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Cleveland School District
Audited Financial Statements
For the Year Ended June 30, 2017

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, 2017, 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, 2017, 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 5-13, 44-45, 46 and 47, 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 21, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cleveland School District's 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.

A handwritten signature in dark ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC
Belzoni, Mississippi

February 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017. 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 2017 decreased \$1,422,032, including a prior period adjustment of (\$41,639), and which represents a 5% decrease from fiscal year 2016. Total net position for 2016 decreased \$207,891, which represents a 1% decrease from fiscal year 2015.
- General revenues amounted to \$27,407,086 and \$27,505,991, or 80% and 78% of all revenues for fiscal years 2017 and 2016, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,005,894, or 20% of total revenues for 2017, and \$7,967,652, or 22% of total revenues for 2016.
- The District had \$35,793,373 and \$35,744,238 in expenses for fiscal years 2017 and 2016; only \$7,005,894 for 2017 and \$7,967,652 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$27,407,086 for 2017 and \$27,505,991 for 2016 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$26,434,715 in revenues and \$25,461,710 in expenditures for 2017, and \$26,533,348 in revenues and \$26,002,546 in expenditures in 2016. The General Fund's fund balance increased by \$441,799 from 2016 to 2017, and increased by \$710,777 from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by \$210,795, including a prior period adjustment of (\$41,639), for 2017 and increased by \$85,855 for 2016. The decrease for 2017 was due primarily to capital additions coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$508,428 for 2017 and decreased by \$53,769 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$63,639 for 2017 and increased by \$38,363 for 2016.

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." 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.

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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:

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

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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.

A net pension liability results in a liability on the government-wide financial statements but is not reported on 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 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 \$30,258,954 as of June 30, 2017.

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, 2017

Table 1 presents a summary of the District's net position at June 30, 2017 and June 30, 2016.

Table 1
Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Percentage Change
Current assets	\$ 8,766,463	\$ 7,936,601	10.46 %
Restricted assets	3,029,653	2,099,447	44.31 %
Capital assets, net	9,064,561	9,275,356	-2.27 %
Total assets	20,860,677	19,311,404	8.02 %
Deferred outflows of resources	10,839,339	8,120,333	33.48 %
Current liabilities	766,531	573,783	33.59 %
Long-term debt outstanding	9,154,151	9,662,579	-5.26 %
Net pension liability	51,193,915	44,828,280	14.20 %
Total liabilities	61,114,597	55,064,642	10.99 %
Deferred inflows of resources	844,373	1,204,017	-29.87 %
Net position:			
Net investment in capital assets	1,430,532	1,147,636	24.65 %
Restricted	3,588,465	2,747,860	30.59 %
Unrestricted	(35,277,951)	(32,732,418)	-7.78 %
Total net position	\$ (30,258,954)	\$ (28,836,922)	-4.93 %

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)	\$ (35,277,951)
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>41,201,567</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 5,923,616</u>

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

- Decrease in net capital assets in the amount of \$210,795.
- The principal retirement of \$932,101 of long-term debt.
- Issuing \$458,842 in shortfall notes payable.

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$34,412,980 and \$35,473,643, respectively. The total cost of all programs and services was \$35,793,373 for 2017 and \$35,744,238 for 2016.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

**Table 2
Changes in Net Position**

	Year Ended June 30, 2017	Year Ended June 30, 2016	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 516,522	\$ 499,561	3.40 %
Operating grants and contributions	6,489,372	7,468,091	(13.11) %
General revenues:			
Property taxes	9,845,026	10,094,207	(2.47) %
Grants and contributions not restricted	16,958,747	16,875,961	0.49 %
Investment earnings	31,490	38,578	(18.37) %
Sixteenth section sources	329,939	275,941	19.57 %
Other	241,884	221,304	9.30 %
Total revenues	34,412,980	35,473,643	(2.99) %
Expenses:			
Instruction	15,531,274	16,812,761	(7.62) %
Support services	11,782,977	12,204,713	(3.46) %
Non-instructional	2,094,466	2,228,310	(6.01) %
Sixteenth section	64,713	45,045	43.66 %
Pension expense	6,135,057	4,256,647	44.13 %
Interest on long-term liabilities	184,886	196,762	(6.04) %
Total expenses	35,793,373	35,744,238	0.14 %
Increase (Decrease) in net position	(1,380,393)	(270,595)	(410.13) %
Net Position, July 1, as previously reported	(28,836,922)	(28,629,031)	(0.73) %
Prior Period Adjustment	(41,639)	62,704	(166.41) %
Net Position, July 1, as restated	(28,878,561)	(28,566,327)	(1.09) %
Net Position, June 30	\$ (30,258,954)	\$ (28,836,922)	(4.93) %

