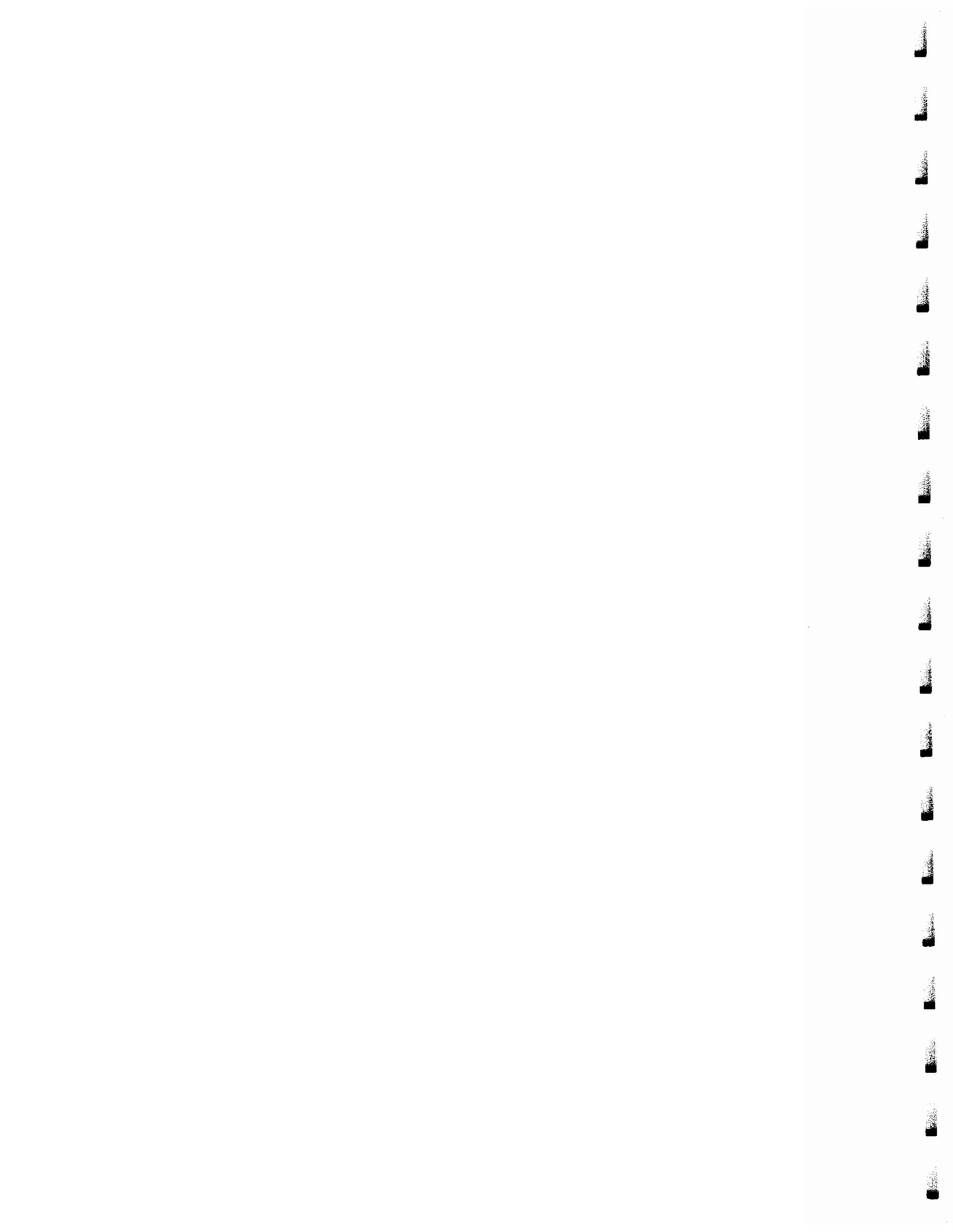




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CLEVELAND SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2006

Robert Britt, CPA, P. A.
Clarksdale, Mississippi



CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

CLEVELAND SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Cleveland School District

I 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, 2006, which collectively comprise the Cleveland School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cleveland School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, 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 of the Cleveland School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 6, 2008 on my consideration of the Cleveland School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages (7) through (12) and the Budgetary Comparison Schedule and corresponding notes on pages (32) through (33) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Cleveland School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Robert H. Smith CPA". The signature is written in a cursive, flowing style.

