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Cleveland School District
Audited Financial Statements
For the Year Ended June 30, 2015

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi

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CLEVELAND SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT



DAVID I. BRIDGERS, JR., CPA
L. KARL GOODMAN, CPA, MBA

MEMBERS OF
MISSISSIPPI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

INDEPENDENT AUDITOR'S REPORT

**Superintendent and School Board
Cleveland School District**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Cleveland School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 6-16, 47-48, 49 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cleveland School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required the Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures of Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances-General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund-Balances-All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures of Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances-General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2016, on our consideration of the Cleveland School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cleveland School District's internal control over financial reporting and compliance.

Bridgers & Goodman, PLLC

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi
January 7, 2016

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

The following discussion and analysis of Cleveland School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$36,016,430, including a prior period adjustment of (\$37,224,568), which represents a 488% decrease from fiscal year 2014. Total net position for 2014 increased \$882,146, including a prior period adjustment of (\$37,359), which represents a 14% increase from the 2013 fiscal year.
- General revenues amounted to \$27,111,941, and \$26,673,186, or 79% and 83% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,114,615, or 21% of total revenues for 2015, and \$5,618,844, or 17% of total revenues for 2014.
- The District had \$33,018,418 and \$31,372,525 in expenses for fiscal years 2015 and 2014; only \$7,114,615 for 2015 and \$5,618,844 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$27,111,941 for 2015 and \$26,673,186 for 2014 were adequate to provide for these programs.
- Among major funds, the General Fund had \$26,252,481 in revenues and \$26,054,533 in expenditures for 2015, and \$25,356,837 in revenues and \$24,398,854 in expenditures in 2014. The General Fund's fund balance increased by \$608,844, which includes a prior period adjustment of \$199,198, from 2014 to 2015 and increased by \$848,522, which includes a prior period adjustment of (\$37,359), from 2013 to 2014.
- Capital assets, net of accumulated depreciation, decreased by \$118,518 for 2015 and increased by \$703,005 for 2014. The decrease for 2015 was due to the net effect of a \$327,640 addition of assets coupled with the gain on disposal of \$23,908 less the increase in accumulated depreciation of \$465,311.
- Long-term debt decreased by \$10,884 for 2015 and increased by \$122,292 for 2014. The decrease for 2015 was due primarily to the net effect of capital lease issuance and principal payments on outstanding long-term debt. In addition, the liability for compensated absences increased by \$27,017 for 2015 and decreased by \$93,556 for the fiscal year 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information,

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

supplementary information and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's non-fiduciary assets and liabilities with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities, in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's Balance Sheet is reconciled to the Statement of Net Position, and the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund's Balance Sheet and in the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified actual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on governmental funds financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of the District's Contributions are presented in this section.

Supplementary Information

Additionally, a Schedule of Expenditures' of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Additionally, not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$28,629,031 as of June 30, 2015.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net position at June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Table 1
Condensed Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Current assets	\$ 7,723,465	\$ 6,979,191	10.66%
Restricted assets	1,790,758	1,751,753	2.23%
Capital assets, net	9,189,501	9,308,019	-1.27%
Total assets	<u>18,703,724</u>	<u>18,038,963</u>	<u>3.69%</u>
Deferred outflows of resources	<u>3,386,351</u>	<u>26,360</u>	<u>12746.55%</u>
Current liabilities	1,079,531	977,709	10.41%
Long-term debt outstanding	9,716,348	9,700,215	0.17%
Net pension liability	33,986,872		N/A
Total liabilities	<u>44,782,751</u>	<u>10,677,924</u>	<u>319.40%</u>
Deferred inflows of resources	<u>5,936,355</u>		<u>N/A</u>
Net position:			
Net investment in capital assets	838,168	1,280,135	-34.53%
Restricted	2,179,794	1,698,718	28.32%
Unrestricted	<u>(31,646,993)</u>	<u>4,408,546</u>	<u>-817.86%</u>
Total net position	<u>\$ (28,629,031)</u>	<u>\$ 7,387,399</u>	<u>-487.54%</u>

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (31,556,080)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	<u>36,552,676</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 4,996,596</u>

The following are significant current year transactions that have had an impact on the Statement of Net Position.

- Implementation of GASB Statement No. 68 which required the recording of a liability for the proportionate share of the school district, as well as the recording of deferred outflows/inflows of resources on the Statement of Net Position.
- Decrease in net capital assets in the amount of \$118,518.
- The principal retirement of \$693,366 of long-term debt.
- Issuing \$682,482 in capital leases.

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$34,226,556 and \$32,292,030, respectively. The total cost of all programs and services was \$33,018,418 for 2015 and \$31,372,525 for 2014.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Table 2
Changes in Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Revenues:			
Program revenues			
Charges for services	\$ 565,706	\$ 505,696	11.87%
Operating grants and contributions	6,548,909	5,113,148	28.08%
General revenues:			
Property taxes	9,653,848	10,055,162	-3.99%
Grants and contributions not restricted	17,079,172	16,287,728	4.86%
Investment earnings	35,585	17,355	105.04%
Sixteenth section sources	308,565	297,308	3.79%
Other	34,771	15,633	122.42%
Total revenues	<u>34,226,556</u>	<u>32,292,030</u>	<u>5.99%</u>
Expenses:			
Instruction	16,704,874	17,067,198	-2.12%
Support services	11,922,010	11,926,393	-0.04%
Non-instructional	2,199,823	2,057,012	6.94%
Sixteenth section	56,502	62,168	-9.11%
Pension expense	1,938,594		N/A
Interest on long-term liabilities	196,615	259,754	-24.31%
Total expenses	<u>33,018,418</u>	<u>31,372,525</u>	<u>5.25%</u>
Increase in net position	<u>1,208,138</u>	<u>919,505</u>	<u>31.39%</u>
Net Position, July 1, as previously reported	7,387,399	6,505,253	13.56%
Prior Period Adjustment	<u>(37,224,568)</u>	<u>(37,359)</u>	<u>-99540.16%</u>
Net Position, July 1, as restated	<u>(29,837,169)</u>	<u>6,467,894</u>	<u>-561.31%</u>
Net Position, June 30	<u>\$ (28,629,031)</u>	<u>\$ 7,387,399</u>	<u>-487.54%</u>