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, 2017

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2017	2016	
Instruction	\$ 15,531,274	\$ 16,812,761	(7.62) %
Support services	11,782,977	12,204,713	(3.46) %
Non-instructional	2,094,466	2,228,310	(6.01) %
Sixteenth section	64,713	45,045	43.66 %
Pension Expense	6,135,057	4,256,647	44.13 %
Interest on long-term liabilities	184,886	196,762	(6.04) %
Total expenses	\$ 35,793,373	\$ 35,744,238	0.14 %

	Net (Expense) Revenue		Percentage Change
	2017	2016	
Instruction	\$ (12,520,816)	\$ (13,348,641)	(6.20) %
Support services	(9,940,957)	(9,887,786)	0.54 %
Non-instructional	58,950	(41,705)	(241.35) %
Sixteenth section	(64,713)	(45,045)	43.66 %
Pension Expense	(6,135,057)	(4,256,647)	44.13 %
Interest on long-term liabilities	(184,886)	(196,762)	(6.04) %
Total net (expense) revenue	\$ (28,787,479)	\$ (27,776,586)	3.64 %

- Net cost of governmental activities (\$28,787,479 for 2017 and \$27,776,586 for 2016) was financed by general revenue, which is primarily made up of property taxes (\$9,845,026 for 2017 and \$10,094,207 for 2016) and state and federal revenues (\$16,958,747 for 2017 and \$16,875,961 for 2016). In addition, there was \$329,939 and \$275,941 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to \$31,490 for 2017 and \$38,578 for 2016.

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 \$11,116,179, an increase of \$1,568,831, which includes an increase in inventory of \$26,867. \$7,236,010 or 65% 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 \$3,880,169 or 35% 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, 2017

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 \$441,799. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,127,032, which includes an increase in reserve for inventory of \$26,867, 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

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 each major special revenue fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the District's total capital assets were \$17,995,388, including land, construction in progress, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$191,312 from 2016. Total accumulated depreciation as of June 30, 2017, was \$8,930,827, and total depreciation expense for the year was \$420,069, resulting in total net capital assets of \$9,064,561.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Land	\$ 111,026	\$ 111,026	0.00 %
Construction in Progress	-	-	N/A %
Buildings	6,128,550	6,249,785	(1.94) %
Building improvements	1,611,309	1,688,578	(4.58) %
Improvements other than buildings	32,635	33,767	(3.35) %
Mobile equipment	591,230	503,332	17.46 %
Furniture and equipment	200,474	245,927	(18.48) %
Leased property under capital leases	389,337	442,941	(12.10) %
Total	\$ 9,064,561	\$ 9,275,356	(2.27) %

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, 2017

Debt Administration. At June 30, 2017, the District had \$9,154,151 in outstanding long-term debt, of which \$1,485,337 is due within one year. The liability for compensated absences decreased \$63,639 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 745,000	\$ 1,100,000	(32.27) %
Shortfall notes payable	458,842	-	N/A %
Qualified school construction bonds payable	6,741,437	6,741,437	0.00 %
Obligations under capital leases	960,046	1,508,677	(36.37) %
Compensated absences payable	248,826	312,465	(20.37) %
Total	<u>\$ 9,154,151</u>	<u>\$ 9,662,579</u>	(5.26) %

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, 2017**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,191,894
Due from other governments	1,490,256
Inventories	71,745
Prepaid items	12,568
Restricted assets	3,029,653
Capital assets, non-depreciable:	
Land	111,026
Capital assets, net of accumulated depreciation:	
Buildings	6,128,550
Building improvements	1,611,309
Improvements other than buildings	32,635
Mobile equipment	591,230
Furniture and equipment	200,474
Leased properties under capital leases	389,337
Total Assets	<u>20,860,677</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	10,836,721
Deferred outflows - bond refunding	2,618
Total deferred outflows of resources	<u>10,839,339</u>
Liabilities	
Accounts payable and accrued liabilities	679,937
Interest payable on long-term liabilities	86,594
Long-term liabilities, due within one year:	
Capital related liabilities	895,210
Non-capital related liabilities	590,127
Long-term liabilities, due beyond one year:	
Capital related liabilities	6,741,437
Non-capital related liabilities	927,377
Net pension liability	51,193,915
Total Liabilities	<u>61,114,597</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	844,373
Total deferred inflows of resources	<u>844,373</u>
Net Position	
Net investment in capital assets	1,430,532
Restricted for:	
Expendable:	
School-based activities	347,977
Debt service	2,713,840
Forestry improvements	146
Unemployment benefits	90,406
Nonexpendable:	
16th section principal	436,096
Unrestricted	(35,277,951)
Total Net Position	<u>\$ (30,258,954)</u>