September 6, 2008

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of Cleveland School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets increased by \$ 1,256,603, which represents 237% increase from fiscal year 2005.

General revenues account for \$20,762,537 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,754,961 or 30% of total revenues.

The District had \$28,260,895 in expenses; only \$8,754,961 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$20,762,537 were adequate to provide for these programs.

Among major funds, the General Fund had \$20,778,950 in revenues and \$19,302,880 in expenditures. The General Fund's fund balance increased \$628,997 over the prior year. This increase is from sound fiscal management. Discounting unforeseen events the District should remain in sound fiscal condition.

Capital assets, net of accumulated depreciation, decreased by \$171,448.

Long-term debt decreased by \$753,037.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 years.

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

The government-wide financial statements can be found on pages 14-15 of this report.

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. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

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, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 16 and 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20 of this report.

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 on pages 21-32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required

supplementary information can be found on pages 34-35 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 38-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$1,787,408 as of June 30, 2006.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 compared to the same period in 2005.

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Current assets	4,900,564	4,304,608	13.84%
Capital assets, net	<u>4,714,964</u>	<u>4,886,412</u>	<u>-3.51%</u>
Total assets	<u>9,615,528</u>	<u>9,191,020</u>	<u>4.62%</u>
Current liabilities	1,485,090	1,564,148	-5.05%
Long-term debt outstanding	<u>6,343,030</u>	<u>7,096,067</u>	<u>-10.61%</u>
Total liabilities	<u>7,828,120</u>	<u>8,660,215</u>	<u>-9.61%</u>
Net assets:			
Invested in capital assets, net of related debt	(1,329,300)	(1,914,947)	-30.58%
Restricted	903,130	1,093,095	-17.38%
Unrestricted	<u>2,213,578</u>	<u>1,352,657</u>	<u>63.65%</u>
Total net assets	<u>1,787,408</u>	<u>530,805</u>	<u>-236.74%</u>

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

The principal retirement of \$763,029 of long-term debt.

The addition of \$148,080 in capital assets from purchases of equipment for school operations.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2006 were \$29,530,640. The total cost of all programs and services was \$28,274,037. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 compared to the same period in 2005.

Revenues:	<u>Governmental Activities</u>		<u>Percent</u>
	<u>2006</u>	<u>2,005</u>	<u>Change</u>
Program revenues			
Charges for services	648,499	686,999	-5.60%
Operating Grants and contributions	8,106,462	6,841,477	18.49%

General Revenues			
Property taxes	6,610,907	6,183,248	6.92%
Grants and contributions not restricted	13,862,227	13,063,296	6.12%
Other	289,403	318,409	-9.11%
Total revenues	29,517,498	27,093,429	8.95%
Expenses:			
Instruction	16,127,979	15,461,716	4.31%
Support services	9,981,868	9,491,683	5.16%
Non-instructional	1,799,595	1,861,061	-3.30%
Sixteenth Section	26,561	27,102	-2.00%
Interest on long-term obligations	324,892	345,406	-5.94%
Total Expenses	28,260,895	27,186,968	3.95%
Increase (Decrease) in net assets	1,256,603	(93,539)	1443.40%

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

	Total Cost of Services		Percent Change	Net Revenue (Expense)		Percent Change
	2006	2005		2006	2005	
Instruction	16,127,979	15,461,716	4.31%	(11,923,465)	(12,021,761)	-0.82%
Support services	9,981,868	9,491,683	5.16%	(7,336,530)	(6,974,044)	5.20%
Non-instructional	1,799,595	1,861,061	-3.30%	(297,492)	(290,179)	2.52%
Sixteenth section	26,561	27,102	-2.00%	(26,561)	(27,102)	-2.00%
Interest on long-term obligatio	324,892	345,406	-5.94%	64,972	(345,406)	-118.81%
	<u>28,260,895</u>	<u>27,186,968</u>	<u>3.95%</u>	<u>(19,519,076)</u>	<u>(19,658,492)</u>	<u>-0.71%</u>

Net cost of governmental activities \$19,519,076, was financed by general revenue, which is made up of primarily property taxes \$6,610,907, state revenue \$13,751,236, and 16th section earnings \$158,280.