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

GASB 68 was implemented in fiscal year 2015. Prior year amounts do not reflect the implementation of GASB 68

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	
Instruction	\$ 16,704,874	\$ 17,067,198	-2.12%
Support services	11,922,010	11,926,393	-0.04%
Non-instructional	2,199,823	2,057,012	6.94%
Sixteenth section	56,502	62,168	-9.11%
Pension expense	1,938,594		N/A
Interest on long-term liabilities	196,615	259,754	-24.31%
Total expenses	\$ 33,018,418	\$ 31,372,525	5.25%
	<u>Net (Expense) Revenue</u>		
Instruction	\$ (12,361,502)	\$ (14,151,018)	-12.65%
Support services	(11,410,689)	(10,545,843)	8.20%
Non-instructional	(30,054)	(734,898)	-95.91%
Sixteenth section	(56,502)	(62,168)	-9.11%
Pension expense	(1,938,594)		N/A
Interest on long-term liabilities	(106,462)	(259,754)	-59.01%
Total net (expense) revenue	\$ (25,903,803)	\$ (25,753,681)	0.58%

- Net cost of governmental activities, \$25,903,803 for 2015 and \$25,753,681 for 2014 was financed by general revenue, which is made up of primarily property taxes of \$9,653,848 for 2015 and \$10,055,162 for 2014 and state and federal revenues of \$17,079,172 for 2015 and \$16,287,728 for 2014. In addition, there was \$308,565 and \$297,308 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$35,585 for 2015 and \$17,355 for 2014.

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,527,110, an increase of \$675,149, which includes a prior period adjustment of \$186,819 and an increase in inventory of \$10,398. \$6,147,217 or 72% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$2,379,893 or 28% is either non-spendable, restricted, committed, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$608,844, which includes a prior period adjustment of \$199,198. The fund balance of Other Governmental Funds showed an increase in the amount of \$66,305 which includes a prior period adjustment of (\$12,379) and an increase in reserve for inventory of \$10,398. The other increases (decreases) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Title I Part A Fund	\$ 0

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Beginning fund balance was adjusted to actual between the original and final budgets.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue fund is provided in this report as required supplementary information.

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District's total capital assets were \$17,480,644, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$99,536 from 2014. Total accumulated depreciation as of June 30, 2015, was \$8,291,143, and total depreciation expense for the year was \$465,311, resulting in total net capital assets of \$9,189,501.

Table 4
Capital Assets, Net of Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 111,026	\$ 111,036	-0.01%
Construction in progress	113,878	330,569	-65.55%
Buildings	6,352,778	6,516,404	-2.51%
Building improvements	1,408,075	820,143	71.69%
Improvements other than buildings	36,426	37,558	-3.01%
Mobile equipment	611,249	727,052	-15.93%
Furniture and equipment	40,450	84,172	-51.94%
Leased property under capital leases	515,619	681,085	-24.29%
Total	\$ <u>9,189,501</u>	\$ <u>9,308,019</u>	<u>-1.27%</u>

Additional information on the District's capital assets can be found in Note 5 included in this report.

Debt Administration

At June 30, 2015, the District had \$9,716,348 in outstanding long-term debt, of which \$771,198 is due within one year. The liability for compensated absences at June 30, 2015 was \$274,102, an increase of \$27,017 from the prior year. The District maintains an AA bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 1,445,000	\$ 1,780,000	-18.82%
Three mill notes payable	165,000	325,000	-49.23%
Qualified school construction bonds payable	6,741,437	6,741,437	0.00%
Obligations under capital lease	1,090,809	606,693	79.80%
Compensated absences payable	274,102	247,085	10.93%
Total	\$ <u>9,716,348</u>	\$ <u>9,700,215</u>	<u>0.17%</u>

Additional information on the district's long term debt can be found in Note 6 in this report.

Cleveland School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

CURRENT ISSUES

The Cleveland School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The district actively pursues grant funding to supplement local, state and federal revenues.

The District is developing and maintaining a comprehensive facility study and plan to use it as a guide for future improvements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Cleveland School District, 305 Merritt Drive, Cleveland, MS 38732.

CLEVELAND SCHOOL DISTRICT

FINANCIAL STATEMENTS

Cleveland School District

Statement of Net Position June 30, 2015	Exhibit A
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,019,518
Due from other governments	1,306,821
Inventories	36,318
Prepaid items	12,568
Other receivables	348,240
Restricted assets	1,790,758
Capital assets, non-depreciable:	
Land	111,026
Construction in progress	113,878
Capital assets, net of accumulated depreciation:	
Buildings	6,352,778
Building improvements	1,408,075
Improvements other than buildings	36,426
Mobile equipment	611,249
Furniture and equipment	40,450
Leased property under capital leases	515,619
Total Assets	18,703,724
Deferred Outflows of Resources	
Deferred charges	15,800
Deferred outflows- pensions	3,370,551
Total deferred outflows of resources	3,386,351
Liabilities	
Accounts payable and accrued liabilities	596,929
Unearned revenue	4,025
Other payables	386,159
Interest payable on long-term liabilities	92,418
Long-term liabilities, due within one year	
Capital related liabilities	771,198
Long-term liabilities, due beyond one year	
Capital related liabilities	7,671,048
Non-capital related liabilities	1,274,102
Net pension liability	33,986,872
Total Liabilities	44,782,751
Deferred Inflows of Resources	
Deferred inflows- pensions	5,936,355
Total deferred inflows of resources	5,936,355
Net Position	
Net investment in capital assets	838,168
Restricted for:	
Expendable:	
School-based activities	256,916
Debt service	1,400,793
Forestry improvements	146
Unemployment benefits	88,016
Non-expendable:	
Sixteenth section	433,923
Unrestricted	(31,646,993)
Total Net Position	\$ (28,629,031)

