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CLEVELAND SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2016

CLEVELAND SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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**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, 2016, 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, 2016, 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 6-14, 44-46, 47 and 48, 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 basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for 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 February 6, 2017, 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.

*Cunningham CPAs, PLLC*

Belzoni, Mississippi

February 6, 2017



## MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. 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 2016 decreased \$207,891, which represents a 1% decrease from fiscal year 2015. 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.
- General revenues amounted to \$27,505,991 and \$27,111,941, or 78% and 79% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,967,652, or 22% of total revenues for 2016, and \$7,114,615, or 21% of total revenues for 2015.
- The District had \$35,744,238 and \$33,018,418 in expenses for fiscal years 2016 and 2015; only \$7,967,652 for 2016 and \$7,114,615 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$27,505,991 for 2016 were not adequate to provide for these programs and \$27,111,941 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$26,533,348 in revenues and \$26,002,546 in expenditures for 2016, and \$26,252,481 in revenues and \$26,054,533 in expenditures in 2015. The General Fund's fund balance increased by \$710,777 from 2015 to 2016, and increased by \$608,844 from 2014 to 2015.
- Capital assets, net of accumulated depreciation, increased by \$85,855 for 2016 and decreased by \$118,518 for 2015. The increase for 2016 was due to capital additions coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$53,769 for 2016 and decreased by \$10,884 for 2015. This decrease for 2016 was due primarily to the inception of capital leases net of principal payments on outstanding long-term debt. The liability for compensated absences increased by \$38,363 for 2016 and increased by \$27,017 for 2015.

## 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, supplementary information, and other information.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader 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 nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position."

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

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, pension expense, 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 funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds 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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All 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. These funds are reported using the accrual basis of accounting. 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 accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

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

Capital outlay spending results in capital assets on government-wide 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 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, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions 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.

### **Supplementary Information**

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

### **Other Information**

Although 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 the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$28,836,922 as of June 30, 2016.

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.

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

Table 1 presents a summary of the District's net position at June 30, 2016 and June 30, 2015.

**Table 1**  
**Condensed Statement of Net Position**

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 7,936,601	\$ 7,723,465	2.76 %
Restricted assets	2,099,447	1,790,758	17.24 %
Capital assets, net	9,275,356	9,189,501	0.93 %
<b>Total assets</b>	<b>19,311,404</b>	<b>18,703,724</b>	<b>3.25 %</b>
 <b>Deferred outflows of resources</b>	 <b>8,120,333</b>	 <b>3,386,351</b>	 <b>139.80 %</b>
 Current liabilities	 573,783	 1,079,531	 -46.85 %
Long-term debt outstanding	9,662,579	9,716,348	-0.55 %
Net pension liability	44,828,280	33,986,872	31.90 %
<b>Total liabilities</b>	<b>55,064,642</b>	<b>44,782,751</b>	<b>22.96 %</b>
 <b>Deferred inflows of resources</b>	 <b>1,204,017</b>	 <b>5,936,355</b>	 <b>-79.72 %</b>
 <b>Net position:</b>			
Net investment in capital assets	1,147,636	838,168	36.92 %
Restricted	2,747,860	2,179,794	26.06 %
Unrestricted	(32,732,418)	(31,646,993)	-3.43 %
<b>Total net position</b>	<b>\$ (28,836,922)</b>	<b>\$ (28,629,031)</b>	<b>-0.73 %</b>

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (32,732,418)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	  <u>37,921,173</u>
 Unrestricted net position, exclusive of the net pension liability effect	  <u><u>\$ 5,188,755</u></u>

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

- Increase in net capital assets in the amount of \$85,855.
- The principal retirement of \$1,070,735 of long-term debt.
- Inception of capital leases of \$978,603.

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$35,473,643 and \$34,226,556, respectively. The total cost of all programs and services was \$35,744,238 for 2016 and \$33,018,418 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

**Table 2**  
**Changes in Net Position**

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 499,561	\$ 565,706	(11.69) %
Operating grants and contributions	7,468,091	6,548,909	14.04 %
General revenues:			
Property taxes	10,094,207	9,653,848	4.56 %
Grants and contributions not restricted	16,875,961	17,079,172	(1.19) %
Investment earnings	38,578	35,585	8.41 %
Sixteenth section sources	275,941	308,565	(10.57) %
Other	221,304	34,771	536.46 %
<b>Total revenues</b>	<u><b>35,473,643</b></u>	<u><b>34,226,556</b></u>	<b>3.64 %</b>
<b>Expenses:</b>			
Instruction	16,812,761	16,704,874	0.65 %
Support services	12,204,713	11,922,010	2.37 %
Non-instructional	2,228,310	2,199,823	1.29 %
Sixteenth section sources	45,045	56,502	(20.28) %
Pension expense	4,256,647	1,938,594	119.57 %
Interest on long-term liabilities	196,762	196,615	0.07 %
<b>Total expenses</b>	<u><b>35,744,238</b></u>	<u><b>33,018,418</b></u>	<b>8.26 %</b>
<b>Increase (Decrease) in net position</b>	<u><b>(270,595)</b></u>	<u><b>1,208,138</b></u>	<b>(122.40) %</b>
<b>Net Position, July 1, as previously reported</b>	<u><b>(28,629,031)</b></u>	<u><b>7,387,399</b></u>	<b>(487.54) %</b>
<b>Prior Period Adjustment</b>	<u><b>62,704</b></u>	<u><b>(37,224,568)</b></u>	<b>100.17 %</b>
<b>Net Position, July 1, as restated</b>	<u><b>(28,566,327)</b></u>	<u><b>(29,837,169)</b></u>	<b>4.26 %</b>
<b>Net Position, June 30</b>	<u><b>\$ (28,836,922)</b></u>	<u><b>\$ (28,629,031)</b></u>	<b>(0.73) %</b>

