



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

CLEVELAND SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2020

CLEVELAND SCHOOL DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	6
BASIC FINANCIAL STATEMENTS.....	15
Government-wide Financial Statements	
Exhibit A – Statement of Net Position.....	16
Exhibit B – Statement of Activities.....	17
Governmental Funds Financial Statements	
Exhibit C – Balance Sheet.....	18
Exhibit C-1 – Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	19
Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances.....	20
Exhibit D-1 – Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	21
Fiduciary Funds Financial Statements	
Exhibit E – Statement of Fiduciary Assets and Liabilities.....	22
Notes to the Financial Statements.....	23
REQUIRED SUPPLEMENTARY INFORMATION.....	47
Budgetary Comparison Schedule – General Fund.....	48
Budgetary Comparison Schedule – IDEA Part B Fund.....	49
Schedule of the District’s Proportionate Share of the Net Pension Liability.....	50
Schedule of District Contributions (PERS).....	51
Schedule of the District’s Proportionate Share of the Net OPEB Liability.....	52
Schedule of District Contributions (OPEB).....	53
Notes to the Required Supplementary Information.....	54
SUPPLEMENTARY INFORMATION.....	57
Schedule of Expenditures of Federal Awards.....	58
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	60
OTHER INFORMATION.....	61
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years.....	62
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years.....	63
REPORTS ON INTERNAL CONTROL AND COMPLIANCE.....	64
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 <i>Government Auditing Standards</i>	65
Independent Auditor’s Report on Compliance For Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.....	67
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS.....	69
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	72
AUDITEE'S CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR AUDIT FINDINGS.....	76

INDEPENDENT AUDITOR'S REPORT

CUNNINGHAM CPAs, PLLC

Certified Public Accountants & Consultants

202 Church Street
Belzoni, Mississippi 39038
Office: (662) 247-2416
Fax: (662) 247-2420

10 South Bancroft Street
Fairhope, Alabama 36532
Office: (251) 929-7778
Fax: (251) 929-7779

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, 2020, 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, 2020, 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, the Schedule of District Contributions (PERS), the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) on pages 6-14, 48-49, 50, 51, 52, and 53, 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 March 22, 2021 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

March 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

The following discussion and analysis of Cleveland School District's financial performance provides an overview of the Cleveland School District's financial activities for the year ended June 30, 2020. The intent of this discussion and analysis is to look at the Cleveland 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 Cleveland School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2020 increased \$2,487,713, including a prior period adjustment of \$222,278 which represents a 7% increase from fiscal year 2019. Total net position for 2019 increased \$367,236, which represents a 1% increase from fiscal year 2018.
- General revenues amounted to \$28,596,551 and \$26,649,527, or 80% and 77% of all revenues for fiscal years 2020 and 2019, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,119,917, or 20% of total revenues for 2020, and \$7,912,454, or 23% of total revenues for 2019.
- The District had \$33,451,033 and \$34,194,745 in expenses for fiscal years 2020 and 2019; only \$7,119,917 for 2020 and \$7,912,454 for 2019 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$28,596,551 for 2020 and \$26,649,527 for 2019 were adequate to provide for these programs.
- Among major funds, the General Fund had \$27,291,237 in revenues and \$26,826,373 in expenditures for 2020, and \$26,207,486 in revenues and \$25,070,684 in expenditures in 2019. The General Fund's fund balance increased by \$1,025,436, which includes a prior period adjustment of (\$488,305), from 2019 to 2020, and increased by \$1,824,753 from 2018 to 2019.
- Capital assets, net of accumulated depreciation, increased by \$1,480,505, including a prior period adjustment of \$166,010 for 2020 and decreased by \$19,830 for 2019. The increase for 2020 was due to construction in progress and other current year additions net of the increase in accumulated depreciation.
- Long-term debt increased by \$270,681 for 2020 and decreased by \$396,127 for 2019. This increase for 2020 was due to the inception of capital leases net of the principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$25,670 for 2020 and decreased by \$4,887 for 2019.

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

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

A net pension liability and net OPEB liability result in liabilities on the government-wide financial statements but are 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, Schedule of District Contributions (PERS), Schedule of the District's Proportionate Share of the Net OPEB Liability, and Schedule of District Contributions (OPEB) 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 \$31,255,622 as of June 30, 2020.

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

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

depreciation of capital assets.

Table 1 presents a summary of the District's net position at June 30, 2020 and June 30, 2019.

Table 1
Condensed Statement of Net Position

	June 30, 2020	June 30, 2019	Percentage Change
Current assets	\$ 12,243,845	\$ 12,649,929	(3.21) %
Restricted assets	4,113,946	3,553,540	15.77 %
Capital assets, net	12,615,540	11,135,035	13.30 %
Total assets	28,973,331	27,338,504	5.98 %
 Deferred outflows of resources	 3,961,598	 5,791,162	 (31.59) %
 Current liabilities	 804,920	 1,943,481	 (58.58) %
Long-term debt outstanding	10,292,924	10,022,243	2.70 %
Net OPEB liability	3,223,717	3,029,200	6.42 %
Net pension liability	47,066,620	46,558,346	1.09 %
Total liabilities	61,388,181	61,553,270	(0.27) %
 Deferred inflows of resources	 2,802,370	 5,319,731	 (47.32) %
 Net position:			
Net investment in capital assets	2,535,747	1,351,593	87.61 %
Restricted	4,879,306	4,611,859	5.80 %
Unrestricted	(38,670,675)	(39,706,787)	2.61 %
Total net position	\$ (31,255,622)	\$ (33,743,335)	7.37 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (38,670,675)
Less unrestricted deficit in net position resulting from recognition of the net pension and net OPEB liability, including the deferred outflows and deferred inflows related to pensions and OPEB	 <u>49,131,109</u>
Unrestricted net position, exclusive of the net pension and net OPEB liability effect	 <u>\$ 10,460,434</u>

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

- Increase in net capital assets in the amount of \$1,480,505.
- The principal retirement of \$531,567 of long-term debt.
- Inception of capital leases of \$827,918.

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2020 and June 30, 2019 were \$35,716,468 and \$34,561,981, respectively. The total cost of all programs and services was \$33,451,033 for 2020 and \$34,194,745 for 2019.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019.