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Statement of Activities

Exhibit B

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 16,704,874	\$ 402,193	\$ 3,941,179	\$ (12,361,502)
Support services	11,922,010		511,321	(11,410,689)
Non-instructional	2,199,823	163,513	2,006,256	(30,054)
Sixteenth section	56,502			(56,502)
Pension expense	1,938,594			(1,938,594)
Interest and other costs on long term liabilities	196,615		90,153	(106,462)
Total Governmental Activities	\$ 33,018,418	\$ 565,706	\$ 6,548,909	\$ (25,903,803)
General Revenues:				
Taxes:				
General purpose levies				9,385,848
Debt purposes levies				268,000
Unrestricted grants and contributions:				
State				16,777,243
Federal				301,929
Unrestricted investment earnings				35,585
Sixteenth section sources				308,565
Other				34,771
Total General Revenues				27,111,941
Change in Net Position				1,208,138
Net Position - Beginning, as previously reported				7,387,399
Prior period adjustments				(37,224,568)
Net Position - Beginning, as restated				(29,837,169)
Net Position - Ending				\$ (28,629,031)

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Governmental Funds

Balance Sheet
June 30, 2015

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Title I Part A	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 5,702,241	\$ 283	\$ 852,802	\$ 6,555,326
Investments			1,254,950	1,254,950
Due from other governments	494,322	168,823	584,562	1,247,707
Other receivables	279,589		68,651	348,240
Advances to other funds	20,000			20,000
Due from other funds	405,441		973	406,414
Inventories			36,318	36,318
Prepaid items	12,568			12,568
Total Assets	6,914,161	169,106	2,798,256	9,881,523
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	311,142	45,106	240,681	596,929
Due to other funds	973	124,000	242,327	367,300
Unavailable revenue			4,025	4,025
Other payables	313,602		72,557	386,159
Total Liabilities	625,717	169,106	559,590	1,354,413
Fund Balances:				
Nonspendable				
Inventory			36,318	36,318
Permanent fund principal			433,923	433,923
Prepaid items	12,568			12,568
Advances	20,000			20,000
Restricted				
Unemployment benefits			88,016	88,016
Capital projects			75,113	75,113
Forestry improvements			146	146
Debt service			1,493,211	1,493,211
Food service			82,714	82,714
Assigned				
Food service			16,914	16,914
Special activity			12,311	12,311
Unassigned	6,255,876			6,255,876
Total Fund Balances	6,288,444	-	2,238,666	8,527,110
Total Liabilities and Fund Balances	\$ 6,914,161	\$ 169,106	\$ 2,798,256	\$ 9,881,523

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015**

Exhibit C-1

Total fund balances for governmental funds \$ 8,527,110

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

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	111,026	
Construction in progress		113,878	
Buildings		11,457,177	
Building improvements		1,744,853	
Improvements other than buildings		112,238	
Mobile equipment		2,477,238	
Furniture and equipment		875,937	
Leased property under capital leases		588,297	
Accumulated depreciation		<u>(8,291,143)</u>	9,189,501

2. Some liabilities, including net position obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability (33,986,872)

Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		3,370,551	
Deferred inflows of resources related to pensions		<u>(5,936,355)</u>	(36,552,676)

3. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation bonds	(1,445,000)	
Three mill notes payable	(165,000)	
Qualified school construction bonds payable	(6,741,437)	
Capital lease obligations	(1,090,809)	
Compensated absences payable	(274,102)	
Unamortized charges	15,800	
Accrued interest payable	<u>(92,418)</u>	(9,792,966)

Net Position of governmental activities \$ (28,629,031)

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Title I Part A	Other Governmental Funds	
Revenues:				
Local sources	\$ 9,868,016	\$ -	\$ 453,983	\$ 10,321,999
Intermediate sources	-	-	27,465	27,465
State sources	15,775,471	-	1,698,568	17,474,039
Federal sources	300,429	1,523,585	4,263,167	6,087,181
Sixteenth section sources	308,565	-	-	308,565
Total Revenues	<u>26,252,481</u>	<u>1,523,585</u>	<u>6,443,183</u>	<u>34,219,249</u>
Expenditures:				
Instruction	14,769,149	910,941	2,294,701	17,974,791
Support services	11,055,158	502,191	1,297,775	12,855,124
Noninstructional services	173,724	60,187	2,034,354	2,268,265
Sixteenth section	56,502	-	-	56,502
Facilities acquisitions & construction	-	-	263,342	263,342
Debt service:				
Principal	-	-	693,366	693,366
Interest	-	-	194,496	194,496
Other	-	-	4,458	4,458
Total Expenditures	<u>26,054,533</u>	<u>1,473,319</u>	<u>6,782,492</u>	<u>34,310,344</u>
Excess (Deficiency) of Revenues over Expenditures	<u>197,948</u>	<u>50,266</u>	<u>(339,309)</u>	<u>(91,095)</u>
Other Financing Sources (Uses):				
Capital leases issued	613,831	-	68,651	682,482
Insurance recovery	7,307	-	-	7,307
Sale of other property	8,710	-	-	8,710
Operating transfers in	112,896	-	401,574	514,470
Operating transfers out	(401,574)	(50,266)	(62,630)	(514,470)
Other financing uses	(129,472)	-	-	(129,472)
Total Other Financing Sources (Uses)	<u>211,698</u>	<u>(50,266)</u>	<u>407,595</u>	<u>569,027</u>
Net Change in Fund Balances	<u>409,646</u>	<u>-</u>	<u>68,286</u>	<u>477,932</u>
Fund Balances:				
July 1, 2014, as previously reported	5,679,600	-	2,172,361	7,851,961
Prior period adjustments	199,198	-	(12,379)	186,819
July 1, 2014, as restated	<u>5,878,798</u>	<u>-</u>	<u>2,159,982</u>	<u>8,038,780</u>
Increase in reserve for inventory	-	-	10,398	10,398
June 30, 2015	<u>\$ 6,288,444</u>	<u>\$ -</u>	<u>\$ 2,238,666</u>	<u>\$ 8,527,110</u>