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

CLEVELAND SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2017

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 15,531,274	\$ 371,499	\$ 2,638,959	\$ -	\$ (12,520,816)
Support services	11,782,977	-	1,842,020	-	(9,940,957)
Non-instructional	2,094,466	145,023	2,008,393	-	58,950
Sixteenth section	64,713	-	-	-	(64,713)
Pension expense	6,135,057	-	-	-	(6,135,057)
Interest on long-term liabilities	184,886	-	-	-	(184,886)
Total Governmental Activities	\$ 35,793,373	\$ 516,522	\$ 6,489,372	\$ -	\$ (28,787,479)

General Revenues:

Taxes:

General purpose levies

9,584,295

Debt purpose levies

260,731

Unrestricted grants and contributions:

State

16,542,395

Federal

416,352

Unrestricted investment earnings

31,490

Sixteenth section sources

329,939

Other

241,884

Total General Revenues

27,407,086

Change in Net Position

(1,380,393)

Net Position - Beginning, as originally reported

(28,836,922)

Prior period adjustment

(41,639)

Net Position - Beginning, as restated

(28,878,561)

Net Position - Ending

\$ (30,258,954)

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

CLEVELAND SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2017

Exhibit C

	Major Funds			
	General Fund	Title I Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 6,731,823	\$ 4,578	\$ 1,349,778	\$ 8,086,179
Cash with fiscal agents	-	-	189,245	189,245
Investments	-	-	1,946,123	1,946,123
Due from other governments	407,098	492,677	528,813	1,428,588
Due from other funds	824,679	-	-	824,679
Advances	20,000	-	-	20,000
Inventories	-	-	71,745	71,745
Prepaid items	12,568	-	-	12,568
Total assets	<u>7,996,168</u>	<u>497,255</u>	<u>4,085,704</u>	<u>12,579,127</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 555,148	\$ 27,744	\$ 97,045	\$ 679,937
Due to other funds	-	469,511	313,500	783,011
Total Liabilities	<u>555,148</u>	<u>497,255</u>	<u>410,545</u>	<u>1,462,948</u>
Fund Balances:				
Nonspendable:				
Inventory	-	-	71,745	71,745
Prepaid items	12,568	-	-	12,568
Advances	20,000	-	-	20,000
Permanent fund principal	-	-	436,096	436,096
Restricted:				
Debt service	-	-	2,800,434	2,800,434
Grant activities	-	-	276,232	276,232
Forestry improvements	-	-	146	146
Unemployment benefits	-	-	90,406	90,406
Assigned:				
Activity funds	172,442	-	-	172,442
Capital improvements	-	-	100	100
Unassigned	<u>7,236,010</u>	<u>-</u>	<u>-</u>	<u>7,236,010</u>
Total Fund Balances	<u>7,441,020</u>	<u>-</u>	<u>3,675,159</u>	<u>11,116,179</u>
Total Liabilities and Fund Balances	<u>\$ 7,996,168</u>	<u>\$ 497,255</u>	<u>\$ 4,085,704</u>	<u>\$ 12,579,127</u>

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, 2017**

Exhibit C-1

Total fund balances for governmental funds \$ 11,116,179

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	2,610,076	
Furniture and equipment	941,398	
Leased property under capital leases	616,767	
Accumulated depreciation	<u>(8,930,827)</u>	9,064,561

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 (51,193,915)

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	10,836,721	
Deferred inflows of resources related to pensions	<u>(844,373)</u>	(41,201,567)

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	(745,000)	
Shortfall notes payable	(458,842)	
Qualified school construction bonds	(6,741,437)	
Obligation under capital leases	(960,046)	
Deferred amount on refunding	2,618	
Compensated absences	(248,826)	
Accrued interest payable	<u>(86,594)</u>	<u>(9,238,127)</u>

Net position of governmental activities \$ (30,258,954)

