the fiscal year, the School District contracted for insurance coverage for property, crime and inland marine insurance; for boilers; and 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 \$1,000,000 with a \$500 deductible.

Employee Benefits liability is protected with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and with a \$1,000 deductible. Vehicles are also covered and hold a \$250 and \$500 deductible for comprehensive and collision, respectively. Automobile liability has a \$1,000,000 combined single limit of liability. The School District also has an Umbrella policy with a limit of \$7,000,000.

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

Workers' Compensation

The School District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP.

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

Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 12) to provide medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which the claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance or the Directors have the right to hold monies for an existing School District subsequent to the settlement of all expenses and claims.

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Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The School District’s contractually required contribution to SERS was \$326,259 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. From August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,091,838 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share:

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	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.06592310%	0.06475831%	
Prior Measurement Date	0.06571870%	0.06364201%	
Change in Proportionate Share	0.00020440%	0.00111630%	
Proportionate Share of the Net Pension Liability	\$ 3,775,538	\$ 14,238,898	\$ 18,014,436

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100% for female rates set back five years is used for the period after disability retirement.

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The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015, five-year experience study, is summarized as follows:

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

Discount Rate Total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net Pension Liability	\$ 5,318,130	\$ 3,775,538	\$ 2,482,178

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Actuarial Assumptions - STRS

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018.

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Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net Pension Liability	\$ 20,794,037	\$ 14,238,898	\$ 8,690,863

Note 9 - Defined Benefit OPEB Plans

Net OPEB Asset/Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School District's surcharge obligation was \$35,322.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$47,406 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is

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included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Asset/Liability

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB asset/liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.06671660%	0.06475831%	
Prior Measurement Date	<u>0.06651250%</u>	<u>0.06364201%</u>	
Change in Proportionate Share	<u>0.00020410%</u>	<u>0.00111630%</u>	
Proportionate Share of the Net OPEB Liability/(Asset)	\$ 1,850,899	\$ (1,041,000)	\$ 809,899

Actuarial Assumptions - SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

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Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 2,245,920	\$ 1,850,899	\$ 1,538,116
		Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 1,493,336	\$ 1,850,899	\$ 2,324,376

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of the School District's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (891,892)	\$ (1,041,000)	\$ (1,165,582)
		Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (1,158,527)	\$ (1,041,000)	\$ (920,836)

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 10 - Long-Term Obligations

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

	Outstanding Balance 6/30/2018	Additions	Deductions	Outstanding Balance 6/30/2019	Amount Due in One Year
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 770,000	\$ 0	\$ 85,000	\$ 685,000	\$ 90,000
2011 Refunding Bonds					
Current Interest Serial Bonds	6,510,000	0	0	6,510,000	0
Capital Appreciation Bonds	494,993	0	265,943	229,050	229,050
Accretion on CAB's	818,541	141,809	484,057	476,293	476,293
2012 Refunding Bonds					
Current Interest Serial Bonds	2,970,000	0	20,000	2,950,000	25,000
Current Interest Term Bonds	265,000	0	0	265,000	0
<i>Total Governmental Long-Term Obligations</i>	<u>\$ 11,828,534</u>	<u>\$ 141,809</u>	<u>\$ 855,000</u>	<u>\$ 11,115,343</u>	<u>\$ 820,343</u>

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

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

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

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

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

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.125 percent. The capital appreciation bonds will mature December 1, 2018 and December 1, 2019, and are not subject to early redemption. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. The maturity amount of the bonds is \$1,500,000.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

2012 Refunding School Improvement General Obligation Bonds – On January 12, 2012 the School District issued \$5,869,996 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$5,520,000, 265,000 and \$84,996, respectively. The capital appreciation bonds matured December 1, 2014. The bonds advance refunded \$5,870,000 of outstanding 2003 School Improvement General Obligation Bonds. The bonds were issued for a nineteen year period with final maturity at December 1, 2030.

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

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

The bond issue consists of serial and term bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2028 with an interest rate of 3.00 percent are subject to mandatory sinking fund redemption.