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2015**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 477,932

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	\$ 327,640	
Depreciation expense	<u>(465,311)</u>	(137,671)
2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold.		(23,908)
3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Capital leases issued	(682,482)	
Payments of debt principal	693,366	
Accrued interest payable	<u>2,339</u>	13,223
4. The statement of activities reports pension expense and other activity related to net pension liability:		
Pension expense	(1,938,594)	
Contributions made after the measurement date	<u>2,840,366</u>	901,772
5. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	(27,017)	
Change in inventory reserve	10,398	
Amortization of deferred charges, premiums and discounts	<u>(6,591)</u>	<u>(23,210)</u>
Change in Net Position of governmental activities		<u>\$ 1,208,138</u>

The notes to the financial statements are an integral part of this statement.

Cleveland School District

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2015

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>425,011</u>
Total Assets	<u>425,011</u>
Liabilities	
Accounts payable and accrued liabilities	361,911
Due to other funds	39,114
Due to student clubs	3,986
Advances	<u>20,000</u>
Total Liabilities	\$ <u>425,011</u>

The notes to the financial statements are an integral part of this statement.

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

NOTE 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is a related organization of, but not a component unit of, the City of Cleveland since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Cleveland School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Government-wide and Fund Financial Statement

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title I Part A Fund - This fund accounts for the resources and expenditures of federal revenues for specific purposes.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The District also reports fiduciary funds include the following:

Payroll Clearing Fund – This fund serves as a clearing fund for payroll type transactions.

Student Club Funds – These funds account for the monies earned through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Accounts Payable Clearing Fund – This fund serves as a clearing fund for payables outstanding at year end.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal, interest.

Permanent Funds - Permanent Funds are used to account for resources that are restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

**Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015**

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems*, 2003, issued by the U.S. Department of Education.

D. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders, and contracts.

E. Assets, liabilities, deferred outflows/inflows and net position/fund balances

1. Cash and Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased. Prepaid items, such a prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

**Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015**

6. Capital Assets

Capital assets include land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the governmental column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization <u>Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The deferred outflows of resources are deferred charges on bond issues and pension related.

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources are pension related.

See Note 7 for further details.

8. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

See Note 6 for details.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Cleveland School District
Notes to the Financial Statements
For the Year Ended June 30, 2015

11. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as non-spendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Non-spendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivables, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. At June 30, 2015 there are currently no committed fund balances.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and the Business Manager pursuant to authorization established by the district's approved fund balance policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

**Cleveland School District
Notes to the Financial Statements
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12. New Pronouncements

In June 2012, the GASB issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for fiscal years beginning after June 15, 2014.

NOTE 2 - Cash and Cash Equivalents and Investments

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits: The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments: Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, and any open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,555,326 and \$425,011, respectively. A portion of this

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amount, \$535,808, is presented as restricted assets on Exhibit A. The carrying amount of deposits reported in government-wide statements was: \$6,019,518.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution’s trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2015, none of the district’s bank balance of \$9,166,668 was exposed to custodial credit risk.

Investments

As of June 30, 2015, the district had the following investments with fiscal agents.

<u>Investment</u>	<u>Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Hancock Bank – Federated US Treasury Cash Reserve	US Treasury Deposit	Various	\$ 178,665
Trustmark Bank – U.S. Government Securities	US Treasury Deposit	Various	646,325
Bank Plus – U.S. Government Securities	US Treasury Deposit	Various	429,960
Total Investments			<u>\$ 1,254,950</u>

Interest Rate Risk: The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments: Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. Of the district’s investments none of the underlying securities are held by the investment’s counterparty, not in the name of the district.

Concentration of Credit Risk: Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

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Notes to the Financial Statements
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NOTE 3 - Inter-fund Receivables, Payables, and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I - Part A	\$ 124,000
General Fund	Other Governmental Funds	242,327
General Fund	Fiduciary Funds	39,114
Other Governmental Funds	General Fund	<u>973</u>
Total		<u>\$ 406,414</u>

The purpose of the most significant inter-fund loans was to close out federal programs at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fiduciary Funds	\$ 20,000
Total		<u>\$ 20,000</u>

Advances were for cash flow purposes.

C. Inter-fund Transfers

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 401,574
Title I - Part A	General Fund	50,266
Other Governmental Funds	General Fund	<u>62,630</u>
Total		<u>\$ 514,470</u>

Inter-fund transfers were to provide funds for daily operations. All inter-fund transfers were routine and consistent with the activities of the fund making the transfer.

NOTE 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$432,950 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash balance in the amount of \$13,759 of the QSCB debt service fund.

Cleveland School District
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In addition, the restricted assets represent the cash and investments balance in the amount of \$13,986 and \$178,665, respectively, of the MAEP Limited Obligation Bond/Note Fund.

In addition, the restricted assets represent the cash balance in the amount of \$75,113 of the unspent Qualified School Construction Bond proceeds and investments in the amount of \$1,076,285 which represents the amount on deposit in the QSCB sinking fund.