**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 liabilities. 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 presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

**Table 3**  
**Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage</b>
	<b>2016</b>	<b>2015</b>	<b>Change</b>
Instruction	\$ 16,812,761	\$ 16,704,874	0.65 %
Support services	12,204,713	11,922,010	2.37 %
Non-instructional	2,228,310	2,199,823	1.29 %
Sixteenth section	45,045	56,502	(20.28) %
Pension Expense	4,256,647	1,938,594	119.57 %
Interest on long-term liabilities	196,762	196,615	0.07 %
<b>Total expenses</b>	<b>\$ 35,744,238</b>	<b>\$ 33,018,418</b>	<b>8.26 %</b>

  

	<b>Net (Expense) Revenue</b>		<b>Percentage</b>
	<b>2016</b>	<b>2015</b>	<b>Change</b>
Instruction	\$ (13,348,641)	\$ (12,361,502)	7.99 %
Support services	(9,887,786)	(11,410,689)	(13.35) %
Non-instructional	(41,705)	(30,054)	38.77 %
Sixteenth section	(45,045)	(56,502)	(20.28) %
Pension Expense	(4,256,647)	(1,938,594)	119.57 %
Interest on long-term liabilities	(196,762)	(106,462)	84.82 %
<b>Total net (expense) revenue</b>	<b>\$ (27,776,586)</b>	<b>\$ (25,903,803)</b>	<b>7.23 %</b>

- Net cost of governmental activities (\$27,776,586 for 2016 and \$25,903,803 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$10,094,207 for 2016 and \$9,653,848 for 2015) and state and federal revenues (\$16,875,961 for 2016 and \$17,079,172 for 2015). In addition, there was \$275,941 and \$308,565 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$38,578 for 2016 and \$35,585 for 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 \$9,547,348, an increase of \$1,020,238, which includes an increase in inventory of \$8,560. \$6,681,847 or 70% 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 \$2,865,501 or 30% is either nonspendable, 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.

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

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 \$710,777. The fund balance of Other Governmental Funds showed an increase in the amount of \$309,461, which includes an increase in reserve for inventory of \$8,560, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I fund	No increase or decrease
IDEA Part B Fund	No increase or decrease

## 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.

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 funds is provided in this report as required supplementary information.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2016, the District's total capital assets were \$17,804,076, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$323,432 from 2015. Total accumulated depreciation as of June 30, 2016, was \$8,528,720, and total depreciation expense for the year was \$413,841, resulting in total net capital assets of \$9,275,356.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 111,026	\$ 111,026	0.00 %
Construction in Progress	-	113,878	(100.00) %
Buildings	6,249,785	6,352,778	(1.62) %
Building improvements	1,688,578	1,408,075	19.92 %
Improvements other than buildings	33,767	36,426	(7.30) %
Mobile equipment	503,332	611,249	(17.66) %
Furniture and equipment	245,927	40,450	507.98 %
Leased property under capital leases	442,941	515,619	(14.10) %
<b>Total</b>	<b>\$ 9,275,356</b>	<b>\$ 9,189,501</b>	<b>0.93 %</b>

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



CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

**Debt Administration.** At June 30, 2016, the District had \$9,662,579 in outstanding long-term debt, of which \$922,567 is due within one year. The liability for compensated absences increased \$38,363 from the prior year.

**Table 5**  
**Outstanding Long-Term Debt**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 1,100,000	\$ 1,445,000	(23.88) %
Three mill notes payable	-	165,000	(100.00) %
Qualified school construction bonds payable	6,741,437	6,741,437	0.00 %
Obligations under capital leases	1,508,677	1,090,809	38.31 %
Compensated absences payable	312,465	274,102	14.00 %
<b>Total</b>	<b><u>\$ 9,662,579</u></b>	<b><u>\$ 9,716,348</u></b>	<b><u>(0.55) %</u></b>

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

## 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 financial controls are 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 the local, state and federal revenues.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

## FINANCIAL STATEMENTS

**CLEVELAND SCHOOL DISTRICT**

**Statement of Net Position**  
**June 30, 2016**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 6,080,125
Due from other governments	1,799,030
Inventories	44,878
Prepaid items	12,568
Restricted assets	2,099,447
Capital assets, non-depreciable:	
Land	111,026
Capital assets, net of accumulated depreciation:	
Buildings	6,249,785
Building improvements	1,688,578
Improvements other than buildings	33,767
Mobile equipment	503,332
Furniture and equipment	245,927
Leased property under capital leases	442,941
Total Assets	<u>19,311,404</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pensions	8,111,124
Deferred outflows - bond refunding	9,209
Total deferred outflows of resources	<u>8,120,333</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	488,700
Interest payable on long-term liabilities	85,083
Long-term liabilities, due within one year:	
Capital related liabilities	500,282
Non-capital related liabilities	422,285
Long-term liabilities, due beyond one year:	
Capital related liabilities	7,636,647
Non-capital related liabilities	1,103,365
Net pension liability	44,828,280
Total Liabilities	<u>55,064,642</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	1,204,017
Total deferred inflows of resources	<u>1,204,017</u>
<b>Net Position</b>	
Invested in capital assets, net of related debt	1,147,636
Restricted for:	
Expendable:	
School-based activities	456,056
Debt service	1,774,289
Capital improvements	100
Forestry improvements	146
Unemployment benefits	82,261
Non-expendable:	
Sixteenth section principal	435,008
Unrestricted	(32,732,418)
Total Net Position	<u>\$ (28,836,922)</u>