Investment earnings accounted for \$131,123 of funding.

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, unreserved 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 \$3,535,549, an increase of \$660,866 due primarily to sound financial management. \$2,431,819 or 69% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,103,730 or 31% is reserved or designated to indicate that it is not available for spending because it has already been committed.

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 \$ 628,997 primarily due sound financial management. The fund balance of Other Governmental Funds showed an increase of \$31,869 due primarily to funds held for the payment of long term debt.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

Budget amounts for expenditures for instruction and support services were reduced as expenditure were less than expected..

A schedule showing the original and final budget amounts compared to the District’s actual financial for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District’s total capital assets were \$10,459,935, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$141,080 from the previous year due primarily to the purchase of equipment for a new school. Total accumulated depreciation as of June 30, 2006 was \$5,744,971 and total depreciation expense for the year was \$325,427, resulting in total net capital assets of \$4,714,964.

	Capital Assets Net of Depreciation		Percentage
	2006	2005	Change
Land	111,036	111,036	0.00%
Buildings	3,730,959	3,857,473	-3.28%
Improvements other than buildings	25,582	27,047	-5.42%
Mobile equipment	568,240	570,080	-0.32%
Furniture and equipment	153,410	152,615	0.52%
Leased property under capital lease	125,737	168,161	-25.23%
Total	4,714,964	4,886,412	-3.51%

Additional information of the District’s capital assets can be found in Note 5 on page 28 of this report.

Debt Administration. At June 30, 2006, the District had \$6,343,030 in general obligation bonds and other long-term debt outstanding, of which \$774,537 is due within one year.

The District maintains a AA bond rating.

	Outstanding Debt		Percentage
	2006	2005	Change
Limited obligation bonds payable	\$3,720,000	\$3,930,000	-5.34%
Three mill notes payable	\$2,166,090	\$2,626,752	-17.54%
Obligations under capital lease	\$60,705	\$89,875	-32.46%
Obligations under energy efficiency lease	\$97,469	\$154,732	-37.01%
Other loans payable	\$17,804	\$23,738	-25.00%
Compensated absences payable	\$280,962	\$270,970	3.69%
Total	\$6,343,030	\$7,096,067	-10.61%

Additional information of the District's long-term debt can be found in Note 6 on pages 29-31 of 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 is now committed to financial excellence. The millage has remained fairly constant over the last few years and no major increase is expected and the community appears to be growing and new property is keeping the millage rate constant. In addition, the district 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.

Latest enrollment figures indicate that student enrollment in the District will increase by about 200 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

CLEVELAND SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

CLEVELAND SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,263,901
Investments	920,779
Due from other governments	1,154,517
Other receivables, net	46,766
Due from other funds	21,235
Advances to other funds	20,000
Inventories and prepaid items	40,525
Restricted assets	432,841
Capital assets not being depreciated	
Land	111,036
Capital assets net of accumulated depreciation	
Buildings	3,730,959
Improvements other than buildings	25,582
Mobile equipment	568,240
Furniture and equipment	153,410
Leased property under capital lease	125,737
Total Assets	\$ <u>9,615,528</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,362,072
Interest payable on long-term liabilities	120,075
Deferred revenue	2,943
Long-term liabilities, due within one year	
Capital related liabilities	768,602
Non-capital related liabilities	5,935
Long-term liabilities, due beyond one year	
Capital related liabilities	5,275,662
Non-capital related liabilities	292,831
Total Liabilities	\$ <u>7,828,120</u>
Net Assets	
Investment in capital assets, net of related debt	\$ (1,329,300)
Restricted net assets:	
Expendable:	
Debt service	419,685
Forestry improvements	146
Unemployment benefits	70,458
Nonexpendable	
Sixteenth section	412,841
Unrestricted	2,213,578
Total Net Assets	\$ <u>1,787,408</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, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Assets
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 16,127,979	364,830	3,839,684	(11,923,465)
Support services	9,981,868	17,321	2,641,159	(7,323,388)
Non-instructional	1,799,595	266,348	1,235,755	(297,492)
16th Section	26,561			(26,561)
Interest on long-term liabilities	324,892		389,864	64,972
 Total governmental activities	 \$ <u>28,260,895</u>	 <u>648,499</u>	 <u>8,106,462</u>	 <u>(19,505,934)</u>
 Taxes:				
				6,354,297
				256,610
Unrestricted grants and contributions:				
				13,751,236
				110,991
				131,123
				<u>158,280</u>
				 <u>20,762,537</u>
				 1,256,603
				 <u>530,805</u>
				 \$ <u><u>1,787,408</u></u>