NOTE 5 - Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2015</u>
Non-depreciable capital assets:					
Land	\$ 111,036			(10)	\$ 111,026
Construction in progress	330,569	113,878		(330,569)	113,878
Total non-depreciable capital assets	<u>441,605</u>	<u>113,878</u>	<u>-</u>	<u>(330,579)</u>	<u>224,904</u>
Depreciable capital assets:					
Buildings	11,455,321			1,856	11,457,177
Building improvements	1,095,726	149,464		499,663	1,744,853
Improvement other than buildings	112,238				112,238
Mobile equipment	2,704,834		239,072	11,476	2,477,238
Furniture and equipment	858,206	64,298		(46,567)	875,937
Leased property under capital lease	713,178			(124,881)	588,297
Total depreciable capital assets	<u>16,939,503</u>	<u>213,762</u>	<u>239,072</u>	<u>341,547</u>	<u>17,255,740</u>
Less accumulated depreciation:					
Buildings	4,938,917	165,482			5,104,399
Building improvements	275,583	61,195			336,778
Improvement other than buildings	74,680	1,132			75,812
Mobile equipment	1,977,782	103,371	215,164		1,865,989
Furniture and equipment	774,034	61,453			835,487
Leased property under capital lease	32,093	72,678		(32,093)	72,678
Total accumulated depreciation	<u>8,073,089</u>	<u>465,311</u>	<u>215,164</u>	<u>(32,093)</u>	<u>8,291,143</u>
Total depreciable capital assets, net	<u>8,866,414</u>	<u>(251,549)</u>	<u>23,908</u>	<u>373,640</u>	<u>8,964,597</u>
Governmental activities capital assets, net	<u>\$ 9,308,019</u>	<u>(137,671)</u>	<u>23,908</u>	<u>43,061</u>	<u>\$ 9,189,501</u>

Depreciation expense was charged to the following governmental functions:

<u>Governmental Activities</u>	<u>Amount</u>
Instruction	\$ 264,310
Support services	162,296
Non-instructional	38,705
Total depreciation expense	<u>\$ 465,311</u>

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Construction in progress is composed of:

<u>Governmental Activities</u>	<u>Spent to June 30, 2015</u>	<u>Remaining Commitment</u>
Additions and Renovations	\$ 113,878	\$ 298,984
Total	<u>\$ 113,878</u>	<u>\$ 298,984</u>

Construction projects included in governmental activities are funded from Qualified School Construction Bonds.

NOTE 6 - Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Amounts due within one year</u>
A. Limited obligation bonds payable	\$ 1,780,000	\$	\$ 335,000	\$ 1,445,000	\$ 345,000
B. Three mill notes payable	325,000		160,000	165,000	165,000
C. Qualified school construction bond payable	6,741,437			6,741,437	
D. Obligations under capital leases	606,693	682,482	198,366	1,090,809	261,198
E. Compensated absences payable	247,085	27,017		274,102	
Total	<u>\$ 9,700,215</u>	<u>\$ 709,499</u>	<u>\$ 693,366</u>	<u>\$ 9,716,348</u>	<u>\$ 771,198</u>

A. Limited obligation bonds payable

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds, Series 2009	4.90%	07/01/09	02/01/18	3,155,000	1,445,000
Total				<u>\$ 3,155,000</u>	<u>\$ 1,445,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 345,000	\$ 38,555	\$ 383,555
2017	355,000	28,055	383,055
2018	745,000	17,255	762,255
Total	<u>\$ 1,445,000</u>	<u>\$ 83,865</u>	<u>\$ 1,528,865</u>

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The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Retirement Fund (Debt Service Fund).

B. Three mill-ten notes payable.

Debt Currently outstanding as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes, Series 2010	1.75-2.25%	11/12/2010	11/1/2015	780,000	165,000
Total				\$ 780,000	\$ 165,000

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2016	\$ 165,000	\$ 3,711	\$ 168,711
Total	\$ 165,000	\$ 3,711	\$ 168,711

C. Qualified school construction bonds payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified School Construction bonds.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trustmark Bank limited tax note, Series 2010	0.36%	11/19/2010	12/1/2024	\$ 1,771,437	\$ 1,771,437
Bankplus limited tax note, Series 2012	0.00%	3/20/2012	3/15/2027	3,970,000	3,970,000
Trustmark Bank limited tax note, Series 2013	0.00%	6/18/2013	6/15/2028	1,000,000	1,000,000
Total				\$ 6,741,437	\$ 6,741,437

D. Obligations under capital lease

The school district has entered into a lease agreement as lessee for financing the acquisition of technology upgrades, band equipment, and a master lease at the cost of \$713,718, \$44,811, and \$682,482, respectively. These leases qualify as capital leases for accounting purposes.

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Debt currently outstanding as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Brocade lease purchase	5.99%	7/15/2013	3/15/2018	\$ 713,718	\$ 436,009
Band equipment	5.99%	8/15/2013	8/15/2017	44,811	26,826
Master lease	3.82%	10/9/2014	10/10/2021	682,482	627,974
			Total	\$ <u>1,441,011</u>	\$ <u>1,090,809</u>

The following is a schedule by years of the total payments due on these leases:

Brocade lease purchase

Year Ending June 30	Principal	Interest	Total
2016	\$ 140,517	\$ 14,788	\$ 155,305
2017	145,282	10,022	155,304
2018	150,210	5,094	155,304
Total	\$ <u>436,009</u>	\$ <u>29,904</u>	\$ <u>465,913</u>

Band equipment

Year Ending June 30	Principal	Interest	Total
2016	\$ 8,427	\$ 1,607	\$ 10,034
2017	8,932	1,102	10,034
2018	9,467	567	10,034
Total	\$ <u>26,826</u>	\$ <u>3,276</u>	\$ <u>30,102</u>