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, 2016**

		Program Revenues			Net (Expense)
			Operating	Capital	Revenue and
		Charges for	Grants and	Grants and	Changes in
Functions/Programs	Expenses	Services	Contributions	Contributions	Net Position
<hr/>					
Governmental Activities:					
Instruction	\$ 16,812,761	\$ 380,239	\$ 3,083,881	\$ -	\$ (13,348,641)
Support services	12,204,713	-	2,316,927	-	(9,887,786)
Non-instructional	2,228,310	119,322	2,067,283	-	(41,705)
Sixteenth section	45,045	-	-	-	(45,045)
Pension expense	4,256,647	-	-	-	(4,256,647)
Interest on long-term liabilities	196,762	-	-	-	(196,762)
<hr/>					
Total Governmental Activities	\$ 35,744,238	\$ 499,561	\$ 7,468,091	\$ -	\$ (27,776,586)

General Revenues:

Taxes:

General purpose levies 9,376,567

Debt purpose levies 717,640

Unrestricted grants and contributions:

State 16,468,363

Federal 407,598

Unrestricted investment earnings 38,578

Sixteenth section 275,941

Other 221,304

Total General Revenues 27,505,991

Change in Net Position (270,595)

Net Position - Beginning, as originally reported (28,629,031)

Prior period adjustment 62,704

Net Position - Beginning, as restated (28,566,327)

Net Position - Ending \$ (28,836,922)

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

**CLEVELAND SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet**  
**June 30, 2016**

**Exhibit C**

	Major Funds					
	General Fund	Title I Fund	IDEA Part B Fund	Other Governmental Funds	Total Governmental Funds	
<b>Assets</b>						
Cash and cash equivalents	\$ 5,840,409	\$ -	\$ -	\$ 723,733	\$ 6,564,142	
Cash with fiscal agents	-	-	-	183,626	183,626	
Investments	-	-	-	1,431,804	1,431,804	
Due from other governments	940,272	282,164	109,529	406,392	1,738,357	
Due from other funds	559,980	-	-	-	559,980	
Advances	20,000	-	-	-	20,000	
Inventories	-	-	-	44,878	44,878	
Prepaid items	12,568	-	-	-	12,568	
Total assets	7,373,229	282,164	109,529	2,790,433	10,555,355	
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 374,008	\$ 22,653	\$ 13,996	\$ 78,043	\$ 488,700	
Due to other funds	-	259,511	95,533	164,263	519,307	
Total Liabilities	374,008	282,164	109,529	242,306	1,008,007	
<b>Nonspendable:</b>						
Inventory	-	-	-	44,878	44,878	
Permanent fund principal	-	-	-	435,008	435,008	
Prepaid items	12,568	-	-	-	12,568	
Advances	20,000	-	-	-	20,000	
<b>Restricted:</b>						
Debt service	-	-	-	1,859,372	1,859,372	
Capital projects	-	-	-	100	100	
Grant activities	-	-	-	126,362	126,362	
Forestry improvements	-	-	-	146	146	
Unemployment benefits	-	-	-	82,261	82,261	
<b>Assigned:</b>						
Activity funds	284,806	-	-	-	284,806	
<b>Unassigned</b>	6,681,847	-	-	-	6,681,847	
Total Fund Balances	6,999,221	-	-	2,548,127	9,547,348	
Total Liabilities and Fund Balances	\$ 7,373,229	\$ 282,164	\$ 109,529	\$ 2,790,433	\$ 10,555,355	

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, 2016**

**Exhibit C-1**

**Total fund balances for governmental funds** \$ 9,547,348

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	
Buildings	11,457,177	
Building improvements	2,146,706	
Improvements other than buildings	112,238	
Mobile equipment	2,437,552	
Furniture and equipment	951,080	
Leased property under capital leases	588,297	
Accumulated depreciation	<u>(8,528,720)</u>	9,275,356

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

Net pension liability	(44,828,280)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	8,111,124	
Deferred inflows of resources related to pensions	<u>(1,204,017)</u>	(37,921,173)

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	(1,100,000)	
Quality school construction bonds	(6,741,437)	
Obligations under capital leases	(1,508,677)	
Deferred amount on bond refunding	9,209	
Compensated absences	(312,465)	
Accrued interest payable	<u>(85,083)</u>	(9,738,453)

<b>Net position of governmental activities</b>	<u><u>\$ (28,836,922)</u></u>
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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, 2016**