The mandatory sinking fund redemption is to occur on December 1, 2027, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

Fiscal Year	Principal Amount to be Redeemed
2020	\$ 25,000
2021	25,000
2022	35,000
2023	25,000
2024	25,000
2025	25,000
2026	25,000
2027	30,000
2028	30,000

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2019, are as follows:

Fiscal Year Ending	General Obligation Bonds							
	Serial & Term		Capital Appreciation		Energy Conservation		Total	
June 30,	Principal	Interest	Principal	Accretion	Principal	Interest	Principal	Interest/ Accretion
2020	\$ 25,000	\$ 275,515	\$ 229,050	\$ 520,950	\$ 90,000	\$ 18,418	\$ 344,050	\$ 814,883
2021	775,000	266,890	0	0	90,000	16,078	865,000	282,968
2022	785,000	249,677	0	0	90,000	13,693	875,000	263,370
2023	810,000	231,312	0	0	95,000	11,195	905,000	242,507
2024	825,000	211,535	0	0	15,000	94,913	840,000	306,448
2025 - 2028	3,535,000	602,980	0	0	305,000	15,031	3,840,000	618,011
2029 - 2031	2,970,000	146,498	0	0	0	0	2,970,000	146,498
	<u>\$ 9,725,000</u>	<u>\$ 1,984,407</u>	<u>\$ 229,050</u>	<u>\$ 520,950</u>	<u>\$ 685,000</u>	<u>\$ 169,328</u>	<u>\$ 10,639,050</u>	<u>\$ 2,674,685</u>

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 11 - Jointly Governed Organizations

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

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

Ohio Schools' Council Association The Ohio Schools' Council (OSC) is a jointly governed organization among 200 School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the OSC by paying an annual participation fee. The OSC's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any School District is limited to its representation on the Board. In fiscal year 2019, the School District paid \$4,795 to the OSC for various programs. Financial information can be obtained by contacting Kelly Rocco, Office Manager, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the OSC's electric purchase program, which was implemented during fiscal year 1998 and the natural gas program that was implemented during fiscal year 2000. The electric purchase program allows School Districts to purchase electricity at reduced rates, if the School Districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of 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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 12 – Public Entity Risk Pools

Risk Sharing Pool

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

Insurance Purchasing Pool

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

Note 13 – Contingencies and Significant Commitments

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2019, if applicable, cannot be determined at this time.

Litigation

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

School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2019 are finalized.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$60,988 in the general fund.

Contractual Commitments

The School District had contractual commitments at June 30, 2019 for a high school media center remodel for \$192,000. Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments previously disclosed in this note.

Note 14 - Fund Balance

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

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

	General	Bond Retirement	Other Governmental	Total
Nonspendable for:				
Unclaimed Monies	\$ 3,393	\$ 0	\$ 0	\$ 3,393
Restricted for:				
Debt Service	0	3,717,038	0	3,717,038
Capital Outlay	0	0	287,752	287,752
Student Activities	0	0	55,869	55,869
Other Purposes	0	0	34,281	34,281
Total Restricted	<u>0</u>	<u>3,717,038</u>	<u>377,902</u>	<u>4,094,940</u>
Assigned for:				
Encumbrances:				
Instruction	11,393	0	0	11,393
Support Services	49,535	0	0	49,535
Food Service	60	0	0	60
Other Purposes	25,420	0	0	25,420
Subsequent Year Appropriations	474,792	0	0	474,792
Total Assigned	<u>561,200</u>	<u>0</u>	<u>0</u>	<u>561,200</u>
Unassigned	<u>11,210,392</u>	<u>0</u>	<u>0</u>	<u>11,210,392</u>
Total Fund Balance	<u><u>\$ 11,774,985</u></u>	<u><u>\$ 3,717,038</u></u>	<u><u>\$ 377,902</u></u>	<u><u>\$ 15,869,925</u></u>

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 15 - Set-Asides

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

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

	Capital Improvement Reserve
Set Aside Restricted Balance June 30, 2018	\$ 0
Current Year Set Aside Requirement	189,353
Current Year Qualifying Disbursements	(563,372)
Total	\$ (374,019)
Balance Carried Forward to Fiscal Year 2020	\$ 0
Set Aside Restricted Balance June 30, 2019	\$ 0

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

Note 16 - Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2019, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Note 17 – Subsequent Events

The School District issued bonds in the amount of \$3,215,000 for the purpose of refunding certain School Improvement Refunding Bonds Series 2012.

The School District issued bonds in the amount of \$6,510,000 for the purpose of refunding certain School Improvement Refunding Bonds Series 2011.

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Independence Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position increased \$989,310, which represents a 7 percent increase over 2017.
- During the fiscal year, outstanding debt decreased from \$11,849,993 to \$11,009,993 due to principal payments made by the School District.