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

CLEVELAND SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,672,514	591,387	2,263,901
Investments	796,552	557,068	1,353,620
Due from other governments	235,196	919,321	1,154,517
Other receivables, net	46,766	0	46,766
Due from other funds	550,594	4,460	555,054
Advances to other funds	20,000	0	20,000
Inventories and prepaid items		40,525	40,525
 Total Assets	 \$ <u>3,321,622</u>	 <u>2,112,761</u>	 <u>5,434,383</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,045,259	316,813	1,362,072
Due to other funds		533,819	533,819
Deferred revenue		2,943	2,943
 Total Liabilities	 <u>1,045,259</u>	 <u>853,575</u>	 <u>1,898,834</u>
Fund Balances:			
Reserved for:			
Advances	20,000		20,000
Inventory		40,525	40,525
Debt service		539,760	539,760
Unemployment benefits		70,458	70,458
Forestry improvements		146	146
Permanent fund purposes		432,841	432,841
Unreserved:			
Undesignated, reported in:			
General fund	2,256,363		2,256,363
Special Revenue funds		175,456	175,456
 Total Fund Balances	 <u>2,276,363</u>	 <u>1,259,186</u>	 <u>3,535,549</u>
 Total Liabilities and Fund Balances	 \$ <u>3,321,622</u>	 <u>2,112,761</u>	 <u>5,434,383</u>

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

CLEVELAND SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,535,549
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 5,744,971. (Note 4)	4,714,964
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(6,343,030)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	(120,075)
Total Net Assets - Governmental Activities	\$ <u>1,787,408</u>

CLEVELAND SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local sources	\$ 6,891,647	578,292	7,469,939
State sources	13,766,340	919,595	14,685,935
Federal sources	120,963	7,082,380	7,203,343
Sixteenth section sources		158,281	158,281
Total Revenues	20,778,950	8,738,548	29,517,498
Expenditures:			
Instruction	11,866,901	4,090,600	15,957,501
Support services	7,155,447	2,848,670	10,004,117
Non instructional services		1,787,111	1,787,111
16th Section		26,561	26,561
Debt service:			
Principal	212,295	550,734	763,029
Interest	68,237	263,278	331,515
Total Expenditures	19,302,880	9,566,954	28,869,834
Excess (Deficiency) of Revenues Over Expenditures	1,476,070	(828,406)	647,664
Other Financing Sources (Uses):			
Insurance loss recovery	13,202	0	13,202
Operating transfers in	269,135	1,113,014	1,382,149
Operating transfers out	(1,129,410)	(252,739)	(1,382,149)
Total Other Financing Sources (Uses)	(847,073)	860,275	13,202
Net Change in Fund Balances	628,997	31,869	660,866
Fund Balances:			
July 1, 2006	1,647,366	1,219,792	2,867,158
Increase in reserve for inventory		7,525	7,525
June 30, 2007	\$ 2,276,363	1,259,186	3,535,549

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

CLEVELAND SCHOOL DISTRICT

Exhibit D-1

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, 2006

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 660,866
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$154,039 and the depreciation expense amounted to \$325,427.	(171,448)
2. Increase in Compensated absences is not recorded in the governmental funds, but increases expense in the statement of activity.	(9,992)
3. Payment of interest on long-term liabilities is reported as an expenditure when paid in the governmental funds, but is accrued and expensed in the period incurred in the statement of activity.	6,623
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.	763,029
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are decreased in the statement of activity.	<u>7,525</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,256,603</u></u>

CLEVELAND SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
June 30, 2006

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	79,449
Total Assets	\$	<u>79,449</u>
Liabilities		
Accounts payable and accrued liabilities		
Due to student clubs		38,214
Due to other funds		21,235
Advances from other funds		<u>20,000</u>
Total Liabilities	\$	<u>79,449</u>

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

(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.