**Exhibit D**

	Major Funds			Other	Total
	General	Title I	IDEA	Governmental	Governmental
	Fund	Fund	Part B	Funds	Funds
			Fund		
<b>Revenues:</b>					
Local sources	\$ 10,363,556	\$ -	\$ -	\$ 417,501	\$ 10,781,057
Intermediate sources	-	-	-	13,528	13,528
State sources	15,455,543	-	-	2,012,516	17,468,059
Federal sources	438,308	1,851,688	1,048,478	3,523,997	6,862,471
Sixteenth section sources	275,941	-	-	-	275,941
Total Revenues	26,533,348	1,851,688	1,048,478	5,967,542	35,401,056
<b>Expenditures:</b>					
Instruction	14,871,927	995,896	550,842	2,063,167	18,481,832
Support services	10,899,184	713,225	429,561	966,128	13,008,098
Noninstructional services	186,390	53,660	-	2,109,325	2,349,375
Sixteenth section	45,045	-	-	-	45,045
Facilities acquisition and construction	-	-	-	287,977	287,977
Debt service:					
Principal	-	-	-	1,070,735	1,070,735
Interest	-	-	-	192,578	192,578
Other	-	-	-	4,928	4,928
Total Expenditures	26,002,546	1,762,781	980,403	6,694,838	35,440,568
Excess (Deficiency) of Revenues over (under) Expenditures	530,802	88,907	68,075	(727,296)	(39,512)
<b>Other Financing Sources (Uses):</b>					
Inception of capital leases	978,603	-	-	-	978,603
Insurance recovery	2,081	-	-	-	2,081
Operating transfers in	191,535	-	-	972,111	1,163,646
Other financing sources	-	-	-	90,639	90,639
Operating transfers out	(972,111)	(88,907)	(68,075)	(34,553)	(1,163,646)
Other financing uses	(20,133)	-	-	-	(20,133)
Total Other Financing Sources (Uses)	179,975	(88,907)	(68,075)	1,028,197	1,051,190
Net Change in Fund Balances	710,777	-	-	300,901	1,011,678
Fund Balances:					
July 1, 2015	6,288,444	-	-	2,238,666	8,527,110
Increase in reserve for inventory	-	-	-	8,560	8,560
June 30, 2016	\$ 6,999,221	\$ -	\$ -	\$ 2,548,127	\$ 9,547,348

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, 2016**

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ 1,011,678

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	\$ 441,848	
Depreciation expense	<u>(413,841)</u>	28,007

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. (4,856)

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:

Inception of capital leases	(978,603)	
Payments of debt principal	1,070,735	
Accrued interest payable	<u>7,335</u>	99,467

4. The statement of activities reports pension expense and other activity related to net pension liability:

Pension expense	(4,256,647)	
Contributions made after the measurement date	<u>2,888,150</u>	(1,368,497)

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	(38,363)	
Amortization of deferred amount on refunding	(6,591)	
Change in inventory reserve	<u>8,560</u>	(36,394)

<b>Change in net position of governmental activities</b>	<u><u>\$ (270,595)</u></u>
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The notes to the financial statements are an integral part of this statement.



**CLEVELAND SCHOOL DISTRICT**

**Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities**

**Exhibit E**

**June 30, 2016**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 1,337,956
Total Assets	<u>\$ 1,337,956</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,273,850
Due to other funds	40,673
Advances	20,000
Due to student clubs	3,433
Total Liabilities	<u>\$ 1,337,956</u>

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

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

#### **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 an "other stand-alone 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 Statements**

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, deferred outflows, liabilities, and deferred inflows 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 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

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

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 Fund – This is the school district's federal reimbursable fund that serves to fund remedial mathematics and reading services to low-income, program eligible students.

IDEA Part B Fund – This fund provides revenues for children with disabilities with a free and appropriate education.

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's fiduciary funds include the following:

Accounts Payable Clearing Fund – This fund is used to report the accounts payable resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Payroll Clearing Fund - This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Student Club Fund Agency Funds – These funds are used to report student club resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure 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 expenditure for principal and interest.

Permanent Funds - Permanent Funds are used to account for and report 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.

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

#### 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, 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.

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 is both restricted and unrestricted net position 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.

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

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, 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.

###### 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**

Activities 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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as 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 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to 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 applicable governmental or business type activities columns 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 Policy	Estimated Useful Life
Land	\$ 0	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.

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

#### 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 a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The district reports \$8,111,124 of deferred outflows related to its pension plan and \$9,209 related to a bond refunding.

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 and so will not be recognized as an inflow of resources (revenue) until that time. The district reports \$1,204,017 of deferred inflows related to its pension plan.

See Note 12 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 a long-term liability 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 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 Year Ended June 30, 2016

#### 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 nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

*Nonspendable 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 receivable, 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.

*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 Business Manager pursuant to authorization by the policy adopted by the school district.

*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 an expenditure/expense is 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/expenses 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 For Year Ended June 30, 2016

#### **Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, 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 district's 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 excess 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 deposit or 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, any open-end or closed-end 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. Investment income of 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 \$6,564,142 and \$1,337,956, respectively.

*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. 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. 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.

#### **Cash with Fiscal Agents**

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$183,626.

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2016

### Investments

As of June 30, 2016, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Trustmark Construction Bonds Common Trust Fund	N/A	1 to 5	\$ 856,550
United States Treasuries	AAA	1 to 5	575,254
Total			<u>\$ 1,431,804</u>

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

These recurring fair value investments are Level 1 type investments and are valued using quoted market prices at June 30, 2016.

*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.

*Concentration of Credit Risk.* Disclosure 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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

**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**

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 259,511
	IDEA Part B Fund	95,533
	Other governmental funds	164,263
	Fiduciary funds	40,673
Total		<u>\$ 559,980</u>

The purpose of the inter-fund loans was to cover federal and state funds not received prior to year-end and amounts due from and amounts due to agency funds.

**B. Advances From/To Other Funds**

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

Advances were for cash flow purposes.

**C. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 972,111
Title I Fund	General Fund	88,907
IDEA Part B Fund	General Fund	68,075
Other governmental funds	General Fund	34,553
Total		<u>\$ 1,163,646</u>

The primary purpose of the interfund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance, totaling \$435,008 respectively, 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.

The restricted assets represent the investment balance, totaling \$1,431,804, of the QSCB debt service sinking funds.

Also, the restricted assets represent the cash with fiscal agents balance, totaling \$183,626 of the General MAEP limited obligation bonds debt service fund funds, respectively.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

In addition, the restricted assets represent the cash balance, totaling \$49,009, of the debt service funds whose assets are restricted for future debt service requirements.