**Table 2
Changes in Net Position**

	Year Ended June 30, 2020	Year Ended June 30, 2019	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 355,632	\$ 589,280	(39.65) %
Operating grants and contributions	6,764,285	7,323,174	(7.63) %
General revenues:			
Property taxes	10,858,409	10,636,797	2.08 %
Grants and contributions not restricted	16,080,162	15,602,509	3.06 %
Investment earnings	217,287	146,398	48.42 %
Sixteenth section	295,135	236,927	24.57 %
Other	1,145,558	26,896	4,159.21 %
Total revenues	35,716,468	34,561,981	3.34 %
Expenses:			
Instruction	15,978,384	15,741,567	1.50 %
Support services	11,580,976	12,105,721	(4.33) %
Non-instructional	1,836,481	1,102,738	66.54 %
Sixteenth section	46,996	59,018	(20.37) %
Pension expense	3,630,625	4,828,578	(24.81) %
OPEB expense	154,294	135,467	13.90 %
Interest on long-term liabilities	223,277	221,656	0.73 %
Total expenses	33,451,033	34,194,745	(2.17) %
Increase (Decrease) in net position	2,265,435	367,236	516.89 %
Net Position, July 1, as previously reported	(33,743,335)	(34,110,571)	1.08 %
Prior Period Adjustment	222,278	-	N/A %
Net Position, July 1, as restated	(33,521,057)	(34,110,571)	1.73 %
Net Position, June 30	\$ (31,255,622)	\$ (33,743,335)	7.37 %

Governmental activities

The following table presents the cost of seven major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense, OPEB 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, 2020

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2020	2019	
Instruction	\$ 15,978,384	\$ 15,741,567	1.50 %
Support services	11,580,976	12,105,721	(4.33) %
Non-instructional	1,836,481	1,102,738	66.54 %
Sixteenth section	46,996	59,018	(20.37) %
Pension Expense	3,630,625	4,828,578	(24.81) %
OPEB Expense	154,294	135,467	13.90 %
Interest on long-term liabilities	223,277	221,656	0.73 %
Total expenses	\$ 33,451,033	\$ 34,194,745	(2.17) %

	Net (Expense) Revenue		Percentage Change
	2020	2019	
Instruction	\$ (12,578,580)	\$ (12,097,986)	(3.97) %
Support services	(9,595,240)	(10,178,200)	5.73 %
Non-instructional	(102,104)	1,238,614	108.24 %
Sixteenth section	(46,996)	(59,018)	20.37 %
Pension Expense	(3,630,625)	(4,828,578)	24.81 %
OPEB Expense	(154,294)	(135,467)	(13.90) %
Interest on long-term liabilities	(223,277)	(221,656)	(0.73) %
Total net (expense) revenue	\$ (26,331,116)	\$ (26,282,291)	(0.19) %

- Net cost of governmental activities (\$26,331,116 for 2020 and \$26,282,291 for 2019) was financed by general revenue, which is primarily made up of property taxes (\$10,858,409 for 2020 and \$10,636,797 for 2019) and state and federal revenues (\$16,080,162 for 2020 and \$15,602,509 for 2019). In addition, there was \$295,135 and \$236,927 in Sixteenth Section sources for 2020 and 2019, respectively.
- Investment earnings amounted to \$217,287 for 2020 and \$146,398 for 2019, including increases in fair market value of investments.

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 \$15,628,909, an increase of \$1,297,227, which includes a prior period adjustment of (\$488,305) and an increase in inventory of \$72,302. \$10,487,443 or 67% 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 \$5,141,466 or 33% is either nonspendable, restricted, committed or assigned to indicate

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,025,436, including a prior period adjustment of (\$488,305). The fund balance of Other Governmental Funds showed a decrease in the amount of \$53,868, which includes an increase in reserve for inventory of \$72,302, 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>
IDEA Part B Fund	No increase or decrease
QSCB 2012 Sinking Fund	\$ 325,659

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 Cleveland 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, 2020, the District's total capital assets were \$22,799,168, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$2,100,739 from 2019. Total accumulated depreciation as of June 30, 2020, was \$10,183,628, and total depreciation expense for the year was \$625,452, resulting in total net capital assets of \$12,615,540.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Change</u>
Land	\$ 104,536	\$ 111,026	(5.85) %
Construction in progress	47,183	-	N/A %
Buildings	5,764,845	5,886,080	(2.06) %
Building improvements	3,975,668	3,104,278	28.07 %
Improvements other than buildings	29,239	30,371	(3.73) %
Mobile equipment	634,624	500,096	26.90 %
Furniture and equipment	176,901	149,690	18.18 %
Leased property under capital leases	1,882,544	1,353,494	39.09 %
Total	\$ 12,615,540	\$ 11,135,035	13.30 %

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, 2020

Debt Administration. At June 30, 2020, the District had \$10,292,924 in outstanding long-term debt, of which \$518,379 is due within one year. The liability for compensated absences decreased \$25,670 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Change</u>
Three mill note payable	\$ 1,530,000	\$ 1,690,000	(9.47) %
Qualified school construction bond payable	6,741,437	6,741,437	0.00 %
Obligations under capital leases	1,808,356	1,352,005	33.75 %
Compensated absences payable	213,131	238,801	(10.75) %
Total	<u>\$ 10,292,924</u>	<u>\$ 10,022,243</u>	2.70 %

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, 2020**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 11,024,826
Due from other governments	1,116,225
Inventories	102,794
Restricted assets	4,113,946
Capital assets, non-depreciable:	
Land	104,536
Construction in progress	47,183
Capital assets, net of accumulated depreciation:	
Buildings	5,764,845
Building improvements	3,975,668
Improvements other than buildings	29,239
Mobile equipment	634,624
Furniture and equipment	176,901
Leased property under capital leases	1,882,544
Total Assets	<u>28,973,331</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	3,597,182
Deferred outflows - OPEB	364,416
Total deferred outflows of resources	<u>3,961,598</u>
Liabilities	
Accounts payable and accrued liabilities	728,882
Interest payable on long-term liabilities	76,038
Long-term liabilities, due within one year:	
Capital related liabilities	518,379
Net OPEB liability	119,144
Long-term liabilities, due beyond one year:	
Capital related liabilities	9,561,414
Non-capital related liabilities	213,131
Net pension liability	47,066,620
Net OPEB liability	3,104,573
Total Liabilities	<u>61,388,181</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	2,468,741
Deferred inflows - OPEB	333,629
Total deferred inflows of resources	<u>2,802,370</u>
Net Position	
Net investment in capital assets	2,535,747
Restricted for:	
Expendable:	
School-based activities	696,836
Debt service	3,607,081
Capital improvements	37,428
Forestry improvements	146
Unemployment benefits	101,720
Non-expendable:	
Sixteenth section principal	436,095
Unrestricted	(38,670,675)
Total Net Position	<u><u>\$ (31,255,622)</u></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, 2020

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
Governmental Activities:					
Instruction	\$ 15,978,384	\$ 264,424	\$ 3,135,380	\$ -	\$ (12,578,580)
Support services	11,580,976	-	1,985,736	-	(9,595,240)
Non-instructional	1,836,481	91,208	1,643,169	-	(102,104)
Sixteenth section	46,996	-	-	-	(46,996)
Pension expense	3,630,625	-	-	-	(3,630,625)
OPEB expense	154,294	-	-	-	(154,294)
Interest on long-term liabilities	223,277	-	-	-	(223,277)
Total Governmental Activities	<u>\$ 33,451,033</u>	<u>\$ 355,632</u>	<u>\$ 6,764,285</u>	<u>\$ -</u>	<u>\$ (26,331,116)</u>

General Revenues:

Taxes:

General purpose levies

10,422,778

Debt purpose levies

435,631

Unrestricted grants and contributions:

State

15,845,228

Federal

234,934

Unrestricted investment earnings

217,287

Sixteenth section

295,135

Other

1,145,558

Total General Revenues

28,596,551

Change in Net Position

2,265,435

Net Position - Beginning, as previously reported

(33,743,335)

Prior Period Adjustments

222,278

Net Position - Beginning, as restated

(33,521,057)

Net Position - Ending

\$ (31,255,622)