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, 2017**

Exhibit D

	Major Funds		Other	Total
	General	Title I	Governmental	Governmental
	Fund	Fund	Funds	Funds
Revenues:				
Local sources	\$ 10,137,096	\$ -	\$ 418,912	\$ 10,556,008
State sources	15,551,328	-	1,793,288	17,344,616
Federal sources	416,352	1,646,275	4,040,875	6,103,502
Sixteenth section sources	329,939	-	-	329,939
Total Revenues	26,434,715	1,646,275	6,253,075	34,334,065
Expenditures:				
Instruction	14,205,312	1,064,233	1,904,972	17,174,517
Support services	11,023,701	628,397	1,160,557	12,812,655
Noninstructional services	167,984	62,307	1,967,267	2,197,558
Sixteenth section	64,713	-	-	64,713
Debt service:				
Principal	-	-	932,101	932,101
Interest	-	-	171,533	171,533
Other	-	-	5,251	5,251
Total Expenditures	25,461,710	1,754,937	6,141,681	33,358,328
Excess (Deficiency) of Revenues over (under) Expenditures	973,005	(108,662)	111,394	975,737
Other Financing Sources (Uses):				
Loan proceeds	458,842	-	-	458,842
Inception of capital leases	28,470	-	-	28,470
Insurance loss recoveries	1,477	-	-	1,477
Operating transfers in	126,091	208,421	1,321,335	1,655,847
Other financing sources	-	-	100,044	100,044
Operating transfers out	(1,123,480)	(99,759)	(432,608)	(1,655,847)
Other financing uses	(22,606)	-	-	(22,606)
Total Other Financing Sources (Uses)	(531,206)	108,662	988,771	566,227
Net Change in Fund Balances	441,799	-	1,100,165	1,541,964
Fund Balances:				
July 1, 2016	6,999,221	-	2,548,127	9,547,348
Increase (Decrease) in reserve for inventory	-	-	26,867	26,867
June 30, 2017	\$ 7,441,020	\$ -	\$ 3,675,159	\$ 11,116,179

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, 2017**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 1,541,964

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	\$ 254,307	
Depreciation expense	<u>(420,069)</u>	(165,762)

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.

(3,394)

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:

Payments of debt principal	932,101	
Loan proceeds	(458,842)	
Inception of capital leases	(28,470)	
Accrued interest payable	<u>(1,511)</u>	443,278

4. Some items relating to pensions and 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 the governmental funds. These activities include:

Pension expense	(6,135,057)	
Contributions subsequent to the measurement date	<u>2,854,663</u>	(3,280,394)

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	63,639	
Amortization of deferred amount on refunding	(6,591)	
Change in inventory reserve	<u>26,867</u>	83,915

Change in net position of governmental activities	<u>\$ (1,380,393)</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, 2017

	Agency Funds
Assets	
Cash and cash equivalents	\$ 1,347,788
Due from other funds	704
Total Assets	<u>\$ 1,348,492</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,277,869
Due to other funds	42,372
Advances	20,000
Due to student clubs	8,251
Total Liabilities	<u>\$ 1,348,492</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, 2017

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

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

Title I 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.

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.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

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.

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

recommended in *Financial Accounting for Local and State School Systems, 2014*, 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 governmental fund type inventories are reported as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

recorded as prepaid items in both the government-wide and governmental fund financial statements.

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 School Construction Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

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.

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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The district reports \$10,836,721 of deferred outflows

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

related to its pension plan and \$2,618 related to a prior 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The district reports \$844,373 of deferred inflows related to its pension plan.

See Note 11 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.

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

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.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a vote by the board to commit funds. Currently there is no committed fund balance for this school district.

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 management pursuant to authorization established by the Board of Education.

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.

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

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 \$8,086,179 and \$1,347,788, 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 \$189,245.

Investments

As of June 30, 2017, 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	\$ 779,134
United States Treasuries	AAA	1 to 5	1,166,989
Total			<u>\$ 1,946,123</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, 2017.

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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

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. The investments in the Trustmark Construction Bonds Common Trust Fund are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

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. As of June 30, 2017, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Trustmark Construction Bonds Common Trust Fund	\$ 779,134	40%
United States Treasuries	1,166,989	60%
	<u>\$ 1,946,123</u>	<u>100%</u>

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	\$ 469,511
	Other governmental funds	312,796
	Fiduciary funds	42,372
Fiduciary funds	Other governmental funds	704
Total		<u>\$ 825,383</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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General fund	Other governmental funds	\$ 1,123,480
Title I fund	General fund	99,759
Other governmental funds	General fund	26,332
	Title I fund	208,421
	Other governmental funds	197,855
Total		<u>\$ 1,655,847</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 \$436,096 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 \$1,946,123, of the QSCB debt service sinking funds.

Also, the restricted assets represent the cash with fiscal agents balance, totaling \$189,245 of the General MAEP limited obligation bonds debt service fund funds, respectively.