Using this Annual Report

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

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

Basis of Accounting

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

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 54. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and bond retirement fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 59 and 60. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2018 compared to 2017.

Table 1
Net Position –Cash Basis

	Governmental Activities	
	2018	2017
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 14,792,593	\$ 13,803,283
Net Position		
Restricted for:		
Capital Outlay	380,051	348,543
Debt Service	3,562,697	3,339,203
Other Purposes	159,785	13,132
Unrestricted	10,690,060	10,102,405
<i>Total Net Position</i>	<u>\$ 14,792,593</u>	<u>\$ 13,803,283</u>

A portion of the School District's net position, \$4,102,533 or 28 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position of \$10,690,060 may be used to meet the School District's ongoing obligations to students and creditors.

Table 2 shows the changes in net position for fiscal year 2018 compared to the fiscal year 2017 for governmental activities.

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Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2
Changes in Net Position –Cash Basis

	Governmental Activities	
	2018	2017
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 610,160	\$ 524,281
Operating Grants, Contributions and Interest	543,893	596,012
Capital Grants, Contributions and Interest	0	40,000
<i>Total Program Receipts</i>	1,154,053	1,160,293
<i>General Receipts</i>		
Property Taxes	14,760,580	13,902,514
Grants and Entitlements not Restricted	2,215,810	3,096,845
Payments in Lieu of Taxes	2,298,695	2,184,214
Investment Earnings	188,396	74,195
Miscellaneous	158,967	173,300
<i>Total General Receipts</i>	19,622,448	19,431,068
<i>Total Receipts</i>	20,776,501	20,591,361
<i>Program Disbursements</i>		
Instruction:		
Regular	8,119,018	7,601,658
Special	1,742,845	1,674,929
Student Intervention Services	17,352	25,868
Other	289,108	260,079
Support Services:		
Pupils	901,440	845,381
Instructional Staff	761,474	822,595
Board of Education	178,270	171,786
Administration	1,419,270	1,283,703
Fiscal	647,190	558,621
Business	131,648	155,219
Operation and Maintenance of Plant	1,794,015	1,783,517
Pupil Transportation	1,033,306	961,152
Central	45,616	33,676
Operation of Non-Instructional Services:		
Food Service Operations	303,150	299,991
Community Services	175,706	354,532
Extracurricular Activities	663,913	651,596
Capital Outlay	417,374	645,155
Debt Service:		
Principal Retirement	840,000	820,000
Interest and Fiscal Charges	306,496	323,303
<i>Total Program Disbursements</i>	19,787,191	19,272,761
<i>Change in Net Position</i>	989,310	1,318,600
<i>Net Position Beginning of Year</i>	13,803,283	12,484,683
<i>Net Position End of Year</i>	\$ 14,792,593	\$ 13,803,283

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Total receipts remained fairly constant; however, this was the result of an increase in property taxes offset by decrease in grants and entitlements not restricted from the one-time Cleveland Clinic Foundation donation in fiscal year 2017. The \$227,781 decrease in capital outlay can be attributed to completion of the middle school roof replacement project.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services, that is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements for fiscal year ended 2018 compared to the fiscal year ended 2017.

Table 3
Governmental Activities –Cash Basis

	Total Costs of Services		Net Costs of Services	
	2018	2017	2018	2017
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 8,119,018	\$ 7,601,658	\$ 7,829,871	\$ 7,454,524
Special	1,742,845	1,674,929	1,511,461	1,439,350
Student Intervention Services	17,352	25,868	17,352	25,868
Other	289,108	260,079	289,108	259,271
Support Services:				
Pupils	901,440	845,381	901,440	845,381
Instructional Staff	761,474	822,595	756,074	817,195
Board of Education	178,270	171,786	178,270	171,786
Administration	1,419,270	1,283,703	1,419,270	1,283,703
Fiscal	647,190	558,621	647,190	558,621
Business	131,648	155,219	131,648	155,219
Operation and Maintenance of Plant	1,794,015	1,783,517	1,794,015	1,783,517
Pupil Transportation	1,033,306	961,152	982,327	912,906
Central	45,616	33,676	45,616	33,676
Operation of Non-Instructional Services:				
Food Service Operations	303,150	299,991	56,294	52,479
Community Services	175,706	354,532	(74,789)	(11,386)
Extracurricular Activities	663,913	651,596	584,121	541,900
Capital Outlay	417,374	645,155	417,374	645,155
Debt Service:				
Principal Retirement	840,000	820,000	840,000	820,000
Interest and Fiscal Charges	306,496	323,303	306,496	323,303
Total	\$19,787,191	\$19,272,761	\$18,633,138	\$18,112,468

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$14,792,593, which is higher than the prior year balance of \$13,803,283.