**Note 5 – Capital Assets**

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

	Balance 7/1/2015	Increases	Decreases	Completed Construction	Adjustments	Balance 6/30/2016
<b>Governmental Activities:</b>						
<u>Non-depreciable capital assets:</u>						
Land	\$ 111,026	\$ -	\$ -	\$ -	\$ -	111,026
Construction-in-progress	113,878	287,977	-	(401,855)	-	-
Total non-depreciable capital assets	224,904	287,977	-	(401,855)	-	111,026
<u>Depreciable capital assets:</u>						
Buildings	11,457,177	-	-	-	-	11,457,177
Building improvements	1,744,853	-	-	401,855	(2)	2,146,706
Improvements other than buildings	112,238	-	-	-	-	112,238
Mobile equipment	2,477,238	6,945	(46,631)	-	-	2,437,552
Furniture and equipment	875,937	146,926	(76,952)	-	5,169	951,080
Leased property under capital leases	588,297	-	-	-	-	588,297
Total depreciable capital assets	17,255,740	153,871	(123,583)	401,855	5,167	17,693,050
<u>Less accumulated depreciation for:</u>						
Buildings	5,104,399	121,235	-	-	(18,242)	5,207,392
Building improvements	336,778	77,269	-	-	44,081	458,128
Improvements other than buildings	75,812	1,132	-	-	1,527	78,471
Mobile equipment	1,865,989	93,930	(42,545)	-	16,846	1,934,220
Furniture and equipment	835,487	47,597	(76,182)	-	(101,749)	705,153
Leased property under capital leases	72,678	72,678	-	-	-	145,356
Total accumulated depreciation	8,291,143	413,841	(118,727)	-	(57,537)	8,528,720
Total depreciable capital assets, net	8,964,597	(259,970)	(4,856)	401,855	62,704	9,164,330
Governmental activities capital assets, net	\$ 9,189,501	\$ 28,007	\$ (4,856)	\$ -	\$ 62,704	\$ 9,275,356

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 235,073
Support services	144,344
Non-instructional	34,424
Total depreciation expense - Governmental activities	<u>\$ 413,841</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. Limited obligation bonds payable	\$ 1,445,000	\$ -	\$ (345,000)	\$ 1,100,000	\$ 355,000
B. Three mill notes payable	165,000	-	(165,000)	-	-
C. Qualified school construction bonds payable	6,741,437	-	-	6,741,437	-
D. Obligations under capital leases	1,090,809	978,603	(560,735)	1,508,677	567,567
E. Compensated absences payable	274,102	38,363	-	312,465	-
Total	\$ 9,716,348	\$ 1,016,966	\$ (1,070,735)	\$ 9,662,579	\$ 922,567

**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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvements bonds, Series 2009	4.90%	7/1/2009	2/1/2018	\$3,155,000	\$1,100,000
Total				\$3,155,000	\$1,100,000

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 355,000	\$ 28,055	\$ 383,055
2018	745,000	17,255	762,255
Total	\$ 1,100,000	\$ 45,310	\$ 1,145,310

This debt will be retired from the MAEP Bond Retirement Fund.

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.

**B. Three mill notes payable**

This debt was retired during the year.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

**C. Qualified school construction bonds payable**

As more fully explained in Note 7, 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
QSCB - Series 2010	5.85%	11/19/2010	12/1/2024	\$1,771,437	\$1,771,437
QSCB - Series 2012	0.00%	3/20/2012	3/15/2027	3,970,000	3,970,000
QSCB - Series 2013	0.00%	6/18/2013	6/15/2028	1,000,000	1,000,000
Total				<u>\$6,741,437</u>	<u>\$6,741,437</u>

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

QSCB – Series 2010:

Year Ending June 30	Principal	Interest	Total
2017	\$ -	\$ 103,629	\$ 103,629
2018	-	103,629	103,629
2019	-	103,629	103,629
2020	-	103,629	103,629
2021	-	103,629	103,629
2022	-	103,629	103,629
2023	-	103,629	103,629
2024	-	103,629	103,629
2025	1,771,437	103,629	1,875,066
Total	<u>\$ 1,771,437</u>	<u>\$ 932,661</u>	<u>\$ 2,704,098</u>

This debt will be retired from the QSCB, Series 2010 debt service sinking fund.

**D. Obligations under capital leases**

The district has entered into lease agreements as lessee for financing the acquisition of technology upgrades, technology equipment and band equipment. The lease qualifies as a capital lease accounting purposes, and a master lease. These leases qualify as capital leases for accounting purposes. Debt currently outstanding is 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	\$ 295,492
Band equipment	5.99%	8/15/2013	8/15/2017	44,811	18,399
Master lease	3.82%	10/9/2014	10/10/2021	682,482	597,533
GE - iPad lease	1.19%	10/21/2015	3/1/2018	896,790	597,253
Total				<u>\$2,337,801</u>	<u>\$1,508,677</u>

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

Brocade lease purchase:

Year Ending June 30	Principal	Interest	Total
2017	\$ 145,282	\$ 10,022	\$ 155,304
2018	150,210	5,094	155,304
Total	<u>\$ 295,492</u>	<u>\$ 15,116</u>	<u>\$ 310,608</u>

Band equipment:

Year Ending June 30	Principal	Interest	Total
2017	\$ 8,932	\$ 1,102	\$ 10,034
2018	9,467	567	10,034
Total	<u>\$ 18,399</u>	<u>\$ 1,669</u>	<u>\$ 20,068</u>

Master lease:

Year Ending June 30	Principal	Interest	Total
2017	\$ 116,493	\$ 21,617	\$ 138,110
2018	120,892	17,218	138,110
2019	125,459	12,651	138,110
2020	105,807	7,913	113,720
2021	85,080	4,249	89,329
2022	43,802	862	44,664
Total	<u>\$ 597,533</u>	<u>\$ 64,510</u>	<u>\$ 662,043</u>