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

CLEVELAND SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2020

Exhibit C

	Major Funds					
	General Fund	IDEA Part B Fund	QSCB 2012 Sinking Fund	Other Governmental Funds	Total Governmental Funds	
Assets:						
Cash and cash equivalents	\$ 9,446,589	\$ 478,112	\$ -	\$ 1,562,877	\$ 11,487,578	
Cash with fiscal agents	-	-	327,646	-	327,646	
Investments	-	-	1,584,500	1,739,048	3,323,548	
Due from other governments	467,925	142,107	11,677	439,324	1,061,033	
Due from other funds	1,342,579	-	-	-	1,342,579	
Advances to other funds	20,000	-	-	-	20,000	
Inventories	-	-	-	102,794	102,794	
Total assets	11,277,093	620,219	1,923,823	3,844,043	17,665,178	
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 587,403	\$ 38,571	\$ -	\$ 102,907	\$ 728,881	
Due to other funds	16,125	581,648	-	709,615	1,307,388	
Total Liabilities	603,528	620,219	-	812,522	2,036,269	
Fund Balances:						
Nonspendable:						
Permanent fund principal	-	-	-	436,095	436,095	
Advances	20,000	-	-	-	20,000	
Inventory	-	-	-	102,974	102,974	
Restricted:						
Debt service	-	-	1,923,823	1,759,296	3,683,119	
Forestry improvements	-	-	-	146	146	
Grant activities	-	-	-	593,862	593,862	
Capital improvements	-	-	-	37,428	37,428	
Unemployment benefits	-	-	-	101,720	101,720	
Assigned:						
Student activities	166,122	-	-	-	166,122	
Unassigned	10,487,443	-	-	-	10,487,443	
Total Fund Balances	10,673,565	-	1,923,823	3,031,521	15,628,909	
Total Liabilities and Fund Balances	\$ 11,277,093	\$ 620,219	\$ 1,923,823	\$ 3,844,043	\$ 17,665,178	

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, 2020**

Exhibit C-1

Total fund balances for governmental funds \$ 15,628,909

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	104,536	
Construction in progress	47,183	
Buildings	11,457,177	
Building improvements	4,886,069	
Improvements other than buildings	112,238	
Mobile equipment	2,451,988	
Furniture and equipment	1,089,542	
Leased property under capital leases	2,650,435	
Accumulated depreciation	<u>(10,183,628)</u>	12,615,540

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	(47,066,620)	
Deferred outflow s and inflow s of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflow s of resources related to pensions	3,597,182	
Deferred inflow s of resources related to pensions	<u>(2,468,741)</u>	(45,938,179)

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

Net OPEB liability	(3,223,717)	
Deferred outflow s and inflow s of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflow s of resources related to OPEB	364,416	
Deferred inflow s of resources related to OPEB	<u>(333,629)</u>	(3,192,930)

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

Three mill notes payable	(1,530,000)	
Qualified school construction bonds payable	(6,741,437)	
Obligations under capital leases	(1,808,356)	
Compensated absences	(213,131)	
Accrued interest payable	<u>(76,038)</u>	(10,368,962)

Net position of governmental activities \$ (31,255,622)

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, 2020**

Exhibit D

	Major Funds				
	General Fund	IDEA Part B Fund	QSCB 2012 Sinking Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local sources	\$ 10,965,926	\$ -	\$ 204,235	\$ 492,547	\$ 11,662,708
State sources	15,832,034	-	-	1,972,494	17,804,528
Federal sources	181,433	935,166	-	3,923,324	5,039,923
Sixteenth section	311,844	-	-	-	311,844
Total Revenues	27,291,237	935,166	204,235	6,388,365	34,819,003
Expenditures:					
Instruction	14,495,357	628,758	-	2,500,220	17,624,335
Support services	11,244,356	255,548	-	1,979,314	13,479,218
Noninstructional services	133,582	839	-	1,842,421	1,976,842
Sixteenth section	46,996	-	-	-	46,996
Facilities acquisition and construction	906,082	-	-	47,183	953,265
Debt service:					
Principal	-	-	-	531,567	531,567
Interest	-	-	-	213,933	213,933
Other	-	-	2,500	2,500	5,000
Total Expenditures	26,826,373	885,145	2,500	7,117,138	34,831,156
Excess (Deficiency) of Revenues over (under) Expenditures	464,864	50,021	201,735	(728,773)	(12,153)
Other Financing Sources (Uses):					
Inception of capital leases	827,918	-	-	-	827,918
Insurance loss recoveries	905,662	-	-	150,000	1,055,662
Operating transfers in	66,730	-	123,924	681,194	871,848
Other financing sources	-	-	-	-	-
Operating transfers out	(617,409)	(26,757)	-	(227,682)	(871,848)
Other financing uses	(134,024)	(23,264)	-	(909)	(158,197)
Total Other Financing Sources (Uses)	1,048,877	(50,021)	123,924	602,603	1,725,383
Net Change in Fund Balances	1,513,741	-	325,659	(126,170)	1,713,230
Fund Balances:					
July 1, 2019, as previously reported	9,648,129	-	1,598,164	3,085,389	14,331,682
Prior period adjustments	(488,305)	-	-	-	(488,305)
July 1, 2019, as restated	9,159,824	-	1,598,164	3,085,389	13,843,377
Increase (Decrease) in reserve for inventory	-	-	-	72,302	72,302
June 30, 2020	\$ 10,673,565	\$ -	\$ 1,923,823	\$ 3,031,521	\$ 15,628,909

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, 2020**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 1,713,230

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	\$	1,940,527	
Depreciation expense		<u>(625,452)</u>	1,315,075

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.

(580)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Inception of capital leases		(827,918)	
Payments of debt principal		531,567	
Accrued interest payable		<u>(4,344)</u>	(300,695)

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		(3,630,625)	
Contributions subsequent to the measurement date		<u>3,106,208</u>	(524,417)

5. Some items relating to OPEB 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:

OPEB expense		(154,294)	
Contributions subsequent to the measurement date		<u>119,144</u>	(35,150)

6. 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		25,670	
Change in inventory reserve		<u>72,302</u>	<u>97,972</u>

Change in net position of governmental activities \$ 2,265,435

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

CLEVELAND SCHOOL DISTRICT**Fiduciary Funds****Statement of Fiduciary Assets and Liabilities
June 30, 2020****Exhibit E**

	Agency Funds
Assets	
Cash and cash equivalents	\$ 1,214,722
Due from other funds	16,125
Total Assets	<u>\$ 1,230,847</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,152,064
Due to other funds	51,316
Advances from other funds	20,000
Due to student clubs	7,467
Total Liabilities	<u>\$ 1,230,847</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, 2020

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 Cleveland School District is considered an "other stand-alone government." The Cleveland 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 Cleveland School District's board but does not have financial accountability for the Cleveland School District.

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

B. Government-wide and Fund Financial Statements

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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.

IDEA Part B Fund - This fund accounts for the resources and expenditures of federal revenue for specific purposes.

QSCB 2012 Sinking Fund - This fund is used to account for the sinking fund activity of the 2012 qualified school construction bonds.

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

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

FIDUCIARY FUNDS

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

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

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the city on behalf of the Cleveland School District based upon an order adopted by the school board of the Cleveland School District requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the Cleveland 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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2014*, issued by the U.S. Department of Education.

D. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the School District attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified 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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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 \$3,597,182 of deferred outflows related to its pension plan and \$364,416 related to its OPEB plan.