In addition, the restricted assets represent the cash balance, totaling \$458,189, of the debt service funds whose assets are restricted for future debt service requirements.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

Note 5 – Capital Assets

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

	Balance 7/1/2016	Increases	Decreases	Adjustments	Balance 6/30/2017
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 111,026	\$ -	\$ -	\$ -	\$ 111,026
Total non-depreciable capital assets	111,026	-	-	-	111,026
<u>Depreciable capital assets:</u>					
Buildings	11,457,177	-	-	-	11,457,177
Building improvements	2,146,706	-	-	-	2,146,706
Improvements other than buildings	112,238	-	-	-	112,238
Mobile equipment	2,437,552	196,816	(30,066)	5,774	2,610,076
Furniture and equipment	951,080	29,021	(38,703)	-	941,398
Leased property under capital leases	588,297	28,470	-	-	616,767
Total depreciable capital assets	17,693,050	254,307	(68,769)	5,774	17,884,362
<u>Less accumulated depreciation for:</u>					
Buildings	5,207,392	121,235	-	-	5,328,627
Building improvements	458,128	77,269	-	-	535,397
Improvements other than buildings	78,471	1,132	-	-	79,603
Mobile equipment	1,934,220	85,810	(27,059)	25,875	2,018,846
Furniture and equipment	705,153	52,550	(38,316)	21,537	740,924
Leased property under capital leases	145,356	82,073	-	1	227,430
Total accumulated depreciation	8,528,720	420,069	(65,375)	47,413	8,930,827
Total depreciable capital assets, net	9,164,330	(165,762)	(3,394)	(41,639)	8,953,535
Governmental activities capital assets, net	\$ 9,275,356	\$ (165,762)	\$ (3,394)	\$ (41,639)	\$ 9,064,561

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 239,439
Support services	147,024
Non-instructional	33,606
Total depreciation expense - Governmental activities	\$ 420,069

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

Note 6 – Long-term Liabilities

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

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amounts due within one year
A. Limited obligation bonds payable	\$ 1,100,000	\$ -	\$ (355,000)	\$ 745,000	\$ 745,000
B. Shortfall notes payable	-	458,842	-	458,842	149,929
C. Qualified school construction bonds payable	6,741,437	-	-	6,741,437	-
D. Obligations under capital leases	1,508,677	28,470	(577,101)	960,046	590,408
E. Compensated absences payable	312,465	-	(63,639)	248,826	-
Total	\$ 9,662,579	\$ 487,312	\$ (995,740)	\$ 9,154,151	\$ 1,485,337

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	\$ 745,000
Total				\$3,155,000	\$ 745,000

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 745,000	\$ 17,255	\$ 762,255
Total	\$ 745,000	\$ 17,255	\$ 762,255

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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

B. Shortfall notes payable

Shortfall notes currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes, series 2016	2.00%	10/25/2016	10/25/2019	\$ 458,842	\$ 458,842
Total				<u>\$ 458,842</u>	<u>\$ 458,842</u>

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 149,929	\$ 9,177	\$ 159,106
2019	152,927	6,178	159,105
2020	155,986	3,120	159,106
Total	<u>\$ 458,842</u>	<u>\$ 18,475</u>	<u>\$ 477,317</u>

This debt will be retired from the Shortfall Debt Service Fund. The amount outstanding is included in due from other governments on the Statement of Net Position.

C. Qualified school construction bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
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>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

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
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	\$ 1,771,437	\$ 829,032	\$ 2,600,469

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. 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	\$ 150,210
Band equipment	5.99%	8/15/2013	8/15/2017	44,811	9,467
Master lease	3.82%	10/9/2014	10/10/2021	682,482	481,040
GE - iPad lease	1.19%	10/21/2015	3/1/2018	896,790	300,393
IBM server	0.46%	7/1/2016	7/1/2018	28,470	18,936
Total				<u>\$2,366,271</u>	<u>\$ 960,046</u>

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

Brocade lease purchase:

Year Ending June 30	Principal	Interest	Total
2018	\$ 150,210	\$ 5,094	\$ 155,304
Total	<u>\$ 150,210</u>	<u>\$ 5,094</u>	<u>\$ 155,304</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

Band equipment:

Year Ending June 30	Principal	Interest	Total
2018	\$ 9,467	\$ 567	\$ 10,034
Total	\$ 9,467	\$ 567	\$ 10,034

Master lease:

Year Ending June 30	Principal	Interest	Total
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	\$ 481,040	\$ 42,893	\$ 523,933

GE – iPad lease

Year Ending June 30	Principal	Interest	Total
2018	\$ 300,393	\$ 3,575	\$ 303,968
Total	\$ 300,393	\$ 3,575	\$ 303,968

IBM Server

Year Ending June 30	Principal	Interest	Total
2018	\$ 9,446	\$ 88	\$ 9,534
2019	9,490	44	9,534
Total	\$ 18,936	\$ 132	\$ 19,068

Total due on all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 590,408	\$ 26,542	\$ 616,950
2019	134,949	12,695	147,644
2020	105,807	7,913	113,720
2021	85,080	4,249	89,329
2022	43,802	862	44,664
Total	\$ 960,046	\$ 52,261	\$ 1,012,307

These leases will be retired from the capital lease debt service funds.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