GE – iPad lease

Year Ending June 30	Principal	Interest	Total
2017	\$ 296,860	\$ 7,107	\$ 303,967
2018	300,393	3,575	303,968
Total	<u>\$ 597,253</u>	<u>\$ 10,682</u>	<u>\$ 607,935</u>

Total due on all issues:

Year Ending June 30	Principal	Interest	Total
2017	\$ 567,567	\$ 39,848	\$ 607,415
2018	580,962	26,454	607,416
2019	125,459	12,651	138,110
2020	105,807	7,913	113,720
2021	85,080	4,249	89,329
2022	43,802	862	44,664
Total	<u>\$ 1,508,677</u>	<u>\$ 91,977</u>	<u>\$ 1,600,654</u>

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2016

### D. Compensated absences payable

As more fully explained in Note 1(E)(8), compensated absences payable 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.

### Note 7– 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.

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 a 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 paid on a QSCB. For the year ended June 30, 2016, the subsidy payments amounted to \$90,639.

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 in the sinking fund at June 30, 2016 was \$1,431,804. The amount accumulated in the sinking fund at the end of the seventeen-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
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	126,531	310,000	67,000	503,531
2022-2026	506,124	1,550,000	335,000	2,391,124
2027-2029	-	310,000	134,000	444,000
Total	<u>\$ 1,138,779</u>	<u>\$ 3,410,000</u>	<u>\$ 802,000</u>	<u>\$ 5,350,779</u>

### Note 8 – 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.



## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

*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, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$2,888,150, \$2,840,366 and \$2,727,769, respectively, which equaled the required contributions for each year.

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

At June 30, 2016, the school district reported a liability of \$44,828,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was .29 percent, which was based on a measurement date of June 30, 2015. This was a .01 percent increase from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$4,256,647. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,041,480	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,204,017
Changes of assumptions	3,861,802	-
Changes in proportion and differences between District contributions and proportionate share of contributions	319,692	-
District contributions subsequent to the measurement date	2,888,150	-
Total	<u>\$ 8,111,124</u>	<u>\$ 1,204,017</u>

\$2,888,150 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, 2017. 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:	
2017	\$ 1,243,038
2018	1,279,487
2019	840,700
2020	655,732
Total	<u>\$ 4,018,957</u>

*Actuarial assumptions.* The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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:

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	34	%	5.20	%
International Equity	19		5.00	
Emerging Markets Equity	8		5.45	
Fixed Income	20		0.25	
Real Assets	10		4.00	
Private Equity	8		6.15	
Cash	1		(0.50)	
Total	100	%		

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. 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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 59,087,781	\$ 44,828,280	\$ 32,995,562

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

### Note 9 – 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.

## CLEVELAND SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2016

#### **Note 10 – 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
2017	\$ 249,052
2018	191,577
2019	191,577
2020	191,577
2021	169,476
2022-2026	400,828
Thereafter	1,002,964
Total	<u>\$ 2,397,051</u>

#### **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.

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 71 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. The district has not had an additional assessment for excess losses incurred by the pool.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2016

**Note 12 – Effect of Deferred Amounts on Net Position**

The unrestricted net position amount of \$(32,732,418) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$8,111,124 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenses and decrease unrestricted net position over the next 3 years. Additionally, the net investment in capital assets component of net position includes the effect of deferring the recognition of expenses resulting from a deferred outflow of resources from bond refunding. The \$9,209 balance of deferred outflows of resources related to bond refunding will be recognized as expenses and decrease net position over the remaining years of the debt service requirements.

The unrestricted net position amount of \$(32,732,418) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$1,204,017 balance of the deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next 4 years.

**Note 13– Prior Period Adjustments**

A summary of significant Net Position adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. To adjust capital assets to the subsidiary records	\$ 62,704
Total	

**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 School District evaluated the activity of the district through February 6, 2017, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

Subsequent to June 30, 2016, the Cleveland School District declared an ad valorem shortfall for fiscal year 2016 and issued \$458,842 of ad valorem shortfall notes payable.

## REQUIRED SUPPLEMENTARY INFORMATION

**CLEVELAND SCHOOL DISTRICT**  
**Required Supplementary Information**

**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 10,243,343	\$ 10,571,376	\$ 10,363,556	\$ 328,033	\$ (207,820)
State sources	15,431,877	15,458,570	15,455,543	26,693	(3,027)
Federal sources	327,000	218,103	438,308	(108,897)	220,205
Sixteenth section	225,000	275,941	275,941	50,941	-
Total Revenues	26,227,220	26,523,990	26,533,348	296,770	9,358
<b>Expenditures:</b>					
Instruction	15,393,395	15,165,783	14,871,927	227,612	293,856
Support services	11,674,972	11,306,400	10,899,184	368,572	407,216
Noninstructional services	150,135	186,391	186,390	(36,256)	1
Sixteenth Section	-	45,045	45,045	(45,045)	-
Total Expenditures	27,218,502	26,703,619	26,002,546	514,883	701,073
Excess (Deficiency) of Revenues over (under) Expenditures	(991,282)	(179,629)	530,802	811,653	710,431
<b>Other Financing Sources (Uses):</b>					
Inception of capital leases	250,000	846,524	978,603	596,524	132,079
Insurance recovery	-	2,081	2,081	2,081	-
Operating transfers in	481,488	242,607	191,535	(238,881)	(51,072)
Operating transfers out	(1,047,434)	(793,144)	(972,111)	254,290	(178,967)
Other financing uses	(21,074)	(20,000)	(20,133)	1,074	(133)
Total Other Financing Sources (Uses)	(337,020)	278,068	179,975	615,088	(98,093)
Net Change in Fund Balances	(1,328,302)	98,439	710,777	1,426,741	612,338
Fund Balances:					
July 1, 2015	6,288,444	6,288,444	6,288,444	-	-
June 30, 2016	\$ 4,960,142	\$ 6,386,883	\$ 6,999,221	\$ 1,426,741	\$ 612,338