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 \$2,468,741 of deferred inflows related to its pension plan and \$333,629 related to its OPEB plan.

See Note 14 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

10. Pensions

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

11. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recorded when the OPEB benefits come due. Investments are reported at fair value as determined by the state.

12. Fund Balances

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

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

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

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

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 school board.

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

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

13. Accounting Standards Update

The Governmental Accounting Standards Board issued GASB 95, Postponement of the Effective Dates of Certain Authoritative Guidance in May 2020. The objective of this Statement was to provide temporary relief to governments in light of the COVID-19 pandemic by postponing effective dates of certain Statements and Implementation Guides. The effective dates of GASB 83-84, GASB 88-93, and Implementation Guides No. 2017-3, 2018-1, 2019-1, and 2019-2 were postponed one year. The effective dates of GASB 87, Leases, and Implementation Guide No. 2019-3, Leases, were postponed eighteen months.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the Cleveland School District's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$11,487,578 and \$1,214,722, 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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

Cash with Fiscal Agents

The carrying amount of Cleveland School District's cash with fiscal agents held by financial institutions was \$327,646.

Investments

As of June 30, 2020, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
U.S. Treasuries, State & Local Governments	AA+	1 to 5 years	\$ 3,323,548
Total			<u>\$ 3,323,548</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.

The district has the following recurring fair value measurements as of June 30, 2020:

- U.S. Treasury, State and Local Government type of investments of \$3,323,548 are valued using quoted market prices (Level 1 inputs)

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2020, the district had the following investments:

Issuer		Fair Value	% of Total Investments
U.S. Treasuries, State and Local Governments	\$	3,323,548	100%

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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	IDEA Part B Fund	\$ 581,648
	Other Governmental Fund	709,615
	Fiduciary Funds	51,316
Fiduciary Funds	General Fund	16,125
Total		<u>\$ 1,358,704</u>

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

B. Advances From/To Other Funds

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

Advances were for cash flow purposes.

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 617,409
IDEA Part B Fund	General Fund	26,757
Other governmental funds	General Fund	39,973
	QSCB 2012 Sinking Fund	123,924
	Other governmental funds	63,785
Total		<u>\$ 871,848</u>

The primary reason for the interfund transfers was for debt service requirements, federal grant allocations and the funding of various programs within the district.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$442,026 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 cash with fiscal agents and investment balances, totaling \$327,646 and \$3,323,548, respectively, of the QSCB debt service sinking funds.

In addition, the restricted assets represent the cash balance, totaling \$20,726, 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, 2020

Note 5 – Capital Assets

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

	Balance 7/1/2019	Increases	Decreases	Completed Construction	Adjustments	Balance 6/30/2020
Governmental Activities:						
<u>Non-depreciable capital assets:</u>						
Land	\$ 111,026	\$ -	\$ -	\$ -	(6,490)	\$ 104,536
Construction in progress	-	953,265	-	(1,058,233)	152,151	47,183
Total non-depreciable capital assets	111,026	953,265	-	(1,058,233)	145,661	151,719
<u>Depreciable capital assets:</u>						
Buildings	11,457,177	-	-	-	-	11,457,177
Building improvements	3,827,836	-	-	1,058,233	-	4,886,069
Improvements other than buildings	112,238	-	-	-	-	112,238
Mobile equipment	2,354,487	89,000	-	-	8,501	2,451,988
Furniture and equipment	1,013,148	70,344	(5,798)	-	11,848	1,089,542
Leased property under capital leases	1,822,517	827,918	-	-	-	2,650,435
Total depreciable capital assets	20,587,403	987,262	(5,798)	1,058,233	20,349	22,647,449
<u>Less accumulated depreciation for:</u>						
Buildings	5,571,097	121,235	-	-	-	5,692,332
Building improvements	723,558	186,843	-	-	-	910,401
Improvements other than buildings	81,867	1,132	-	-	-	82,999
Mobile equipment	1,854,391	71,491	-	-	(108,518)	1,817,364
Furniture and equipment	863,458	54,401	(5,218)	-	-	912,641
Leased property under capital leases	469,023	190,350	-	-	108,518	767,891
Total accumulated depreciation	9,563,394	625,452	(5,218)	-	-	10,183,628
Total depreciable capital assets, net	11,024,009	361,810	(580)	1,058,233	20,349	12,463,821
Governmental activities capital assets, net	\$ 11,135,035	\$ 1,315,075	\$ (580)	\$ -	\$ 166,010	\$ 12,615,540

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 437,817
Support services	125,090
Non-instructional	62,545
Total depreciation expense - Governmental activities	<u>\$ 625,452</u>

Construction in progress is composed of:

	Spent to June 30, 2020	Remaining Commitment
Library Building Project	\$ 47,183	\$ 98,000
Total construction in progress	<u>\$ 47,183</u>	<u>\$ 98,000</u>

Construction projects included in governmental activities are funded by the capital projects fund and the district maintenance fund.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

Note 6 – Long-term Liabilities

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

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Amounts due within one year
A. Three Mill Notes Payable	\$ 1,690,000	\$ -	\$ (160,000)	\$ 1,530,000	\$ 165,000
B. Qualified school construction bonds payable	6,741,437	-	-	6,741,437	-
C. Obligations under capital leases	1,352,005	827,918	(371,567)	1,808,356	353,379
D. Compensated absences payable	238,801	-	(25,670)	213,131	-
Total	\$ 10,022,243	\$ 827,918	\$ (557,237)	\$ 10,292,924	\$ 518,379

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited tax notes payable, Series 2017	2.52%	9/14/2017	6/15/2029	\$ 2,000,000	\$ 1,530,000

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

Year Ending June 30	Principal	Interest	Total
2021	\$ 165,000	\$ 38,556	\$ 203,556
2022	170,000	34,398	204,398
2023	155,000	30,114	185,114
2024	160,000	26,208	186,208
2025	165,000	22,176	187,176
2026-2029	715,000	45,486	760,486
Total	\$ 1,530,000	\$ 196,938	\$ 1,726,938

This debt will be retired from the Three Mill Note Fund.

B. Qualified school construction bonds payable

As more fully explained in Note 13, 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				\$6,741,437	\$6,741,437

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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
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	\$ 518,145	\$ 2,289,582

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

C. Obligations under capital leases

The district has entered into lease agreements as lessee for financing the acquisition of technology upgrades and equipment, buses and door security/access project. 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
Master lease - technology equipment	3.82%	10/9/2014	10/10/2021	\$ 764,295	\$ 138,303
Master lease - buses	4.02%	6/29/2018	4/10/2028	1,218,607	1,003,647
Master lease - door access project	2.83%	7/18/2019	4/10/2024	827,918	666,406
Total				<u>\$ 2,810,820</u>	<u>\$ 1,808,356</u>

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

Master lease – technology equipment:

Year Ending June 30	Principal	Interest	Total
2021	\$ 85,080	\$ 4,249	\$ 89,329
2022	53,223	862	54,085
Total	<u>\$ 138,303</u>	<u>\$ 5,111</u>	<u>\$ 143,414</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

Master lease - buses

Year Ending June 30		Principal		Interest		Total
2021	\$	108,653	\$	39,253	\$	147,906
2022		113,065		34,841		147,906
2023		117,656		30,249		147,905
2024		122,434		25,472		147,906
2025		127,405		20,501		147,906
2026-2028		414,434		29,615		444,049
Total	\$	1,003,647	\$	179,931	\$	1,183,578

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

Master lease – door access project

Year Ending June 30		Principal		Interest		Total
2021	\$	159,646	\$	17,738	\$	177,384
2022		164,196		13,188		177,384
2023		168,876		8,508		177,384
2024		173,688		3,695		177,383
Total	\$	666,406	\$	43,129	\$	709,535

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

Total for all leases:

Year Ending June 30		Principal		Interest		Total
2021	\$	353,379	\$	61,240	\$	414,619
2022		330,484		48,891		379,375
2023		286,532		38,757		325,289
2024		296,122		29,167		325,289
2025		127,405		20,501		147,906
2026-2028		414,434		29,615		444,049
Total	\$	1,808,356	\$	228,171	\$	2,036,527

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

D. Compensated absences payable

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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 is available at www.pers.ms.gov.