The general fund's fund balance increased \$587,655 from fiscal year 2017. The increase in fund balance can be attributed to receipts outpacing disbursements from conservative spending.

The bond retirement fund balance increased \$223,494 from fiscal year 2017. This increase is attributed to the timing of debt service payments compared to receipts.

General Fund Budgeting Highlights

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

During the course of fiscal year 2018, the School District amended its general fund budget. For the general fund, final budget basis receipts and other financing sources were \$16,807,182, representing an increase of \$234,313 from the original estimate of \$16,572,869 due to taxes originally being estimated lower. Actual receipts and other financing sources of \$18,032,206 were \$1,225,024 higher than the final budget with actual taxes received being higher than estimates.

For the fiscal year 2018, the general fund final budget basis disbursements and other financing uses were \$17,533,219, representing an increase of \$366,111 from the original estimate of \$17,167,108 to account for the estimated increase in additional resources available to spend. Actual disbursements and financing uses of \$17,520,573 were in line with the final budget.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2018 and 2017.

Table 4
Outstanding Debt at June 30

	Governmental Activities	
	2018	2017
Energy Conservation Bonds	\$ 770,000	\$ 855,000
2011 School Improvement Serial and Capital Appreciation Bonds	7,004,993	7,129,993
2012 School Improvement Serial and Term Bonds	3,235,000	3,865,000
<i>Total</i>	\$ 11,009,993	\$ 11,849,993

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

Independence Local School District
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Current Issues

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

The financial future of the School District improved between the end of fiscal year 2018 and 2017 when the general fund unencumbered cash balance increase to \$10,576,747 from \$10,049,222. The increase is largely due to changes in the current tax law incentivizing tax payers to pay future tax bills in the current tax year, increasing the collection split for the first half of 2018 to 58.9 percent. This resulted in an increase for fiscal year 2018 real estate tax revenue. Also a decrease in Board of Revisions complaints led to the School District experiencing lower that estimated refunds back to taxpayers. The School District is projecting to begin deficit spending at the end of fiscal year 2019, at which time the School District will evaluate the need to request additional receipts or reduce disbursements.

Contacting the School District's Financial Management

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

Independence Local School District
Cuyahoga County, Ohio
Statement of Net Position - Cash Basis
June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 14,792,593
Net Position	
Restricted for:	
Capital Outlay	380,051
Debt Service	3,562,697
Other Purposes	159,785
Unrestricted	10,690,060
<i>Total Net Position</i>	\$ 14,792,593

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2018

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 8,119,018	\$ 289,147	\$ 0	\$ (7,829,871)
Special	1,742,845	32,394	198,990	(1,511,461)
Student Intervention Services	17,352	0	0	(17,352)
Other	289,108	0	0	(289,108)
Support Services:				
Pupils	901,440	0	0	(901,440)
Instructional Staff	761,474	0	5,400	(756,074)
Board of Education	178,270	0	0	(178,270)
Administration	1,419,270	0	0	(1,419,270)
Fiscal	647,190	0	0	(647,190)
Business	131,648	0	0	(131,648)
Operation and Maintenance of Plant	1,794,015	0	0	(1,794,015)
Pupil Transportation	1,033,306	0	50,979	(982,327)
Central	45,616	0	0	(45,616)
Operation of Non-Instructional Services:				
Food Service Operations	303,150	209,401	37,455	(56,294)
Community Services	175,706	0	250,495	74,789
Extracurricular Activities	663,913	79,218	574	(584,121)
Capital Outlay	417,374	0	0	(417,374)
Debt Service:				
Principal Retirement	840,000	0	0	(840,000)
Interest and Fiscal Charges	306,496	0	0	(306,496)
<i>Totals</i>	<u>\$ 19,787,191</u>	<u>\$ 610,160</u>	<u>\$ 543,893</u>	<u>\$ (18,633,138)</u>

General Receipts

Property Taxes Levied for:

General Purposes	13,127,533
Debt Service	1,057,211
Capital Outlay	575,836
Grants and Entitlements not Restricted to Specific Programs	2,215,810
Payments in Lieu of Taxes	2,298,695
Investment Earnings	188,396
Miscellaneous	158,967