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 Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variances	
	Original	Final	(GAAP Basis)	Positive (Negative) Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 2,330,865	\$ 2,343,539	\$ 1,851,688	\$ 12,674	\$ (491,851)
Total Revenues	2,330,865	2,343,539	1,851,688	12,674	(491,851)
<b>Expenditures:</b>					
Instruction	1,344,293	1,312,408	995,896	31,885	316,512
Support services	865,215	903,489	713,225	(38,274)	190,264
Noninstructional services	62,029	71,207	53,660	(9,178)	17,547
Total Expenditures	2,271,537	2,287,104	1,762,781	(15,567)	524,323
Excess (Deficiency) of Revenues over (under) Expenditures	59,328	56,435	88,907	(2,893)	32,472
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(59,328)	(56,435)	(88,907)	2,893	(32,472)
Total Other Financing Sources (Uses)	(59,328)	(56,435)	(88,907)	2,893	(32,472)
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ -	\$ -	\$ -	\$ -

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



**CLEVELAND SCHOOL DISTRICT**  
**Required Supplementary Information**

**Budgetary Comparison Schedule**  
**IDEA Part B Fund**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 1,133,775	\$ 1,142,790	\$ 1,048,478	\$ 9,015	\$ (94,312)
Total Revenues	1,133,775	1,142,790	1,048,478	9,015	(94,312)
<b>Expenditures:</b>					
Instruction	701,881	652,436	550,842	49,445	101,594
Support services	401,894	563,307	429,561	(161,413)	133,746
Total Expenditures	1,103,775	1,215,743	980,403	(111,968)	235,340
Excess (Deficiency) of Revenues over (under) Expenditures	30,000	(72,953)	68,075	(102,953)	141,028
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(30,000)	(35,074)	(68,075)	(5,074)	(33,001)
Total Other Financing Sources (Uses)	(30,000)	(35,074)	(68,075)	(5,074)	(33,001)
Net Change in Fund Balances	-	(108,027)	-	(108,027)	108,027
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ (108,027)	\$ -	\$ (108,027)	\$ 108,027

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>2016</u>	<u>2015</u>
District's proportion of the net pension liability	\$ 44,828,280	\$ 33,986,872
District's proportionate share of the net pension liability	0.29%	0.28%
District's covered-employee payroll	\$ 18,034,070	\$ 17,319,168
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	248.58%	196.24%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

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

\* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

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 compiled, the District has only presented information for the years in which information is available.

**CLEVELAND SCHOOL DISTRICT**  
**Required Supplementary Information**

**SCHEDULE OF DISTRICT CONTRIBUTIONS**

**PERS**

**Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,888,150	\$ 2,840,366
Contributions in relation to the contractually required contribution	2,888,150	2,840,366
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 18,337,460	\$ 18,034,070
Contributions as a percentage of covered-employee payroll	15.75%	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 compiled, the District has only presented information for the years in which information is available.

## CLEVELAND SCHOOL DISTRICT

### Notes to the Required Supplementary Information For the Year Ended June 30, 2016

#### Budgetary Comparison Schedule

(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

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

## SUPPLEMENTARY INFORMATION

**CLEVELAND SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2016**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 525,994
National school lunch program	10.555	1,684,868
Total child nutrition cluster		<u>2,210,862</u>
Total passed-through Mississippi Department of Education		<u>2,210,862</u>
<b>Total U.S. Department of Agriculture</b>		<u><b>2,210,862</b></u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>261,120</u>
<b>Total Federal Communications Commission</b>		<u><b>261,120</b></u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,911,750
School improvement grant	84.377	811,297
Education for homeless children and youth	84.196	11,960
Rural education	84.358	80,341
Improving teacher quality-State Grants	84.367	294,270
Subtotal		<u>3,109,618</u>
Special education cluster:		
Special education - grants to states	84.027	1,079,188
Special education - preschool grants	84.173	55,205
Total special education cluster		<u>1,134,393</u>
<b>Total U.S. Department of Education</b>		<u><b>4,244,011</b></u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	<u>146,478</u>
Total passed-through Mississippi Department of Education		<u>146,478</u>
<b>Total U.S. Department of Health and Human Services</b>		<u><b>146,478</b></u>
 Total for All Federal Awards		 <u><u><b>\$ 6,862,471</b></u></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. Donated commodities of \$133,422 are included in the National School Lunch Program.
5. The district does not use a 10% de minimis indirect cost rate.