Master Lease

Year Ending June 30	Principal	Interest	Total
2016	\$ 112,254	\$ 25,856	\$ 138,110
2017	116,493	21,617	138,110
2018	120,892	17,218	138,110
2019	125,458	12,652	138,110
2020	105,807	7,913	113,720
2021-2022	47,070	5,110	52,180
Total	\$ <u>627,974</u>	\$ <u>90,366</u>	\$ <u>718,340</u>

E. Compensated absences payable

As more fully explained in Note 1 (E) (8), compensated absences payables is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

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NOTE 7 - Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$2,840,366, \$2,727,769 and \$2,497,839, respectively, which equaled the required contributions for each year.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school district reported a liability of \$33,986,872 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.28 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,938,594. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 530,185	\$
Net difference between projected and actual earnings on pension plan investments		4,926,647
Changes in proportion and differences between district contributions and proportionate share of contributions		1,009,708
District contributions subsequent to the measurement date	2,840,366	
Total	\$ 3,370,551	\$ 5,936,355

\$2,840,366 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (1,404,152)
2017	(1,404,152)
2018	(1,366,204)
2019	<u>(1,231,662)</u>
Total	\$ <u>(5,406,170)</u>

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

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The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34 %	5.2 %
International Equity	19	5
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4
Private Equity	8	6.15
Cash	1	-0.5
Total	100 %	

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of net pension liability	\$ 46,334,243	\$ 33,986,872	\$ 23,687,331

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

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NOTE 8 - Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2016	\$ 131,143
2017	79,473
2018	79,473
2019	79,473
2020	70,666
Thereafter	<u>1,778,910</u>
Total	<u>\$ 2,219,138</u>

NOTE 9 - Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (40,182,217)
Deferred outflows - contributions made during fiscal year 2014	<u>2,727,769</u>
Total prior period adjustment related to GASB 68 and 71	(37,454,448)
2. To adjust fixed assets to subsidiary ledger	43,061
3. To correct prior period accruals.	<u>186,819</u>
Total	<u>\$ (37,224,568)</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
1. General Fund	To correct prior period accruals.	\$ 187,622
2. General Fund	To reclassify sixteenth section interest fund	11,576
3. Other Governmental Fund	To correct prior period accruals	(803)
4. Other Governmental Fund	To reclassify sixteenth section interest fund	<u>(11,576)</u>
Total		<u>\$ 186,819</u>

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NOTE 10 - Contingencies

Federal Grants: The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation: The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

NOTE 11 - Risk Management

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. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 77 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. This district has not had an additional assessment for excess losses incurred by the pool.

NOTE 12 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the

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ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest is the responsibility of the school district.

The school district makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2015 was \$1,076,285. In addition, there was \$75,113 of unspent bond proceeds at June 30, 2015. The amount in the sinking fund at the end of the 15 year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Series 2010	Series 2012	Series 2013	Total All Series
2016	\$ 126,531	\$ 140,000	\$ 66,000	\$ 332,531
2017	126,531	310,000	66,000	502,531
2018	126,531	310,000	66,000	502,531
2019	126,531	310,000	67,000	503,531
2020	126,531	310,000	67,000	503,531
2021-2025	632,656	1,550,000	335,000	2,517,656
2025-2029		620,000	201,000	821,000
Total	<u>\$ 1,265,311</u>	<u>\$ 3,550,000</u>	<u>\$ 868,000</u>	<u>\$ 5,683,311</u>

NOTE 13 – Insurance Loss Recoveries

The Cleveland School District received \$7,307 in insurance loss recoveries related to damage to school awning during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as other general revenues and allocated to the Non-instructional expense function.

NOTE 14 - Subsequent Events

Events that occur after the statement of net position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management of the Cleveland Public School District evaluated the activity of the district through January 7, 2016, and determined that no subsequent events have occurred that require disclosure.

CLEVELAND SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Cleveland School District

Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 9,972,666	\$ 9,868,016	\$ 9,868,016	\$ (104,650)	\$ -
Intermediate sources	25,000			(25,000)	-
State sources	15,490,719	15,775,471	15,775,471	284,752	-
Federal sources	98,000	300,429	300,429	202,429	-
Sixteenth section sources		308,565	308,565	308,565	-
Total Revenues	<u>25,586,385</u>	<u>26,252,481</u>	<u>26,252,481</u>	<u>666,096</u>	<u>-</u>
Expenditures:					
Instruction	15,614,253	14,769,149	14,769,149	845,104	-
Support services	11,801,458	11,055,158	11,055,158	746,300	-
Noninstructional services	176,546	173,724	173,724	2,822	-
Sixteenth section		56,502	56,502	(56,502)	-
Total Expenditures	<u>27,592,257</u>	<u>26,054,533</u>	<u>26,054,533</u>	<u>1,537,724</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,005,872)</u>	<u>197,948</u>	<u>197,948</u>	<u>2,203,820</u>	<u>-</u>
Other Financing Sources (Uses):					
Capital leases issued	784,694	613,831	613,831	(170,863)	-
Insurance recovery		7,307	7,307	7,307	-
Sale of other property	10,000	8,710	8,710	(1,290)	-
Operating transfers in	454,012	112,896	112,896	(341,116)	-
Operating transfers out	(522,034)	(401,574)	(401,574)	120,460	-
Other financing uses	(20,000)	(129,472)	(129,472)	(109,472)	-
Total Other Financing Sources (Uses)	<u>706,672</u>	<u>211,698</u>	<u>211,698</u>	<u>(494,974)</u>	<u>-</u>
Net Change in Fund Balances	<u>(1,299,200)</u>	<u>409,646</u>	<u>409,646</u>	<u>1,708,846</u>	<u>-</u>
Fund Balances:					
July 1, 2014, as previously reported	4,320,823	5,679,600	5,679,600	1,358,777	-
Prior period adjustments		199,198	199,198	199,198	-
July 1, 2014, as restated	<u>4,320,823</u>	<u>5,878,798</u>	<u>5,878,798</u>	<u>1,557,975</u>	<u>-</u>
June 30, 2015	<u>\$ 3,021,623</u>	<u>\$ 6,288,444</u>	<u>\$ 6,288,444</u>	<u>\$ 3,266,821</u>	<u>\$ -</u>

The notes to the required supplementary information are an integral part of this schedule.