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.

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, 2020 was 17.40% 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, 2020, 2019 and 2018 were \$3,106,208, \$2,744,372 and \$2,815,359, 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, 2020, the school district reported a liability of \$47,066,620 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate the June 30, 2020 net pension liability was .2675460 percent, which was based on a measurement date of June 30, 2019. This was decrease of .0124 percent from its proportionate share used to calculate the June 30, 2019 net pension liability, which was based on a measurement date of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$3,630,625. At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,129	\$ 53,496
Net difference between projected and actual earnings on pension plan investments	-	571,485
Changes of assumptions	461,845	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	1,843,760
District contributions subsequent to the measurement date	3,106,208	-
Total	\$ <u>3,597,182</u>	\$ <u>2,468,741</u>

\$3,106,208 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, 2021. 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:

2021	\$ (514,407)
2022	(1,386,306)
2023	(291,940)
2024	214,886
Total	<u>\$ (1,977,767)</u>

Actuarial assumptions. The total pension liability as of June 30, 2019 was determined by actuarial valuation prepared as of June 30, 2018. Subsequent to the June 30, 2018 valuation, the Board adopted new actuarial assumptions based on the experience investigation for the four-year period ending June 30, 2018. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.00-18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

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 most recent target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
Domestic Equity	27.00	%	4.90	%
International Equity	22.00		4.75	
Global Equity	12.00		5.00	
Fixed Income	20.00		1.50	
Real Estate	10.00		4.00	
Private Equity	8.00		6.25	
Cash	1.00		0.25	
Total	100	%		

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 (9.00%) and that employer contributions will be made at the current contribution rate (17.40%). 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 table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) 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	\$ 61,870,703	\$ 47,066,620	\$ 34,847,179

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 – Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan.

Plan description. State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. The plan issues a publicly available financial report that can be obtained at <http://knowyourbenefits.dfa.ms.gov/>.

Benefits provided.

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

Contributions.

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the District were \$119,144 for the year ended June 30, 2020.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2020, the District reported a liability of \$3,223,717 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the District's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2019, the District's proportion was .37991288 percent. This was a decrease of .0117 percent from the proportionate share as of the measurement date of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$154,294. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,874	\$ 46,144
Net difference between projected and actual earnings on OPEB plan investments	61	-
Changes of assumptions	240,337	167,165
Changes in proportion and differences between District contributions and proportionate share of contributions	-	120,320
District contributions subsequent to the measurement date	119,144	-
Total	<u>\$ 364,416</u>	<u>\$ 333,629</u>

\$119,144 reported as deferred outflows of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:

2021	\$ (29,591)
2022	(29,591)
2023	(29,591)
2024	(20,596)
2025	12,668
Thereafter	8,344
Total	<u>\$ (88,357)</u>

Actuarial assumptions. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00-18.20 percent, including wage inflation
Municipal Bond Index Rate	
Measurement Date	3.50%
Prior Measurement Date	3.89%
Year FNP is projected to be depleted	
Measurement Date	2019
Prior Measurement Date	2018
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.50%
Prior Measurement Date	3.89%
Health Care Cost Trends	
Medicare Supplement Claims	7.00 percent for 2019 decreasing to an

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Pre-Medicare

ultimate rate of 4.75% by 2028

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The demographic actuarial assumptions used in the June 30, 2019 valuation were based on the results of the last actuarial experience study, dated April 2, 2019.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

The long-term expected rate of return on OPEB plan investments is 4.50%.

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.50 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.89% to 3.50%.

The trust was established on June 28, 2018 with an initial contribution of \$1,000,000. As of June 30, 2019, the trust has \$1,017,904. The fiduciary net position is projected to be depleted immediately, therefore, the Municipal Bond Index Rate is used in the determination of the discount rate for both the June 30, 2018 and the June 30, 2019 total OPEB liability. The discount rate used to measure the total OPEB liability at June 30, 2019 was based on a monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability	\$ 3,580,987	\$ 3,223,717	\$ 2,918,039

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 2,987,270	\$ 3,223,717	\$ 3,491,570

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in a separately issued report that can be found at <http://knowyourbenefits.dfa.ms.gov/>.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Note 9 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. To adjust beginning capital assets.	\$ 166,010
2. To adjust beginning deferred pension amounts.	544,573
3. To adjust beginning accounts payable and accounts receivable.	(488,305)
Total	<u>\$ 222,278</u>

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

Fund	Explanation	Amount
General Fund	To adjust beginning accounts payable and accounts receivable.	\$ (488,305)
Total		<u>\$ (488,305)</u>

Note 10 – Contingencies

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

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

Note 11 – Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 56 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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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

The school district is a member of the Mississippi School Boards Association Property Trust (MSBAPT). The Trust is a risk sharing pool; such a pool is frequently referred to as a self-insurance pool. The Trust consists of approximately 55 school districts and covers losses associated with property damage to the physical assets owned by the member districts. An indemnity agreement is executed by each member in the Trust for the purposes of jointly and severally binding the pool and each of the members/districts to meet the financial obligations of each member. Each member of the Trust contributes quarterly to a fund held in trust by Amegy Bank of Texas in Houston, Texas. The funds in the trust account are used to pay any claim up to \$150,000 per occurrence. For a claim/occurrence exceeding \$150,000 the Trust has secured excess insurance. 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 Trust.

The school district is a member of the Mississippi School Boards Association Casualty Trust (MSBACT). The Trust is a risk sharing pool; such a pool is frequently referred to as a self-insurance pool. The Trust consists of approximately 55 school districts and covers liability related losses the member may be responsible for through General Liability, Automobile Liability and School Board Legal Liability. An indemnity agreement is executed by each member in the Trust for the purposes of jointly and severally binding the pool and each of the members/districts to meet the financial obligations of each member. Each member of the Trust contributes quarterly to a fund held in trust by Amegy Bank of Texas in Houston, Texas. The funds in the trust account are used to pay any claim up to \$150,000 per occurrence. For a claim/occurrence exceeding \$150,000 the Trust has secured excess insurance. 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 Trust.

Note 12 – 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
2021	\$ 165,517
2022	165,517
2023	165,517
2024	165,517
2025	165,517
2026-2030	647,001
2031-2035	375,844
Thereafter	541,240
Total	<u>\$ 2,391,670</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Note 13 – 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 Cleveland 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, 2020, the subsidy payments amounted to \$91,514.