**CLEVELAND SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds**

**For the Year Ended June 30, 2016**

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 25,345,695	19,157,964	1,123,832	2,157,708	2,906,191
Other	10,094,873	4,302,742	361,370	30,467	5,400,294
Total	<u>\$ 35,440,568</u>	<u>23,460,706</u>	<u>1,485,202</u>	<u>2,188,175</u>	<u>8,306,485</u>
Total number of students *	<u>3,374</u>				
Cost per student	<u>\$ 10,504</u>	<u>6,953</u>	<u>440</u>	<u>649</u>	<u>2,462</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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

## OTHER INFORMATION



**CLEVELAND SCHOOL DISTRICT**

**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**General Fund**

**Last Four Years**

**UNAUDITED**

	2016	2015*	2014*	2013*
<b>Revenues:</b>				
Local sources	\$ 10,363,556	\$ 9,868,016	\$ 9,564,007	\$ 9,349,828
Intermediate sources	-	-	13,200	-
State sources	15,455,543	15,775,471	15,678,349	14,467,889
Federal sources	438,308	300,429	101,281	197,215
Sixteenth section sources	275,941	308,565	-	-
Total Revenues	26,533,348	26,252,481	25,356,837	24,014,932
<b>Expenditures:</b>				
Instruction	14,871,927	14,769,149	14,297,979	13,806,746
Support services	10,899,184	11,055,158	9,940,149	9,217,473
Noninstructional services	186,390	173,724	160,726	134,245
Sixteenth section	45,045	56,502	-	-
Total Expenditures	26,002,546	26,054,533	24,398,854	23,158,464
Excess (Deficiency) of Revenues over (under) Expenditures	530,802	197,948	957,983	856,468
<b>Other Financing Sources (Uses):</b>				
Inception of capital leases	978,603	613,831	757,989	-
Insurance recovery	2,081	7,307	-	-
Sale of other property	-	8,710	3,651	-
Operating transfers in	191,535	112,896	338,597	180,885
Operating transfers out	(972,111)	(401,574)	(1,152,339)	(1,093,331)
Other financing uses	(20,133)	(129,472)	(20,000)	-
Total Other Financing Sources (Uses)	179,975	211,698	(72,102)	(912,446)
Net Change in Fund Balances	710,777	409,646	885,881	(55,978)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	6,288,444	5,679,600	4,831,078	4,887,056
Prior period adjustments	-	199,198	(37,359)	-
Beginning of period, as restated	6,288,444	5,878,798	4,793,719	4,887,056
End of Period	\$ 6,999,221	\$ 6,288,444	\$ 5,679,600	\$ 4,831,078

\*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**

	2016	2015*	2014*	2013*
<b>Revenues:</b>				
Local sources	\$ 10,781,057	\$ 10,321,999	\$ 10,162,765	\$ 9,765,071
Intermediate sources	13,528	27,465	13,200	-
State sources	17,468,059	17,474,039	16,586,953	15,359,388
Federal sources	6,862,471	6,087,181	5,229,369	5,821,109
Sixteenth section sources	275,941	308,565	297,309	171,561
Total Revenues	35,401,056	34,219,249	32,289,596	31,117,129
<b>Expenditures:</b>				
Instruction	18,481,832	17,974,791	17,190,491	17,023,384
Support services	13,008,098	12,855,124	12,111,668	11,571,879
Noninstructional services	2,349,375	2,268,265	2,151,017	2,149,298
Sixteenth section	45,045	56,502	62,168	43,420
Facilities acquisition and construction	287,977	263,342	330,569	-
Debt service:				
Principal	1,070,735	693,366	641,296	470,000
Interest	192,578	194,496	183,201	178,857
Other	4,928	4,458	6,350	2,500
Total Expenditures	35,440,568	34,310,344	32,676,760	31,439,338
Excess (Deficiency) of Revenues over (under) Expenditures	(39,512)	(91,095)	(387,164)	(322,209)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued	-	-	-	1,000,000
Inception of capital leases	978,603	682,482	757,989	-
Insurance recovery	2,081	7,307	-	-
Sale of other property	-	8,710	3,651	-
Operating transfers in	1,163,646	514,470	1,490,936	1,274,216
Other financing sources	90,639	-	-	-
Operating transfers out	(1,163,646)	(514,470)	(1,490,936)	(1,274,216)
Other financing uses	(20,133)	(129,472)	(20,000)	-
Total Other Financing Sources (Uses)	1,051,190	569,027	741,640	1,000,000
Net Change in Fund Balances	1,011,678	477,932	354,476	677,791
<b>Fund Balances:</b>				
Beginning of period, as previously reported	8,527,110	7,851,961	7,549,233	6,878,561
Prior period adjustments	-	186,819	(37,359)	-
Beginning of period, as restated	8,527,110	8,038,780	7,511,874	6,878,561
Increase (Decrease) in reserve for inventory	8,560	10,398	(14,389)	(7,119)
End of Period	\$ 9,547,348	\$ 8,527,110	\$ 7,851,961	\$ 7,549,233

\*SOURCE - PRIOR YEAR AUDIT REPORTS

## REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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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  
Cleveland, Mississippi

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, 2016, 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 February 6, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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.

*Cunningham CPAs, PLLC*

Belzoni, Mississippi

February 6, 2017

**CUNNINGHAM CPAs, PLLC**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Superintendent and School Board  
Cleveland School District  
Cleveland, Mississippi

**Report on Compliance for Each Major Federal Program**

We have audited the Cleveland School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cleveland School District's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 the Cleveland School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the 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, 2016.

## 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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Cunningham CPAs, PLLC*

Belzoni, Mississippi

February 6, 2017

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



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

Superintendent and School Board  
Cleveland School District  
Cleveland, Mississippi

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, 2016, which collectively comprise Cleveland School District's basic financial statements and have issued our report thereon dated February 6, 2017. 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 reported no 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 instances 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. However, this report is a matter of public record and its distribution is not limited.

*Cunningham CPAs, PLLC*

Belzoni, Mississippi

February 6, 2017

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

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 2 CFR 200.516(a)? |   |               |
|   |   | No            |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – grants to local educational agencies
84.377	School improvement grant
84.367	Improving teacher quality

- |   |  |           |
|---|--|-----------|
| 8.  | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? |  |           |
|   |  | No        |

CLEVELAND SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

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.