E. 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 – Defined Benefit Pension Plan

General Information about the Pension Plan

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2017 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, 2017, 2016 and 2015 were \$2,854,663 \$2,888,150 and \$2,840,366, 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, 2017, the school district reported a liability of \$51,193,915 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

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, 2017 net pension liability was .2866 percent, which was based on a measurement date of June 30, 2016. This was a decrease of .0034 percent from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$6,135,057. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,429,543	\$ -
Net difference between projected and actual earnings on pension plan investments	3,549,265	-
Changes of assumptions	2,442,023	136,039
Changes in proportion and differences between District contributions and proportionate share of contributions	561,227	708,334
District contributions subsequent to the measurement date	2,854,663	-
Total	<u>\$ 10,836,721</u>	<u>\$ 844,373</u>

\$2,854,663 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, 2018. 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 ending June 30:	
2018	\$ 2,410,814
2019	1,989,157
2020	1,726,366
2021	1,011,348
Total	<u>\$ 7,137,685</u>

Actuarial assumptions. The total pension liability in the June 30, 2016 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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2016 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:

<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	<u>100 %</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at the current employer contribution 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 members. 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	\$ 65,642,078	\$ 51,193,915	\$ 39,206,625

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 8 – 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,

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 9 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 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.

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
2018	\$ 250,085
2019	250,085
2020	161,126
2021	135,299
2022	135,299
2023-2027	619,020
2028-2032	374,389
2033-2037	294,249
Thereafter	393,421
Total	<u>\$ 2,612,973</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2017

Note 11 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(35,277,951) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$10,836,721 balance of the deferred outflow of resources at June 30, 2017 will be recognized as expenses and decrease unrestricted net position over the next 4 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 \$2,618 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 \$(35,277,951) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$844,373 balance of the deferred inflow of resources at June 30, 2017 will be recognized as revenue and increase unrestricted net position over the next 3 years.

Note 12– Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for 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, 2017, the subsidy payments amounted to \$100,044.

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, 2017 was \$1,946,123. 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
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	126,531	310,000	67,000	503,531
2023-2027	379,593	1,550,000	335,000	2,264,593
2028	-	-	67,000	67,000
Total	<u>\$ 1,012,248</u>	<u>\$ 3,100,000</u>	<u>\$ 736,000</u>	<u>\$ 4,848,248</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2017

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	\$ (41,639)
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 21, 2018, (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:

On September 13, 2017, the Cleveland School District issued \$2,000,000 in three mill notes payable.

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 10,760,540	\$ 10,789,572	\$ 10,137,096	\$ 29,032	\$ (652,476)
State sources	15,399,548	15,257,437	15,551,328	(142,111)	293,891
Federal sources	230,000	253,975	416,352	23,975	162,377
Sixteenth section sources	274,000	274,000	329,939	-	55,939
Total Revenues	26,664,088	26,574,984	26,434,715	(89,104)	(140,269)
Expenditures:					
Instruction	15,517,797	15,061,265	14,205,312	456,532	855,953
Support services	11,791,764	12,729,852	11,023,701	(938,088)	1,706,151
Noninstructional services	157,329	210,584	167,984	(53,255)	42,600
Sixteenth section	30,000	93,870	64,713	(63,870)	29,157
Total Expenditures	27,496,890	28,095,571	25,461,710	(598,681)	2,633,861
Excess (Deficiency) of Revenues over (under) Expenditures	(832,802)	(1,520,587)	973,005	(687,785)	2,493,592
Other Financing Sources (Uses):					
Loan proceeds	-	458,822	458,842	458,822	20
Inception of capital leases	-	-	28,470	-	28,470
Insurance loss recoveries	-	1,477	1,477	1,477	-
Operating transfers in	449,636	694,173	126,091	244,537	(568,082)
Operating transfers out	(1,004,479)	(1,239,942)	(1,123,480)	(235,463)	116,462
Other financing uses	(20,000)	(20,000)	(22,606)	-	(2,606)
Total Other Financing Sources (Uses)	(574,843)	(105,470)	(531,206)	469,373	(425,736)
Net Change in Fund Balances	(1,407,645)	(1,626,057)	441,799	(218,412)	2,067,856
Fund Balances:					
July 1, 2016	6,999,221	6,999,221	6,999,221	-	-
June 30, 2017	\$ 5,591,576	\$ 5,373,164	\$ 7,441,020	\$ (218,412)	\$ 2,067,856