The Cleveland School District makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2020 was \$3,651,194. The amount accumulated in the sinking fund at the end of the seventeen-year period is expected to be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the Cleveland School District.

Year Ending June 30	Series 2010	Series 2012	Series 2013	Total
2021	\$ 126,531	\$ 310,000	\$ 67,000	\$ 503,531
2022	126,531	310,000	67,000	503,531
2023	126,531	310,000	67,000	503,531
2024	126,531	310,000	67,000	503,531
2025	126,531	310,000	67,000	503,531
2026-2028	-	620,000	201,000	821,000
Total	<u>\$ 632,655</u>	<u>\$ 2,170,000</u>	<u>\$ 536,000</u>	<u>\$ 3,338,655</u>

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$38,670,675) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. A portion of the deferred outflow of resources related to pension in the amount of \$3,106,208 resulting from the school district contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. The \$490,974 balance of deferred outflow of resources related to pensions, at June 30, 2020 will be recognized as an expense and will decrease the unrestricted net position over the next 4 years.

The unrestricted net position amount of (\$38,670,675) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$2,468,741 balance of deferred inflow of resources related to pensions, at June 30, 2020 will be recognized as revenue and will increase the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$38,670,675) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from OPEB. A portion of the deferred outflow of resources related to OPEB in the amount of \$119,144 resulting from the school district contribution subsequent to the

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. The \$245,272 balance of deferred outflow of resources related to OPEB, at June 30, 2020 will be recognized as an expense and will decrease the unrestricted net position over the next 6 years.

The unrestricted net position amount of (\$38,670,675) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from OPEB. The \$333,629 balance of deferred inflow of resources related to OPEB, at June 30, 2020 will be recognized as revenue and will increase the unrestricted net position over the next 6 years.

Note 15 - Insurance Loss Recoveries

The Cleveland School District received \$1,055,662 in insurance loss recoveries related to storm damage during the 2019-2020 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as other general revenue.

Note 16 - Juvenile Detention Center Education Program

The Cleveland School District entered into an Alternative School Agreement dated August 16, 2018 creating the Washington County Juvenile Detention Center. This program was in accordance with Section 43-21-321, Miss. Code Ann. (1972) which states sponsoring school district must provide educational services to youths detained in juvenile centers. It was approved by the Mississippi Department of Education and includes the Greenville Public School District, Cleveland School District, Grenada School District, Hollandale School District, Leland School District, North Bolivar Consolidated School District, Quitman County School District, West Bolivar Consolidated School District, Western Line School District and the Washington County Youth Court. The Greenville Public School District has been designated as the lead school district for the Washington County Juvenile Detention

Note 17 - 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 March 22, 2021, (the date the financial statements were available to be issued), and determined no subsequent event have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 11,160,020	\$ 11,294,799	\$ 10,965,926	\$ 134,779	\$ (328,873)
State sources	15,557,980	15,833,097	15,832,034	275,117	(1,063)
Federal sources	299,620	181,433	181,433	(118,187)	-
Sixteenth section	325,825	382,055	311,844	56,230	(70,211)
Total Revenues	27,343,445	27,691,384	27,291,237	347,939	(400,147)
Expenditures:					
Instruction	16,593,418	14,579,756	14,495,357	2,013,662	84,399
Support services	14,529,734	11,750,023	11,244,356	2,779,711	505,667
Noninstructional services	146,487	621,391	133,582	(474,904)	487,809
Sixteenth section	120,425	155,967	46,996	(35,542)	108,971
Facilities acquisition and construction	1,235,561	154,641	906,082	1,080,920	(751,441)
Total Expenditures	32,625,625	27,261,778	26,826,373	5,363,847	435,405
Excess (Deficiency) of Revenues over (under) Expenditures	(5,282,180)	429,606	464,864	5,711,786	35,258
Other Financing Sources (Uses):					
Inception of capital leases	827,918	827,918	827,918	-	-
Insurance loss recoveries	70,000	905,662	905,662	835,662	-
Operating transfers in	593,660	258,857	66,730	(334,803)	(192,127)
Operating transfers out	(952,478)	(1,252,879)	(617,409)	(300,401)	635,470
Other financing uses			(134,024)	-	(134,024)
Total Other Financing Sources (Uses)	539,100	739,558	1,048,877	200,458	309,319
Net Change in Fund Balances	(4,743,080)	1,169,164	1,513,741	5,912,244	344,577
Fund Balances:					
July 1, 2019, as previously reported	9,648,129	9,648,129	9,648,129	-	-
Prior period adjustments	-	(16,303)	(488,305)	(16,303)	(472,002)
July 1, 2019, as restated	9,648,129	9,631,826	9,159,824	(16,303)	(472,002)
June 30, 2020	\$ 4,905,049	\$ 10,800,990	\$ 10,673,565	\$ 5,895,941	\$ (127,425)

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

CLEVELAND SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
IDEA Part B Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,194,928	\$ 1,215,831	\$ 935,166	\$ 20,903	\$ (280,665)
Total Revenues	1,194,928	1,215,831	935,166	20,903	(280,665)
Expenditures:					
Instruction	758,736	757,867	628,758	869	129,109
Support services	385,897	396,862	255,548	(10,965)	141,314
Noninstructional services	3,889	3,889	839	-	3,050
Total Expenditures	1,148,522	1,158,618	885,145	(10,096)	273,473
Excess (Deficiency) of Revenues over (under) Expenditures	46,406	57,213	50,021	10,807	(7,192)
Other Financing Sources (Uses):					
Operating transfers out	(46,406)	(33,949)	(26,757)	12,457	7,192
Other financing uses	-	(23,264)	(23,264)	(23,264)	-
Total Other Financing Sources (Uses)	(46,406)	(57,213)	(50,021)	(10,807)	7,192
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2019	-	-	-	-	-
June 30, 2020	\$ -	\$ -	\$ -	\$ -	\$ -

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	%	.2675460	.279916	.282500	.286600	.290000	.280000
District's proportionate share of the net pension liability	\$	47,066,620	46,558,346	46,961,088	51,193,916	44,828,281	33,986,873
District's covered payroll		17,424,584	17,875,295	18,124,844	18,337,460	18,034,070	17,319,168
District's proportionate share of the net pension liability as a percentage of its covered payroll		270.12%	260.46%	259.10%	279.18%	248.58%	196.24%
Plan fiduciary net position as a percentage of the total pension liability		61.59%	62.54%	61.49%	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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 3,106,208	2,744,372	2,815,359	2,854,663	2,888,150	2,840,366
Contributions in relation to the contractually required contribution	\$ 3,106,208	2,744,372	2,815,359	2,854,663	2,888,150	2,840,366
Contribution deficiency (excess)	\$ -	-	-	-	-	-
District's covered payroll	\$ 17,851,770	17,424,584	17,875,295	18,124,844	18,337,460	18,034,070
Contributions as a percentage of covered payroll	17.40%	15.75%	15.75%	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
Required Supplementary Information

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

Last 10 Fiscal Years*

		<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	%	.37991288	.39159723	.39624371
District's proportionate share of the net OPEB liability	\$	3,223,717	3,029,200	3,108,964
District's covered-employee payroll		17,424,584	17,711,676	17,802,140
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		18.50%	17.103%	17.464%
Plan fiduciary net position as a percentage of the total OPEB liability		0.1198%	0.12911%	0.0000%

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, 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

OPEB

Last 10 Fiscal Years

	2020	2019	2018
Actuarially determined contribution	\$ 119,144	129,216	132,540
Contributions in relation to the actuarially determined contribution	\$ 119,144	129,216	132,540
Contribution deficiency (excess)	\$ -	-	-
District's covered-employee payroll	\$ 17,851,770	16,137,327	17,845,295
Contributions as a percentage of covered-employee payroll	0.6674%	0.8007%	0.7427%

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.75 was implemented in FYE 6/30/2018, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available. Prior year information is based on historical amounts reported in prior year audit report(s).