Cleveland School District

Required Supplementary Information

Budgetary Comparison Schedule

Title I Part A Fund

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,934,786	\$ 1,523,585	\$ 1,523,585	\$ (411,201)	\$ -
Total Revenues	<u>1,934,786</u>	<u>1,523,585</u>	<u>1,523,585</u>	<u>(411,201)</u>	<u>-</u>
Expenditures:					
Instruction	1,103,330	910,941	910,941	192,389	-
Support services	692,448	502,191	502,191	190,257	-
Noninstructional services	<u>81,730</u>	<u>60,187</u>	<u>60,187</u>	<u>21,543</u>	<u>-</u>
Total Expenditures	<u>1,877,508</u>	<u>1,473,319</u>	<u>1,473,319</u>	<u>404,189</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>57,278</u>	<u>50,266</u>	<u>50,266</u>	<u>(7,012)</u>	<u>-</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(57,278)</u>	<u>(50,266)</u>	<u>(50,266)</u>	<u>7,012</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(57,278)</u>	<u>(50,266)</u>	<u>(50,266)</u>	<u>7,012</u>	<u>-</u>
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the required supplementary information are an integral part of this schedule.

Cleveland School District

Required Supplementary Information

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS

Last 10 Fiscal Years*

	<u>2015</u>
District's proportion of the net pension liability	\$ 33,986,872
District's proportionate share of the net pension liability	0.28%
District's covered-employee payroll	\$ 17,319,168
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	196.24%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is complied, the District has only presented information for the years in which information is available.

The notes to the required supplementary information are an integral part of this schedule.

Cleveland School District

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years*

	<u>2015</u>
Contractually required contribution	\$ 2,840,366
Contributions in relation to the contractually required contribution	2,840,366
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered-employee payroll	\$ 18,034,070
Contributions as a percentage of covered-employee payroll	15.75%

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is complied, the District has only presented information for the years in which information is available.

The notes to the required supplementary information are an integral part of this schedule.

CLEVELAND SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Cleveland School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

Budgetary Comparison Schedules

(1) Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

None.

CLEVELAND SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

Cleveland School District
Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
Healthier US school challenge for smarter lunch rooms	* 10.543	\$ 1,500
National school breakfast program	* 10.553	477,044
National school lunch program	* 10.555	1,507,813
Summer food service program for children	* 10.559	4,827
Total child nutrition		<u>1,991,184</u>
Total U.S. Department of Agriculture Pass-Through Programs		<u>1,991,184</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
School libraries program of the universal service fund	32.XXX	<u>267,747</u>
Total Federal Communications Commission		<u>267,747</u>
<u>U.S. Department of Education</u>		
Direct program:		
Magnet school assistance	84.165	<u>214,864</u>
Passed-through Mississippi Department of Education:		
Special education cluster:		
Special education - educational interpreter program	* 84.027A	31,944
Special education - grants to states	* 84.027	906,529
Special education - preschool grants	* 84.173	37,192
Total special education		<u>975,665</u>
Other programs		
Title I - Grants to local educational agencies	84.010	2,086,743
Career and technical education - basic grants to states	84.048	4,000
Education for homeless children and youth	84.196	13,119
Gaining early awareness and readiness for undergraduate programs	84.334	3,335
Rural education	84.358	75,030
Improving teacher quality state grants	* 84.367	364,604
Total		<u>2,546,831</u>
Total U.S. Department of Education		<u>3,737,360</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Medicaid:		
Medical assistance program	93.778	737
Total U.S. Department of Health and Human Services		<u>737</u>
Total for All Federal Awards		\$ <u>5,997,028</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. * Denotes major program

Cleveland School District

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 23,823,044	\$ 17,965,955	\$ 1,023,450	\$ 2,085,167	\$ 2,748,472
Other	10,487,300	6,110,854	75,080	25,258	4,276,108
Total	\$ <u>34,310,344</u>	\$ <u>24,076,809</u>	\$ <u>1,098,530</u>	\$ <u>2,110,425</u>	\$ <u>7,024,580</u>
Total number of students	* <u>3,338</u>				
Cost per student	\$ <u>10,279</u>	\$ <u>7,213</u>	\$ <u>329</u>	\$ <u>632</u>	\$ <u>2,104</u>

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes).

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s).

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s).

Other - includes all expenditure functions not included in Instruction or Administration Categories.

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

CLEVELAND SCHOOL DISTRICT

OTHER INFORMATION

Cleveland School District

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

"UNAUDITED"