For financial reporting purposes, the entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a (5) member board of which each member was elected by the citizens of each defined district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other non exchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of **Exhibit C**.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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.

Account Classifications.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 3 months or less. Cash and cash equivalents are valued at cost.

G. 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 a maturity of three months or less when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The cost 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 cost of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

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.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	\$50,000	40 years
Buildings	\$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 4 for details.

J. Long-term liabilities.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

Reserved for debt service - An account that represents that portion of fund balance in the debt service fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues.

Revenues from the 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.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum as required by state law or at a greater amount provided by school district policy. 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 to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

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

P. Estimates.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(2) Changes in Accounting Standards.

As required, the Cleveland School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

(3) Cash and Cash Equivalents and Investments.

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (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 interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,263,901 and \$79,449, respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$2,263,901. The bank balance was 3,519,249.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$3,519,249 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
CMA Governmental Securities Fund Money Market	less than 1 year	2,632	None
Hancock Horizon Treasury Fund	less than 1 year	124,227	None
Federal National Mortgage Association Notes	less than 1 year	973,852	AAA
Federal Home Loan Mortgage Discount Notes	less than 1 year	252,909	AAA
Total Investments		<u>1,353,620</u>	

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2006

As reported in the Statement of Net Assets	
Investments	920,779
Restricted Assets	<u>432,841</u>
Total	<u>1,353,620</u>

The Restricted Assets represent the cash balance 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.

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. As of June 30, 2006, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Association Notes- District maintenance Fund and Sixteenth Section Principal Fund	\$973,852	79.38%
Federal Home Loan Mortgage Notes- District maintenance Fund and Sixteenth Section Principal Fund	\$252,909	20.62%

(4) Interfund Transactions and Balances.

A. Due From/To Other Funds:

<u>Due From/To Other Funds:</u>	<u>Due From</u>	<u>Due to</u>
Governmental Funds		
General Fund	550,594	
Food Service Fund		
16th Sectin Interest Fund		
Other Governmental Funds	4,460	533,819
Fiduciary Funds		<u>21,235</u>
Total	<u>\$555,054</u>	<u>\$555,054</u>

Interfund loans are necessary to provide cash to reimbursable prgrams at year end, since th cash is not received until after June 30.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2006

B. Advances To/From Other Funds:

Advances To/From Other Funds:	<u>Advances to</u>	<u>Advances From</u>
Governmental Funds		
General Fund	20,000	
Other Governmental Funds		
Fiduciary Funds		20,000
Total	<u>\$20,000</u>	<u>\$20,000</u>

Advances were made to clearing funds to maintain minimum balances to earn interest on accounts.

C. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	269,135	1,129,410
Food Service Fund		
16th Section Interest Fund		
Other Governmental Funds	<u>1,113,014</u>	<u>252,739</u>
Total	<u>1,382,149</u>	<u>1,382,149</u>

Transfers were made from federal funds for indirect costs. Also, transfers were made from the General Fund to

(5) Capital Assets.

The following is a summary of changes in capital assets:

	<u>Balance</u> 07/01/2005	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 06/30/2006
Non-depreciable Capital Assets				
Land	<u>111,036</u>			<u>111,036</u>
Depreciable Capital Assets				
Buildings	7,563,482			7,563,482
Building Improvements				0
Buildings improvements	83,939			83,939
Mobile equipment	1,626,054	97,603		1,723,657
Furniture and equipment	627,379	56,436	5,959	677,856
Leased property under capital lease	<u>299,965</u>			<u>299,965</u>
Total Depreciable Capital Assets	<u>10,200,819</u>	<u>154,039</u>	<u>5,959</u>	<u>10,348,899</u>
Less accumulated depreciation for:				
Buildings	3,706,009	126,514		3,832,523
Building Improvements				0
Improvements other than buildings	56,892	1,465		58,357
Mobile equipment	1,055,974	99,443		1,155,417
Furniture and equipment	474,764	55,581	5,899	524,446
Leased property under capital lease	<u>131,804</u>	<u>42,424</u>		<u>174,228</u>
Total accumulated depreciation	<u>5,425,443</u>	<u>325,427</u>	<u>5,899</u>	<u>5,744,971</u>
Net depreciable assets	<u>4,775,376</u>	<u>(171,388)</u>	<u>60</u>	<u>4,603,928</u>
Governmental activities capital assets net	<u>4,886,412</u>	<u>(171,388)</u>	<u>60</u>	<u>4,714,964</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