Notes to Required Supplementary Information

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%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2019:

The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments: for males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119; for females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119; and projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments: for males, 137% of male rates at all ages; for females, 115% of female rates at all ages; and projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%.

The wage inflation assumption was reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.

(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.

(3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2017 valuation for the June 30, 2019 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	38.4 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.25 percent to 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB Schedules

(1) *Changes of assumptions*

2017: The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

2018: The discount rate was changed from 3.56% for the prior Measurement Date to 3.89% for the current Measurement Date.

2019: The discount rate was changed from 3.89% for the prior Measurement Date to 3.50% for the current Measurement Date.

(2) *Changes in benefit provisions*

2017: None

2018: None

2019: None

(3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2018 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3%
Salary increases, including wage inflation	3.25% to 18.50%
Initial health care cost trend rates	
Medicare Supplement Claims	7.25%
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	4.75%
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2028
Pre-Medicare	
Long-term investment rate of return, net of OPEB plan investment expense, including price inflation	3.89%

SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed-through Mississippi Department of Education:			
Child nutrition cluster:			
School breakfast program	10.553	205MS326N1099	\$ 375,290
National school lunch program	10.555	205MS326N1099	1,283,998
Summer food service program for children	10.559	205MS326N1099	82,411
Total child nutrition cluster			1,741,699
Total passed-through Mississippi Department of Education			1,741,699
Total U.S. Department of Agriculture			1,741,699
<u>Federal Communications Commission</u>			
Administered through the Universal Service Administrative Company:			
The schools and libraries program of the universal service fund	32.xxx	N/A	107,503
Total Federal Communications Commission			107,503
<u>U.S. Department of Education</u>			
Passed-through Mississippi Department of Education:			
Title I grants to local educational agencies	84.010	ES010A190024	1,448,696
Rural education	84.358	ES358A190024	62,154
Supporting Effective Instruction State Grants	84.367	ES367A190023	113,492
School Improvement Grant	84.377	ES377A190025	364,071
COVID-19 - Education Stabilization Fund (ESSER)	84.425	S425D200031	2,923
Student Support and Academic Enrichment	84.424	ES424A190025	78,371
Subtotal			2,069,707
Special education cluster:			
Special education - grants to states	84.027	H027A190108-19A	973,178
Special education - preschool grants	84.173	H173A190113	20,406
Total special education cluster			993,584
Total passed-through Mississippi Department of Education			3,063,291
Total U.S. Department of Education			3,063,291
<u>U.S. Department of Health and Human Services</u>			
Passed-through the Mississippi Department of Education:			
Medical assistance program	93.778	2005MS5ADM	35,917
Total passed-through Mississippi Department of Education			35,917
Total U.S. Department of Health and Human Services			35,917
Total for All Federal Awards			\$ 4,948,410

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, 2020

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, 2020. 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 position, 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 \$124,456 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, 2020

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 24,850,465	18,859,818	1,173,811	2,163,443	2,653,393
Other	9,980,691	2,587,356	395,147	16,936	6,981,252
Total	<u>\$ 34,831,156</u>	<u>21,447,174</u>	<u>1,568,958</u>	<u>2,180,379</u>	<u>9,634,645</u>
Total number of students *	<u>3,298</u>				
Cost per student	<u>\$ 10,561</u>	<u>6,503</u>	<u>476</u>	<u>661</u>	<u>2,921</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

	2020	2019*	2018*	2017*
Revenues:				
Local sources	\$ 10,965,926	\$ 10,828,051	\$ 10,478,632	\$ 10,137,096
State sources	15,832,034	14,926,766	14,930,347	15,551,328
Federal sources	181,433	216,832	373,167	416,352
Sixteenth section	311,844	235,837	317,729	329,939
Total Revenues	27,291,237	26,207,486	26,099,875	26,434,715
Expenditures:				
Instruction	14,495,357	13,789,539	14,137,581	14,205,312
Support services	11,244,356	11,020,235	11,799,034	11,023,701
Noninstructional services	133,582	191,892	215,410	167,984
Sixteenth section	46,996	59,018	98,197	64,713
Facilities acquisition and construction	906,082	-	-	-
Debt service:				
Other	-	10,000	-	-
Total Expenditures	26,826,373	25,070,684	26,250,222	25,461,710
Excess (Deficiency) of Revenues over (under) Expenditures	464,864	1,136,802	(150,347)	973,005
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	-	458,842
Capital leases issued	827,918	-	1,218,607	28,470
Insurance recovery	905,662	1,000,000	-	1,477
Sale of other property	-	3,500	-	-
Operating transfers in	66,730	149,793	76,291	126,091
Operating transfers out	(617,409)	-	(753,176)	(1,123,480)
Other financing uses	(134,024)	(465,342)	(9,019)	(22,606)
Total Other Financing Sources (Uses)	1,048,877	687,951	532,703	(531,206)
Net Change in Fund Balances	1,513,741	1,824,753	382,356	441,799
Fund Balances:				
Beginning of period, as previously reported	9,648,129	7,823,376	7,441,020	6,999,221
Prior period adjustment	(488,305)	-	-	-
Beginning of period, as restated	9,159,824	7,823,376	7,441,020	6,999,221
End of Period	\$ 10,673,565	\$ 9,648,129	\$ 7,823,376	\$ 7,441,020

*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

	2020	2019*	2018*	2017*
Revenues:				
Local sources	\$ 11,662,708	\$ 11,523,995	\$ 11,048,634	\$ 10,556,008
State sources	17,804,528	16,673,479	17,046,635	17,344,616
Federal sources	5,039,923	6,120,164	6,095,279	6,103,502
Sixteenth section	311,844	236,927	317,729	329,939
Total Revenues	34,819,003	34,554,565	34,508,277	34,334,065
Expenditures:				
Instruction	17,624,335	17,151,809	17,386,958	17,174,517
Support services	13,479,218	12,964,425	13,667,458	12,812,655
Noninstructional services	1,976,842	2,172,837	2,216,218	2,197,558
Sixteenth section	46,996	59,018	98,197	64,713
Facilities acquisition and construction	953,265	517,482	1,117,240	-
Debt service:				
Principal	531,567	391,240	1,949,250	932,101
Interest	213,933	200,172	194,683	171,533
Other	5,000	15,000	6,940	5,251
Total Expenditures	34,831,156	33,471,983	36,636,944	33,358,328
Excess (Deficiency) of Revenues over (under) Expenditures	(12,153)	1,082,582	(2,128,667)	975,737
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	2,000,000	458,842
Capital leases issued	827,918	-	1,218,607	28,470
Insurance recovery	1,055,662	1,000,000	-	1,477
Sale of other property	-	3,500	-	-
Operating transfers in	871,848	756,371	1,237,288	1,655,847
Other financing sources	-	-	90,833	100,044
Operating transfers out	(871,848)	(756,371)	(1,237,288)	(1,655,847)
Other financing uses	(158,197)	-	(10,099)	(22,606)
Total Other Financing Sources (Uses)	1,725,383	1,003,500	3,299,341	566,227
Net Change in Fund Balances	1,713,230	2,086,082	1,170,674	1,541,964
Fund Balances:				
Beginning of period, as previously reported	14,331,682	12,246,164	11,116,179	9,547,348
Prior period adjustment	(488,305)	-	-	-
Beginning of period, as restated	13,843,377	12,246,164	11,116,179	9,547,348
Increase (Decrease) in reserve for inventory	72,302	(564)	(40,689)	26,867
End of Period	\$ 15,628,909	\$ 14,331,682	\$ 12,246,164	\$ 11,116,179