Total General Receipts 19,622,448

Change in Net Position 989,310

Net Position Beginning of Year 13,803,283

Net Position End of Year \$ 14,792,593

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 10,690,060	\$ 3,562,697	\$ 539,836	\$ 14,792,593
<i>Total Assets</i>	<u>\$ 10,690,060</u>	<u>\$ 3,562,697</u>	<u>\$ 539,836</u>	<u>\$ 14,792,593</u>
Fund Balances				
Restricted	\$ 0	\$ 3,562,697	\$ 539,836	\$ 4,102,533
Assigned	1,041,571	0	0	1,041,571
Unassigned	9,648,489	0	0	9,648,489
<i>Total Fund Balances</i>	<u>\$ 10,690,060</u>	<u>\$ 3,562,697</u>	<u>\$ 539,836</u>	<u>\$ 14,792,593</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 13,127,533	\$ 1,057,210	\$ 575,836	\$ 14,760,579
Intergovernmental	2,167,146	149,692	441,679	2,758,517
Investment Income	188,396	0	611	189,007
Tuition and Fees	248,750	0	0	248,750
Extracurricular Activities	23,586	0	55,632	79,218
Gifts and Donations	0	0	574	574
Charges for Services	2,125	0	209,401	211,526
Payments in Lieu of Taxes	2,145,070	71,556	81,938	2,298,564
Rent	70,666	0	0	70,666
Miscellaneous	138,372	85	20,643	159,100
<i>Total Receipts</i>	<u>18,111,644</u>	<u>1,278,543</u>	<u>1,386,314</u>	<u>20,776,501</u>
Disbursements				
Current:				
Instruction:				
Regular	8,074,208	0	44,810	8,119,018
Special	1,650,167	0	92,678	1,742,845
Student Intervention Services	17,352	0	0	17,352
Other	289,108	0	0	289,108
Support Services:				
Pupils	901,440	0	0	901,440
Instructional Staff	756,074	0	5,400	761,474
Board of Education	178,270	0	0	178,270
Administration	1,419,270	0	0	1,419,270
Fiscal	622,515	16,009	8,666	647,190
Business	131,648	0	0	131,648
Operation and Maintenance of Plant	1,705,964	0	88,051	1,794,015
Pupil Transportation	914,738	0	118,568	1,033,306
Central	45,616	0	0	45,616
Extracurricular Activities	529,363	0	134,550	663,913
Operation of Non-Instructional Services:				
Food Service Operations	800	0	302,350	303,150
Community Services	0	0	175,706	175,706
Capital Outlay	0	0	417,374	417,374
Debt Service:				
Principal Retirement	85,000	755,000	0	840,000
Interest and Fiscal Charges	22,456	284,040	0	306,496
<i>Total Disbursements</i>	<u>17,343,989</u>	<u>1,055,049</u>	<u>1,388,153</u>	<u>19,787,191</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>767,655</u>	<u>223,494</u>	<u>(1,839)</u>	<u>989,310</u>
Other Financing Sources (Uses)				
Transfers In	0	0	180,000	180,000
Transfers Out	(180,000)	0	0	(180,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(180,000)</u>	<u>0</u>	<u>180,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	587,655	223,494	178,161	989,310
<i>Fund Balances Beginning of Year ,</i>	<u>10,102,405</u>	<u>3,339,203</u>	<u>361,675</u>	<u>13,803,283</u>
<i>Fund Balances End of Year</i>	<u>\$ 10,690,060</u>	<u>\$ 3,562,697</u>	<u>\$ 539,836</u>	<u>\$ 14,792,593</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Receipts, Disbursements and Changes in
Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts and Other Financing Sources	\$ 16,572,869	\$ 16,807,182	\$ 18,032,206	\$ 1,225,024
Disbursements and Other Financing Uses	<u>17,167,108</u>	<u>17,533,219</u>	<u>17,520,573</u>	<u>12,646</u>
Excess (Deficiency) of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	(594,239)	(726,037)	511,633	1,237,670
<i>Fund Balance Beginning of Year</i>	10,049,222	10,049,222	10,049,222	0
Prior Year Encumbrances Appropriated	<u>15,892</u>	<u>15,892</u>	<u>15,892</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 9,470,875</u>	<u>\$ 9,339,077</u>	<u>\$ 10,576,747</u>	<u>\$ 1,237,670</u>