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, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 2,454,910	\$ 2,300,397	\$ 1,646,275	\$ (154,513)	\$ (654,122)
Total Revenues	2,454,910	2,300,397	1,646,275	(154,513)	(654,122)
Expenditures:					
Instruction	1,386,025	1,401,216	1,064,233	(15,191)	336,983
Support services	860,083	903,143	628,397	(43,060)	274,746
Noninstructional services	79,421	81,986	62,307	(2,565)	19,679
Total Expenditures	2,325,529	2,386,345	1,754,937	(60,816)	631,408
Excess (Deficiency) of Revenues over (under) Expenditures	129,381	(85,948)	(108,662)	(215,329)	(22,714)
Other Financing Sources (Uses):					
Operating transfers in	-	208,421	208,421	208,421	-
Operating transfers out	(129,381)	(122,473)	(99,759)	6,908	22,714
Total Other Financing Sources (Uses)	(129,381)	85,948	108,662	215,329	22,714
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2016	-	-	-	-	-
June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -

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>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	\$ 51,193,915	44,828,280	33,986,872
District's proportionate share of the net pension liability (asset)	0.2866%	0.2900%	0.2800%
District's covered payroll	18,337,460	18,034,070	17,319,168
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.18%	248.58%	196.24%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	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 Statement No. 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>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,854,663	2,888,150	2,840,366
Contributions in relation to the contractually required contribution	\$ 2,854,663	2,888,150	2,840,366
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
District's covered payroll	18,124,844	18,337,460	18,034,070
Contributions as a percentage of covered payroll	15.75%	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 Statement No. 68 was implemented in FYE 6/30/2015, 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, 2017

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 assumptions

2015:

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.

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.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

(2) Changes in benefit provisions

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 497,386
National school lunch program	10.555	1,646,640
Total child nutrition cluster		<u>2,144,026</u>
Total passed-through Mississippi Department of Education		<u>2,144,026</u>
Total U.S. Department of Agriculture		<u><u>2,144,026</u></u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>287,377</u>
Total Federal Communications Commission		<u><u>287,377</u></u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,798,916
Rural education	84.358	65,754
Improving teacher quality-State Grants	84.367	279,056
School improvement grant	84.377	465,086
Subtotal		<u>2,608,812</u>
Special education cluster:		
Special education - grants to states	84.027	905,486
Special education - preschool grants	84.173	28,826
Total special education cluster		<u>934,312</u>
Total U.S. Department of Education		<u><u>3,543,124</u></u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	128,975
Total passed-through Mississippi Department of Education		<u>128,975</u>
Total U.S. Department of Health and Human Services		<u><u>128,975</u></u>
Total for All Federal Awards		<u><u>\$ 6,103,502</u></u>

The notes to the Supplementary Information are an integral part of this schedule.

CLEVELAND SCHOOL DISTRICT

Notes to the Supplementary Information For the Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Cleveland School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Cleveland School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Cleveland School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The Cleveland School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Noncash Awards

Donated commodities of \$155,801 are included in the National School Lunch Program.

CLEVELAND SCHOOL DISTRICT

Supplementary Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2017**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 24,874,081	18,825,579	1,116,701	2,026,933	2,904,868
Other	8,484,247	2,552,473	676,714	17,424	5,237,636
Total	<u>\$ 33,358,328</u>	<u>21,378,052</u>	<u>1,793,415</u>	<u>2,044,357</u>	<u>8,142,504</u>
Total number of students *	<u>3,212</u>				
Cost per student	<u>\$ 10,386</u>	<u>6,657</u>	<u>558</u>	<u>636</u>	<u>2,535</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

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 10,137,096	\$ 10,363,556	\$ 9,868,016	\$ 9,564,007
Intermediate sources	-	-	-	13,200
State sources	15,551,328	15,455,543	15,775,471	15,678,349
Federal sources	416,352	438,308	300,429	101,281
Sixteenth section sources	329,939	275,941	308,565	-
Total Revenues	<u>26,434,715</u>	<u>26,533,348</u>	<u>26,252,481</u>	<u>25,356,837</u>
Expenditures:				
Instruction	14,205,312	14,871,927	14,769,149	14,297,979
Support services	11,023,701	10,899,184	11,055,158	9,940,149
Noninstructional services	167,984	186,390	173,724	160,726
Sixteenth section	64,713	45,045	56,502	-
Total Expenditures	<u>25,461,710</u>	<u>26,002,546</u>	<u>26,054,533</u>	<u>24,398,854</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>973,005</u>	<u>530,802</u>	<u>197,948</u>	<u>957,983</u>
Other Financing Sources (Uses):				
Loan proceeds	458,842	-	-	-
Inception of capital leases	28,470	978,603	613,831	757,989
Insurance recovery	1,477	2,081	7,307	-
Sale of other property	-	-	8,710	3,651
Operating transfers in	126,091	191,535	112,896	338,597
Operating transfers out	(1,123,480)	(972,111)	(401,574)	(1,152,339)
Other financing uses	(22,606)	(20,133)	(129,472)	(20,000)
Total Other Financing Sources (Uses)	<u>(531,206)</u>	<u>179,975</u>	<u>211,698</u>	<u>(72,102)</u>
Net Change in Fund Balances	<u>441,799</u>	<u>710,777</u>	<u>409,646</u>	<u>885,881</u>
Fund Balances:				
Beginning of period, as previously reported	6,999,221	6,288,444	5,679,600	4,831,078
Prior period adjustments	-	-	199,198	(37,359)
Beginning of period, as restated	<u>6,999,221</u>	<u>6,288,444</u>	<u>5,878,798</u>	<u>4,793,719</u>
End of Period	<u>\$ 7,441,020</u>	<u>\$ 6,999,221</u>	<u>\$ 6,288,444</u>	<u>\$ 5,679,600</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