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

CUNNINGHAM CPAs, PLLC
Certified Public Accountants & Consultants

202 Church Street
Belzoni, Mississippi 39038
Office: (662) 247-2416
Fax: (662) 247-2420

10 South Bancroft Street
Fairhope, Alabama 36532
Office: (251) 929-7778
Fax: (251) 929-7779

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

Superintendent and School Board
Cleveland School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District, as of and for the year ended June 30, 2020, 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 March 22, 2021.

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) as a basis for designing 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

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 financial statements. 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*.

Cleveland School District's Response to Finding

The Cleveland School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Cleveland School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

March 22, 2021

CUNNINGHAM CPAs, PLLC
Certified Public Accountants & Consultants

202 Church Street
Belzoni, Mississippi 39038
Office: (662) 247-2416
Fax: (662) 247-2420

10 South Bancroft Street
Fairhope, Alabama 36532
Office: (251) 929-7778
Fax: (251) 929-7779

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

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, 2020. 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

The Cleveland School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Cleveland School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-002 that we consider to be a significant deficiency.

Cleveland School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Cleveland School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 blue ink that reads "Cunningham CPAs". The signature is stylized and cursive.

Cunningham CPAs, PLLC

Belzoni, Mississippi

March 22, 2021

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

CUNNINGHAM CPAs, PLLC
Certified Public Accountants & Consultants

202 Church Street
Belzoni, Mississippi 39038
Office: (662) 247-2416
Fax: (662) 247-2420

10 South Bancroft Street
Fairhope, Alabama 36532
Office: (251) 929-7778
Fax: (251) 929-7779

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, 2020, which collectively comprise Cleveland School District's basic financial statements and have issued our report thereon dated March 22, 2021. 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 ensure 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

March 22, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

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? | Yes |
| | 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? | Yes |
| 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)? | Yes |
| 7. | Identification of major programs: | |
| | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| | 84.010 | Title I – grants to local educational agencies |
| | 84.027 | Special Education – state grants |
| | 84.173 | Special Education – preschool grants |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as low-risk auditee? | No |
| 10. | Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2CFR 200.511(b). | Yes |

CLEVELAND SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section II: Financial Statement Findings

The results of our tests disclosed the following finding related to the financial statements that is required to be reported under *Government Auditing Standards*:

Material Weakness:

Finding 2020-001:

CRITERIA: Management is responsible for establishing an internal control system that ensures strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records.

CONDITION:

- (1) During our testing of cutoff surrounding accounts receivable and accounts payable, we noted several instances of receipts and/or expenditures recorded in the current year that should have been accrued in the prior year. Likewise, we noted multiple instances of expenditures that should have been accrued in fiscal year 2020 but were not. These items were corrected by audit adjustment.
- (2) The district failed to record the receipt and related expenditures surrounding an \$827,918 inception of capital lease for a door access and security project. This was corrected by audit adjustment.
- (3) During our testing of payroll, we found an instance where an employee was underpaid by \$500 and another instance where the district was unable to provide evidence of a signed employment contract or at-will agreement.
- (4) During our testing of capital assets, we noted several instances where the district failed to properly capitalize and depreciate capital expenditures. In addition, we noted prior year completed construction projects were not properly added to the subsidiary schedules. In addition, we noted the district was not properly tracking and accounting for completed and ongoing construction projects in the current year.

CAUSE OF CONDITION: The cause is a result of not properly implementing a designed system of accounting and internal controls.

EFFECT OF CONDITION: The effect of this condition could result in the financial statements being materially misstated and an increased the risk of misappropriation of assets.

RECOMMENDATION: It is recommended that the district implement policies or procedures to establish an internal control system that will ensure strong financial accountability, proper safeguarding of assets, and accurate accounting records.

VIEWS OF RESPONSIBLE OFFICIALS: Management will implement policies or procedures to establish an internal control system that will ensure strong financial accountability, proper safeguarding of assets, and accurate accounting records.

CLEVELAND SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section III: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following finding and questioned cost related to the federal Awards:

Significant Deficiency

2020-002

U.S. Department of Education
Passed-through Mississippi Department of Education
Program Name: Title I Grants to Local Educational Agencies
Program CFDA: 84.010
Compliance Requirement: Allowable Cost/Cost Principles

CRITERIA: The school district must maintain time and effort distribution records in accordance with 2 CFR section 200.430(i)(1)(vii) that support the portion of an employee's time and effort dedicated to the federal program or cost objective. This is typically accomplished by having employees sign semi-annual certifications verifying that they spent 100% of their time within that program or a monthly time sheet detailing how their time was spent.

CONDITION: During our testing of time and effort, the district was unable to provide semi-annual certifications for 2 of the 7 employees that were sampled.

CONTEXT: The school district did not follow requirements related to time and effort.

CAUSE: Turnover of federal programs staff appears to be the primary factor.

EFFECT: Noncompliance with allowable costs requirements.

IDENTIFICATION OF REPEAT FINDING: No.

QUESTIONED COSTS: None

RECOMMENDATION: The school district should implement policies and procedures to ensure all applicable compliance requirements are being met.

VIEWS OF RESPONSIBLE OFFICIALS: The Cleveland School District has a new federal programs director that is ensuring that time and effort documentation for all related employees is being properly maintained.

AUDITEE'S CORRECTIVE ACTION PLAN

As required by 2 CFR 200.511, the Cleveland School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2020:

<u>Finding</u>	<u>Correction Action Plan Details</u>
2020-001	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Toninette Kennedy – Business Manager</p> <p>b. Corrective Action Planned:</p> <p>We will implement policies or procedures to establish an internal control system that will ensure strong financial accountability, including compliance with state and federal purchasing requirements.</p> <p>c. Anticipated Completion Date:</p> <p>Immediately.</p>
2020-002	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Kristi Harris Ph.D., Federal Programs Director</p> <p>b. Corrective Action Planned:</p> <p>We have implemented policies or procedures to ensure that time and effort documentation for all related employees is being properly maintained.</p> <p>c. Anticipated Completion Date:</p> <p>Immediately.</p>

SUMMARY OF PRIOR AUDIT FINDINGS

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards (UG), the Cleveland School District has prepared and hereby submits the following summary of prior audit findings for the year ended June 30, 2020:

<u>Finding</u>	<u>Status</u>
2019-001	Corrected