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 6,486	\$ 258,178
Net Position		
Held in Trust for Scholarships	6,486	\$ 0
Held for Student Activities	0	258,178
<i>Total Net Position</i>	\$ 6,486	\$ 258,178

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2018

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

See accompanying notes to the basic financial statements.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 – Description of the School District and Reporting Entity

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

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

Reporting Entity

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

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

The School District participates in Connect, the Cuyahoga Valley Career Center, and the Ohio Schools’ Council Association, which are defined as jointly governed organizations, the Suburban Health Consortium, which is a risk sharing pool and the Ohio Association of School Business Officials (OASBO) Workers’ Compensation Group Rating Plan which is an insurance purchasing pool. These organizations are presented in Notes 11 and 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Basis of Accounting

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

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

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

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

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

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

Cash and Investments

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

During fiscal year 2018, investments were limited to a money market, certificates of deposit, commercial paper and STAR Ohio.

Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2018, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2018 amounted to \$188,396 with \$12,796 assigned from other funds.

Capital Assets

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

Interfund Receivables/Payables

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Accumulated Leave

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

Pensions and Other Postemployment Benefits (OPEB)

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

Long-Term Obligations

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

Interfund Transactions

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

Net Position

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

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

Fund Balance

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

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

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

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

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

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

Implementation of New Accounting Principles

For the fiscal year ended June 30, 2018, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. See Note 9 for further information.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School District.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

Note 3 - Budgetary Basis of Accounting

The statement of receipts, disbursements and changes in fund balance - budget and actual (budget basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

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

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

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Net Change in Fund Balance

Cash Basis	\$ 587,655
Funds budgeted elsewhere**	(24,752)
Adjustments for encumbrances	<u>(51,270)</u>
 Budget Basis	 <u>\$ 511,633</u>

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

Note 4 - Deposits and Investments

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

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

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

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

Protection of the 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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding thirty days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAR Ohio);
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Investments

As of June 30, 2018, the School District had the following investments and maturities:

<u>Rating</u>	<u>Investment Type</u>	<u>Measurement Amount</u>	<u>Investment Maturity 12 Months or Less</u>	<u>Percent of Total</u>
	Net Asset Value:			
AAAm	STAR Ohio	\$ 8,092,593	\$ 8,092,593	61.70%
AAAm	Money Market Mutual Fund	13,763	13,763	0.10%
	Cost:			
N/A	Negotiable Certificates of Deposit	497,938	497,938	3.80%
P-1	Commercial Paper	4,511,359	4,511,359	34.40%
		<u>\$ 13,115,653</u>	<u>\$ 13,115,653</u>	<u>100.00%</u>

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

Credit Risk The School District has no investment policy dealing with credit risk beyond the requirements in State statutes. Ohio law requires government and agency mutual funds and STAR Ohio to maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days.

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

Note 5 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Half Collections		2018 First Half Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 426,271,810	95%	\$ 434,933,010	95%
Public Utility	22,521,000	5%	24,612,240	5%
Total	\$ 448,792,810	100%	\$ 459,545,250	100%
Tax rate per \$1,000 of assessed valuation	<u>\$ 36.70</u>		<u>\$ 36.70</u>	

Note 6 - Interfund Transfers

During the fiscal year the general fund made transfers to the food service fund in the amount of \$80,000 and the athletics fund in the amount of \$100,000. These transfers were made to move unrestricted balances to support programs accounted for in other funds in accordance with budgetary authorization.

Note 7 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks were covered by commercial insurance purchased from independent third parties.

During the fiscal year, the School District contracted for insurance coverage for property, crime and inland marine insurance; for boilers; and 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 \$250,000 with a \$500 deductible and purchased additional coverage of \$500,000 with a \$50,000 Deductible.

Employee Benefits liability is protected with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and with a \$1,000 deductible. Vehicles are also covered and hold a \$250 and \$500 deductible for comprehensive and collision, respectively. Automobile liability has a \$1,000,000 combined single limit of liability. The School District also has an Umbrella policy with a limit of \$7,000,000.

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

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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 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

Employee Health Benefits

The School District participates in the Suburban Health Consortium, a shared risk pool (Note 12) to provide medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which the claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance or the Directors have the right to hold monies for an existing school district subsequent to the settlement of all expenses and claims.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School District’s contractually required contribution to SERS was \$305,521 for fiscal year 2018.