Depreciation was charged to the following functions:

	<u>Amount</u>
Instruction	160,486
Support services	144,932
Non-instructional	20,009
Total depreciation expense	325,427

The capital assets above include significant amounts of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

(6) Long-term Liabilities.

The following is a summary of changes in long-term liabilities:

	<u>Balance</u>		<u>Balance</u>	<u>Due within</u>
	<u>07/01/2005</u>	<u>Additions</u>	<u>06/30/2006</u>	<u>one year</u>
		<u>Reductions</u>		
A. Limited obligation bonds payable	\$3,930,000		\$3,720,000	\$220,000
B. Three mill notes payable	2,626,752		2,166,090	453,661
C. Obligations under capital lease	89,875		60,705	34,388
D. Obligations under energy efficiency lease	154,732		97,469	60,553
E. Other loans payable	23,738		17,804	5,935
E. Compensated absences payable	270,970	9,992	280,962	0
Total	\$7,096,067	\$9,992	\$6,343,030	\$774,537

A. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest</u>	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Amount</u>
	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
State aid capital improvement Bonds, Series 1998	4.25%-5.875%	5/28/98	2/1/18	\$5,275,000	\$3,720,000

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

Year Ending June 30,	Principal	Interest	Total
2007	220,000	176,210	396,210
2008	225,000	157,298	382,298
2009	235,000	147,407	382,407
2010	245,000	157,298	402,298
2011	260,000	147,407	407,407
2012-2016	1,460,000	434,691	1,894,691
2017-2021	1,075,000	69,469	1,144,469
Total	3,720,000	1,289,780	5,009,780

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

CLEVELAND SCHOOL DISTRICT

**Notes to the Financial Statements
For the Year Ending June 30, 2006**

B. Three mill-ten year notes payable.

Debt currently outstanding is as follows:

<u>Discription</u>	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1995 certificate of indebtednes	5.750%	07/20/1995	07/20/2006	229,000	2,490
1997 certificate of indebtednes	5.750%	07/14/1997	07/14/2007	250,000	25,000
1998 certificate of indebtednes	5.500%	08/10/1998	08/10/2008	300,000	72,769
1999 certificate of indebtednes	4.875%	08/09/1999	08/09/2009	240,000	83,810
2000 certificate of indebtednes	5.500%	07/10/2000	07/10/2010	300,000	139,509
Alternative school	3.830%	10/29/2002	10/29/2012	1,080,000	712,512
Limited tax notes, Series 2000	Varies	09/01/2000	09/01/2010	1,975,000	1,130,000
Total				<u>4,374,000</u>	<u>2,166,090</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	453,661	94,970	548,631
2008	451,219	73,306	524,525
2009	432,318	51,975	484,293
2010	425,482	31,740	457,222
2011	403,410	12,000	415,410
Total	<u>2,166,090</u>	<u>263,991</u>	<u>2,430,081</u>

This debt will be retired from the Three Mill Debt Service Fund.

C. Obligations under capital leases.

The district has entered into ten lease agreements that qualify as a capital leases for accounting purposes. Leased property under these leases is composed of:

1. Two Xerox DC480C copiers and one DC 490C copier located in the district central office.
2. Eight Xerox DC425AC copiers.