CLEVELAND SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 10,556,008	\$ 10,781,057	\$ 10,321,999	\$ 10,162,765
Intermediate sources	-	13,528	27,465	13,200
State sources	17,344,616	17,468,059	17,474,039	16,586,953
Federal sources	6,103,502	6,862,471	6,087,181	5,229,369
Sixteenth section sources	329,939	275,941	308,565	297,309
Total Revenues	<u>34,334,065</u>	<u>35,401,056</u>	<u>34,219,249</u>	<u>32,289,596</u>
Expenditures:				
Instruction	17,174,517	18,481,832	17,974,791	17,190,491
Support services	12,812,655	13,008,098	12,855,124	12,111,668
Noninstructional services	2,197,558	2,349,375	2,268,265	2,151,017
Sixteenth section	64,713	45,045	56,502	62,168
Facilities acquisition and construction	-	287,977	263,342	330,569
Debt service:				
Principal	932,101	1,070,735	693,366	641,296
Interest	171,533	192,578	194,496	183,201
Other	5,251	4,928	4,458	6,350
Total Expenditures	<u>33,358,328</u>	<u>35,440,568</u>	<u>34,310,344</u>	<u>32,676,760</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>975,737</u>	<u>(39,512)</u>	<u>(91,095)</u>	<u>(387,164)</u>
Other Financing Sources (Uses):				
Loan proceeds	458,842	-	-	-
Inception of capital leases	28,470	978,603	682,482	757,989
Insurance recovery	1,477	2,081	7,307	-
Sale of other property	-	-	8,710	3,651
Operating transfers in	1,655,847	1,163,646	514,470	1,490,936
Other financing sources	100,044	90,639	-	-
Operating transfers out	(1,655,847)	(1,163,646)	(514,470)	(1,490,936)
Other financing uses	(22,606)	(20,133)	(129,472)	(20,000)
Total Other Financing Sources (Uses)	<u>566,227</u>	<u>1,051,190</u>	<u>569,027</u>	<u>741,640</u>
Net Change in Fund Balances	<u>1,541,964</u>	<u>1,011,678</u>	<u>477,932</u>	<u>354,476</u>
Fund Balances:				
Beginning of period, as previously reported	9,547,348	8,527,110	7,851,961	7,549,233
Prior period adjustments	-	-	186,819	(37,359)
Beginning of period, as restated	<u>9,547,348</u>	<u>8,527,110</u>	<u>8,038,780</u>	<u>7,511,874</u>
Increase (Decrease) in reserve for inventory	<u>26,867</u>	<u>8,560</u>	<u>10,398</u>	<u>(14,389)</u>
End of Period	<u>\$ 11,116,179</u>	<u>\$ 9,547,348</u>	<u>\$ 8,527,110</u>	<u>\$ 7,851,961</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

CUNNINGHAM CPAs, PLLC
Certified Public Accountants & Consultants

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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, 2017, 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 21, 2018.

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.

A handwritten signature in dark ink that reads "Cunningham CPAs". The word "Cunningham" is written in a cursive script, and "CPAs" is written in a more blocky, sans-serif style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

February 21, 2018

CUNNINGHAM CPAs, PLLC
Certified Public Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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, 2017. 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, 2017.

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.

A handwritten signature in dark ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

February 21, 2018

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

CUNNINGHAM CPAs, PLLC
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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Cleveland School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2017, which collectively comprise Cleveland School District's basic financial statements and have issued our report thereon dated February 21, 2018. 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.

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.

A handwritten signature in dark ink that reads "Cunningham CPAs". The word "Cunningham" is written in a cursive script, and "CPAs" is written in a more blocky, sans-serif style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

February 21, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

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:

CFDA Numbers

Name of Federal Program or Cluster

Special Education Cluster:

84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants

84.377	School Improvement Grant
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8. Dollar threshold used to distinguish between type A and type B programs: \$750,000
9. Auditee qualified as low-risk auditee? Yes

CLEVELAND SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

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.