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Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,029,429 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 3,926,547	\$ 15,118,296	\$ 19,044,843
Proportion of the Net Pension Liability	0.06571870%	0.06364201%	

Actuarial Assumptions - SERS

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

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

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

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Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

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long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	\$ 5,449,027	\$ 3,926,547	\$ 2,651,160

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent 12.50 percent at age 20 to 2.50 percent at age 65	2.75 percent
Salary Increases	7.45 percent, net of investment expenses, including inflation	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	3.00 percent	7.75 percent, net of investment expenses, including inflation
Payroll Increases	0.00 percent effective July 1, 2017	3.50 percent
Cost-of-Living Adjustments		2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2.00 percent per year; for members retiring August 11 2013, or later, 2.00 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017 actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

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	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	\$ 21,671,563	\$ 15,118,296	\$ 9,598,151

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

Note 9 - Defined Benefit OPEB Plans

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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

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

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

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GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries.

Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$35,433.

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The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District’s contractually required contribution to SERS was \$46,433 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to postemployment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$ 1,785,021	\$ 2,483,076	\$ 4,268,097
Proportion of the Net OPEB Liability	0.06651250%	0.06364201%	

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS’ actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025.

Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

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	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's Proportionate Share of the Net OPEB Liability	\$ 2,155,640	\$ 1,785,021	\$ 1,491,396

	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 1,448,411	\$ 1,785,021	\$ 2,230,530

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00</u></u> %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$ 3,333,490	\$ 2,483,076	\$ 1,810,972
		Current Trend Rate	
	1% Decrease	1% Increase	
School District's Proportionate Share of the Net OPEB Liability	\$ 1,725,135	\$ 2,483,076	\$ 3,480,616

Note 10 - Long-Term Obligations

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

	Outstanding Balance 6/30/2017	Additions	Deductions	Outstanding Balance 6/30/2018	Amount Due in One Year
<i>General Obligation Bonds:</i>					
Energy Conservation Bonds	\$ 855,000	\$ 0	\$ 85,000	\$ 770,000	\$ 85,000
2011 Refunding Bonds					
Current Interest Serial Bonds	6,635,000	0	125,000	6,510,000	0
Capital Appreciation Bonds	494,993	0	0	494,993	265,943
Accretion on CAB's	637,631	180,910	0	818,541	439,445
2012 Refunding Bonds					
Current Interest Serial Bonds	3,600,000	0	630,000	2,970,000	20,000
Current Interest Term Bonds	265,000	0	0	265,000	0
Total Governmental Long-Term Obligations	\$ 12,487,624	\$ 180,910	\$ 840,000	\$ 11,828,534	\$ 810,388

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

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

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

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

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

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with an interest rate of 1.00 – 3.125 percent. The capital appreciation bonds will mature December 1, 2018 and December 1, 2019, and are not subject to early redemption. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. The maturity amount of the bonds is \$1,500,000.

2012 Refunding School Improvement General Obligation Bonds – On January 12, 2012 the School District issued \$5,869,996 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$5,520,000, 265,000 and \$84,996, respectively. The capital appreciation bonds matured December 1, 2014. The bonds advance refunded \$5,870,000 of outstanding 2003 School Improvement General Obligation Bonds. The bonds were issued for a nineteen year period with final maturity at December 1, 2030.

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

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

The bond issue consists of serial and term bonds. The serial bonds were issued with an interest rate of 1.00 – 3.25 percent. The term bonds that mature in fiscal year 2028 with an interest rate of 3.00 percent are subject to mandatory sinking fund redemption.

The mandatory sinking fund redemption is to occur on December 1, 2027, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

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Fiscal Year	Principal Amount to be Redeemed
2019	\$ 20,000
2020	25,000
2021	25,000
2022	35,000
2023	25,000
2024	25,000
2025	25,000
2026	25,000
2027	30,000
2028	30,000

Principal and interest requirements to retire long-term general obligation bonds outstanding at June 30, 2018, are as follows:

Fiscal Year Ending	General Obligation Bonds							
	Serial & Term		Capital Appreciation		Energy Conservation		Total	
	Principal	Interest	Principal	Accretion	Principal	Interest	Principal	Interest/ Accretion
June 30,								
2019	\$ 20,000	\$ 276,190	\$ 265,943	\$ 484,057	\$ 85,000	\$ 20,544	\$ 370,943	\$ 780,791
2020	25,000	275,515	229,050	520,950	90,000	18,418	344,050	814,883
2021	775,000	266,890	0	0	90,000	16,078	865,000	282,968
2022	785,000	249,677	0	0	90,000	13,693	875,000	263,370
2023	810,000	231,312	0	0	95,000	11,195	905,000	242,507
2024 - 2028	4,360,000	814,515	0	0	320,000	109,944	4,680,000	924,459
2029 - 2031	2,970,000	146,498	0	0	0	0	2,970,000	146,498
	<u>\$ 9,745,000</u>	<u>\$ 2,260,597</u>	<u>\$ 494,993</u>	<u>\$ 1,005,007</u>	<u>\$ 770,000</u>	<u>\$ 189,872</u>	<u>\$ 11,009,993</u>	<u>\$ 3,455,476</u>

Note 11 - Jointly Governed Organizations

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

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.

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Ohio Schools' Council Association The Ohio Schools' Council (OSC) is a jointly governed organization among 200 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to member districts. Each district supports the OSC by paying an annual participation fee. The OSC's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2018, the School District paid \$4,780 to the OSC for various programs. Financial information can be obtained by contacting Kelly Rocco, Office Manager, Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the OSC's electric purchase program, which was implemented during fiscal year 1998 and the natural gas program that was implemented during fiscal year 2000. The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

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

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

Note 12 – Public Entity Risk Pools

Risk Sharing Pool

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

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Insurance Purchasing Pool

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

Note 13 – Contingencies and Significant Commitments

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

Litigation

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

School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2018 are finalized.

Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$51,269 in the general fund.

Contractual Commitments

The School District had a contractual commitment at June 30, 2018, in the amount of \$305,006 for roof replacements. Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments previously disclosed in this note.

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Fund Balance

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

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

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
Restricted for:				
Debt Service	\$ 0	\$ 3,562,697	\$ 0	\$ 3,562,697
Capital Outlay	0	0	380,051	380,051
Student Activities	0	0	48,106	48,106
Auxiliary Services	0	0	79,891	79,891
Other Purposes	0	0	31,788	31,788
Total Restricted	<u>0</u>	<u>3,562,697</u>	<u>539,836</u>	<u>4,102,533</u>
Assigned for:				
Encumbrances:				
Instruction	17,421	0	0	17,421
Support Services	33,848	0	0	33,848
Other Purposes	46,554	0	0	46,554
Subsequent Year Appropriations	943,748	0	0	943,748
Total Assigned	<u>1,041,571</u>	<u>0</u>	<u>0</u>	<u>1,041,571</u>
Unassigned	9,648,489	0	0	9,648,489
Total Fund Balance	<u>\$ 10,690,060</u>	<u>\$ 3,562,697</u>	<u>\$ 539,836</u>	<u>\$ 14,792,593</u>

Note 15 - Set-Asides

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

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

Independence Local School District
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	Capital Improvement Reserve
Set Aside Restricted Balance June 30, 2017	\$ 0
Current Year Set Aside Requirement	183,605
Current Year Qualifying Disbursements	<u>(562,731)</u>
Total	<u>\$ (379,126)</u>
Balance Carried Forward to Fiscal Year 2019	<u>\$ 0</u>
Set Aside Restricted Balance June 30, 2018	<u>\$ 0</u>

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

Note 16 - Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2018, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independence Local School District, Cuyahoga County, (the District) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2020, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

District's Response to Findings

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 13, 2020

**INDEPENDENCE LOCAL SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2019 AND 2018**

FINDING NUMBER 2019-001

GAAP Reporting – Noncompliance Finding

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

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

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

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

INDEPENDENCE LOCAL SCHOOLS

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INDEPENDENCE LOCAL SCHOOL DISTRICT CUYAHOGA COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2019 AND 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	<p>Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year.</p> <p>Ohio Admin. Code § 117-2-03(B) requires all schools to file annual financial reports in accordance with generally accepted accounting principles. However, the District prepared its' financial statements on a cash basis, which is a comprehensive basis of accounting other than US GAAP.</p>	Not Corrected.	The Independence Local School District, Board of Education, examined the cost-benefits of GAAP reporting and believes that the cash-basis financial statement is the most cost-effective way to produce and provide the readers with an easy to understand report. Cash-basis financial statements are similar to other management reports produced throughout the fiscal year, such as the five year forecast, and can be compared without major adjustments.

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENCE LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2020**