The option available to the lessee for these leases is that the district has the option to purchase the equipment at fair market value at the end of the lease period.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2007	34,388	6,006	40,394
2008	17,691	1,944	19,635
2009	8,626	467	9,093
Total	<u>60,705</u>	<u>8,417</u>	<u>69,122</u>

This debt will be retired from the district maintenance fund in the amount of \$37,879 and the Title I Fund in the amount of \$22,826.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2006

D. Obligations under energy efficiency lease.

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

Year Ending June 30,	Interest and Maintenance		Total
	Principal	Charges	
2007	60,553	3,920	64,473
2008	36,916	692	37,608
Total	<u>97,469</u>	<u>4,612</u>	<u>102,081</u>

An energy efficiency lease agreement dated January 12, 2001, was executed by and between the district, the lessee and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$372,651 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not to exceed ten (10) years.

The district entered into this energy efficiency lease under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the district maintenance fund.

E. Other loans payable.

Description	Rate	Date	Date	Issued	Outstanding
U.S. EPA loan payable	Interest-free	4/19/91	5/30/11	\$ <u>106,825</u>	\$ <u>17,804</u>

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

Year Ending June 30,	Principal	Interest	Total
2007	5,935		5,935
2008	5,935		5,935
2009	5,934		5,934
Total	<u>17,804</u>	<u>0</u>	<u>17,804</u>

This debt will be retired from the district maintenance fund.

F. Compensated absences payable.

As more fully explained in Note 1(O), 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.

(7) Defined Benefit 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. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2006

supplementary information. That report may be obtained by writing to Public Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$1,704,910, \$1,496,815 and \$1,388,546, respectively, which equaled the required contribution for each year.

(8) Sixteenth Section Funds.

Sixteenth section 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,	
2007	97,856
2008	97,218
2009	97,194
2010	58,142
2011	54,939
2012 - 2016	99,420
2017 - 2021	98,771
2022 - 2026	98,771
2027 - 2031	92,168
2032 - 2036	76,594
2037 - 2041	61,560
Subsequent Years	<u>277,928</u>
Total	<u><u>1,210,561</u></u>

(9) Risk Management.

The school district is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three 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 consist of approximately ninety school districts and covers risks of loss arising from injuries to the school district's 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 Trustmark National Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

CLEVELAND SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 6,990,745	6,879,437	6,891,647	(111,308)	12,210
State sources	13,532,695	13,766,340	13,766,340	233,645	0
Federal sources	124,300	120,963	120,963	(3,337)	0
Total Revenues	20,647,740	20,766,740	20,778,950	119,000	12,210
Expenditures:					
Instruction	12,079,120	11,866,901	11,866,901	212,219	0
Support services	7,543,348	7,155,447	7,155,447	387,901	0
Debt service:					
Principal	212,765	212,295	212,295	470	0
Interest	70,000	68,237	68,237	1,763	0
Total Expenditures	19,905,233	19,302,880	19,302,880	602,353	0
Excess (Deficiency) of Revenues Over Expenditures	742,507	1,463,860	1,476,070	721,353	12,210
Other Financing Sources (Uses):					
Insurance loss recovery		13,202	13,202	13,202	0
Operating transfers in	261,991	269,135	269,135	7,144	0
Operating transfers out	(1,022,660)	(1,129,410)	(1,129,410)	(106,750)	0
Total Other Financing Sources (Uses)	(760,669)	(847,073)	(847,073)	(86,404)	0
Net Change in Fund Balances	(18,162)	616,787	628,997	634,949	12,210
Fund Balances:					
July 1, 2006	1,647,366	1,647,366	1,647,366	0	0
June 30, 2007	1,629,204	2,264,153	2,276,363	634,949	12,210

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

CLEVELAND SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ending June 30, 2006

Notes to the Required Supplementary Information

(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 the 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.

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

CLEVELAND SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Schedule 2

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	89,564
Child Nutrition Cluster:		
School Breakfast Program	10.553	319,719
National School Lunch Program	10.555	<u>959,294</u>
Total Nutrition Cluster		<u>1,279,013</u>
Child and adult care food program	10.558	6,492
Fresh fruits and vegetables program	10.582	<u>21,689</u>
Total Passed through Mississippi Department of Education		<u>1,396,758</u>
Total U.S. Department of Agriculture		<u>1,396,758</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	<u>110,991</u>
Total Federal Communications Commission		<u>110,991</u>
<u>U.S. Department of Education</u>		
Direct programs		
Magnet school assistance	84.165	1,958,681
Twenty-first century community learning centers	84.287	36,886
Literacy through school libraries	84.364	<u>101,664</u>
Total Direct programs		<u>2,097,231</u>
Passed through Mississippi Department of Education		
Special Education Cluster:		
Special education - grants to state	84.027	992,241
Special education - preschool grants	84.173	<u>30,537</u>
Total Special Education Cluster		1,022,778