	2015	2014 *	2013 *	2012 *
Revenues:				
Local sources	\$ 9,868,016	\$ 9,564,007	\$ 9,349,828	\$ 8,995,940
Intermediate sources		13,200		
State sources	15,775,471	15,678,349	14,467,889	14,060,422
Federal sources	300,429	101,281	197,215	207,162
Sixteenth section sources	308,565	-	-	-
Total Revenues	<u>26,252,481</u>	<u>25,356,837</u>	<u>24,014,932</u>	<u>23,263,524</u>
Expenditures:				
Instruction	14,769,149	14,297,979	13,806,746	13,147,166
Support services	11,055,158	9,940,149	9,217,473	8,483,560
Noninstructional services	173,724	160,726	134,245	112,247
Sixteenth section	56,502			
Debt Service:				
Principal				
Interest				2,470
Total Expenditures	<u>26,054,533</u>	<u>24,398,854</u>	<u>23,158,464</u>	<u>21,745,443</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>197,948</u>	<u>957,983</u>	<u>856,468</u>	<u>1,518,081</u>
Other Financing Sources (Uses):				
Capital leases issued	613,831	757,989		
Insurance recovery	7,307			
Sale of other property	8,710	3,651		2,428
Operating transfers in	112,896	338,597	180,885	434,346
Operating transfers out	(401,574)	(1,152,339)	(1,093,331)	(1,001,030)
Other financing uses	(129,472)	(20,000)		
Total Other Financing Sources (Uses)	<u>211,698</u>	<u>(72,102)</u>	<u>(912,446)</u>	<u>(564,256)</u>
Net Change in Fund Balances	<u>409,646</u>	<u>885,881</u>	<u>(55,978)</u>	<u>953,825</u>
Fund Balances:				
Beginning of period, as previously reported	5,679,600	4,831,078	4,887,056	3,933,231
Prior period adjustments	199,198	(37,359)		
Beginning of period, as restated	<u>5,878,798</u>	<u>4,793,719</u>	<u>4,887,056</u>	<u>3,933,231</u>
End of Period	<u>\$ 6,288,444</u>	<u>\$ 5,679,600</u>	<u>\$ 4,831,078</u>	<u>\$ 4,887,056</u>

* SOURCE - PRIOR YEAR AUDIT REPORTS

Cleveland School District

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

"UNAUDITED"

	2015	2014 *	2013 *	2012 *
Revenues:				
Local sources	\$ 10,321,999	\$ 10,162,765	\$ 9,765,071	\$ 9,369,656
Intermediate sources	27,465	13,200		
State sources	17,474,039	16,586,953	15,359,388	14,987,004
Federal sources	6,087,181	5,229,369	5,821,109	7,728,793
Sixteenth section sources	308,565	297,309	171,561	154,761
Total Revenues	34,219,249	32,289,596	31,117,129	32,240,214
Expenditures:				
Instruction	17,974,791	17,190,491	17,023,384	17,440,692
Support services	12,855,124	12,111,668	11,571,879	10,659,155
Noninstructional services	2,268,265	2,151,017	2,149,298	2,137,953
Sixteenth section	56,502	62,168	43,420	46,946
Facilities acquisitions & construction	263,342	330,569		3,680,957
Debt service:				
Principal	693,366	641,296	470,000	455,000
Interest	194,496	183,201	178,857	92,830
Other	4,458	6,350	2,500	17,223
Total Expenditures	34,310,344	32,676,760	31,439,338	34,530,756
Excess (Deficiency) of Revenues over (under) Expenditures	(91,095)	(387,164)	(322,209)	(2,290,542)
Other Financing Sources (Uses):				
Proceeds of refunding bonds			1,000,000	
Bonds and notes issued				3,970,000
Capital leases issued	682,482	757,989		
Insurance recovery	7,307			
Sale of other property	8,710	3,651		2,428
Operating transfers in	514,470	1,490,936	1,274,216	1,435,400
Operating transfers out	(514,470)	(1,490,936)	(1,274,216)	(1,435,400)
Other financing uses	(129,472)	(20,000)		
Total Other Financing Sources (Uses)	569,027	741,640	1,000,000	3,972,428
Net Change in Fund Balances	477,932	354,476	677,791	1,681,886
Fund Balances:				
Beginning of period, as previously reported	7,851,961	7,549,233	6,878,561	5,198,154
Prior period adjustments	186,819	(37,359)	-	-
Beginning of period, as restated	8,038,780	7,511,874	6,878,561	5,198,154
Increase (Decrease) in reserve for inventory	10,398	(14,389)	(7,119)	(1,479)
End of Period	\$ 8,527,110	\$ 7,851,961	\$ 7,549,233	\$ 6,878,561

* SOURCE - PRIOR YEAR AUDIT REPORTS

CLEVELAND SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



DAVID I. BRIDGERS, JR., CPA
L. KARL GOODMAN, CPA, MBA

MEMBERS OF
MISSISSIPPI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

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

Superintendent and School Board
Cleveland School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Cleveland School District's basic financial statements, and have issued our report thereon dated January 7, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Bridgers & Goodman, PLLC

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi
January 7, 2016



DAVID I. BRIDGERS, JR., CPA
L. KARL GOODMAN, CPA, MBA

MEMBERS OF
MISSISSIPPI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; REQUIRED BY OMB CIRCULAR A-133**

Superintendent and School Board
Cleveland School District

Report on Compliance for Each Major Federal Program

We have audited Cleveland School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Cleveland School District's major federal programs for the year ended June 30, 2015. Cleveland School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cleveland School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cleveland School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cleveland School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cleveland School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Cleveland School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cleveland School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cleveland School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bridgers & Goodman, PLLC

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi
January 7, 2016

CLEVELAND SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**



BRIDGERS & GOODMAN, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

DAVID I. BRIDGERS, JR., CPA
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MEMBERS OF
MISSISSIPPI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**

Superintendent and School Board
Cleveland School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2015, which collectively comprise Cleveland School District's basic financial statements and have issued our report thereon dated January 7, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district did not report any classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations.

However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instance of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bridgers & Goodman, PLLC

Bridgers & Goodman, PLLC
Certified Public Accountants
Vicksburg, Mississippi
January 7, 2016

CLEVELAND SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Cleveland School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Child nutrition cluster:
10.543	Healthier US school challenge for smarter lunch rooms
10.553	National school breakfast program
10.555	National school lunch program
10.559	Summer food service program for children
	Special education cluster:
84.027A	Special education - educational interpreter program
84.027	Special education - grants to states
84.173	Special education - preschool grants
	Other programs:
84.367	Improving teacher quality state grants

- | | | |
|----|--|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee? | No |

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Section III: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.