Title I - grants to local educational agencies	84.010	1,268,857
Vocational education basic grants to states	84.048	43,876
Safe and drug free schools and communities- state grants	84.186	19,549
Even start - state educational agencies	84.213	191,378
Innovative education program strategies	84.298	12,837
Twenty-first century community learning centers	84.287	62,784
Education technology state grants	84.318	57,915
Title I accountability grants	84.348	171,789
Rural education	84.358	97,708
Improving teacher quality - state grants	84.367	342,197
Hurricane Education Recovery	84.938	<u>210,422</u>
Total Passed through Mississippi Department of Education		<u>3,502,090</u>
Total U.S. Department of Education		<u>5,599,321</u>
Total for All Federal Awards		<u>7,107,070</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the significant accounting policies, as applicable, used for the general purpose financial statements.
2. The expenditure amounts include transfers out.

Cleveland School District

Schedule 3

Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds
For the Year Ended June 30, 2006

Functions/Programs	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 20,641,061	\$ 16,339,516	\$ 1,275,830	\$ 1,630,464	\$ 1,395,251
Other expenditures	8,228,773	2,859,078	82,135	77,724	5,209,836
Total	\$ <u>28,869,834</u>	\$ <u>19,198,594</u>	\$ <u>1,357,965</u>	\$ <u>1,708,188</u>	\$ <u>6,605,087</u>

Total number of students: 3,483

Cost per student: \$ 8,289 \$ 5,512 \$ 390 \$ 490 \$ 1,896

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

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

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

School Administration - includes expenditures for the following functions; Support Services - School Administration (2400s)

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

include 100 and 200 range object codes on the "Salary and fringe benefits" line; all other expenditures on the "Other" line.

CLEVELAND SCHOOL DISTRICT

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

CLEVELAND SCHOOL DISTRICT

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

Superintendent and School Board
Cleveland School District

I 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, 2006, which collectively comprise the Cleveland School District's basic financial statements and have issued my report thereon dated September 6, 2008. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies 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.



September 6, 2008

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

CLEVELAND SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Cleveland School District

Compliance

I have audited the compliance of the Cleveland School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the school district's compliance with those requirements.

In my opinion, the Cleveland School District, complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Cleveland School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies 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 black ink, appearing to read "Robert Butt CPA". The signature is written in a cursive style with a large initial "R".

September 6, 2008

CLEVELAND SCHOOL DISTRICT

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

CLEVELAND SCHOOL DISTRICT

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

Superintendent and School Board
Cleveland School District

I 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, 2006, which collectively comprise Cleveland School District's basic financial statements and have issued my report thereon dated September 6, 2008. I conducted my 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), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$47,617 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and my 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 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.



September 6, 2008

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006

Section 1: Summary of Auditor's results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the general purpose financial statements: | Unqualified |
| 2. Material noncompliance relating to the general purpose financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's opinion issues on compliance for major programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. The major programs were: | |

- | | |
|--|---------------|
| Child Nutrition Cluster: | |
| School Breakfast Program | - CFDA 10.553 |
| National School Lunch Program | - CFDA 10.555 |
| Title I - Grants to Local Educational Agencies | - CFDA 84.010 |
| Special Education Cluster: | |
| Special Education - Grants to States | - CFDA 84.027 |
| Special Education - Preschool Grants | - CFDA 84.173 |
| Magnet School Assistance | - CFDA 84.165 |
| Improving Teacher Quality - State Grants | - CFDA 84.367 |

- | | |
|---|------------|
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | \$300,000. |
| 9. Auditee qualified as a low-risk auditee? | Yes |

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133.

No

Section 2: Findings Related to the Financial Statements

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

Section 3: Findings and Questioned Cost for Federal Awards

The result of my test did not disclose any findings and questioned cost related to the federal awards.