



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, 2007

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



CLEVELAND SCHOOL DISTRICT

Table of Contents

	Page
FINANCIAL AUDIT REPORT	1
INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION	3
MANAGEMENT DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15
Balance Sheet - Governmental Funds	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Fiduciary Assets and Liabilities.....	20
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	34
Budgetary Comparison Schedule - Title I	35
Notes to the required supplementary information	36
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	38
Schedule of Instructional, Administrative, and Other Expenditures-Governmental Funds	40
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	43
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	47
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	51
SCHEDULE OF FINDINGS AND QUESTIONED COST	55



CLEVELAND SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

CLEVELAND SCHOOL DISTRICT

(This page left blank intentionally)

Robert Britt, CPA, P. A.

P O BOX 1477
947 B SUNFLOWER AVENUE

TELEPHONE 662-624-6034
FAX 662-627-3934
CLARKSDALE MISSISSIPPI 38614

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

Superintendent and School Board
Cleveland School District

I 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, 2007, 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 misstatement. 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 that my audit provides a reasonable basis for my opinions.

In my 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, 2007, 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 January 19, 2009 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 grant agreements and other matters. 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 considered in assessing 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 34 through 36 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 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 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 cursive script, appearing to read "Robert Burt CPA".

January 19, 2009

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT

(This page left blank intentionally)

CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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, 2007. 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.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

Total net assets increased by \$ 853,966, which represents 48% increase from fiscal year 2006.

General revenues account for \$21,597,646 in revenue, or 72% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,602,949 or 28% of total revenues.

The District had \$29,346,629 in expenses; only \$8,602,949 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$21,597,646 and assets carried over from the prior year were adequate to provide for these programs.

Among major funds, the General Fund had \$21,542,452 in revenues and \$20,656,222 in expenditures. The General Fund's fund balance increased \$191,606 over the prior year. This increase is from sound fiscal management. The Title I Fund had \$1,233,437 in revenues and in expenditures, including transfers out and had no fund balance in either the current or prior year. Discounting unforeseen events the District should remain in sound fiscal condition.

Capital assets, net of accumulated depreciation, decreased by \$1,731.

Long-term liabilities decreased by \$777,403.

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* issued by the Mississippi Department of Education. 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, respectively.

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 a separate Statement of Fiduciary Assets and Liabilities on page 20.

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 schedule has been provided for the General Fund and each major special revenue fund that has a legally adopted budget. This required supplementary information can be found on pages 34-36 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 and a schedule of instructional, administrative and other expenditures - governmental funds as required by the State Department of Education can be found on page 40.

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 \$2,641,374 as of June 30, 2007.

The largest portion of the District's net assets (82.5%) is unrestricted net assets. These unrestricted assets are available for any legal purpose at the discretion of the board.

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, 2007 compared to the same period in 2006.

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Current assets	5,148,369	4,900,564	5.06%
Capital assets, net	4,713,233	4,714,964	-0.04%
Total assets	9,861,602	9,615,528	2.56%
Current liabilities	1,654,601	1,485,090	11.41%
Long-term debt outstanding	5,565,627	6,343,030	-12.26%
Total liabilities	7,220,228	7,828,120	-7.77%
Net assets:			
Invested in capital assets, net of related debt	(564,398)	(1,329,300)	57.54%
Restricted	1,025,799	903,130	13.58%
Unrestricted	2,179,973	2,213,578	-1.52%
Total net assets	2,641,374	1,787,408	47.78%

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

The addition of \$341,575 in capital assets from the purchasing of a new buses and other equipment

The retirement of \$777,403 long term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2007 were \$30,200,595. The total cost of all programs and services was \$29,346,629. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 compared to the same period in 2006.

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2007</u>	<u>2006</u>	
Revenues:			
Program revenues			
Charges for services	690,279	648,499	6.44%
Operating Grants and contributions	7,912,670	8,106,462	-2.39%

General Revenues			
Property taxes	7,025,041	6,610,907	6.26%
Grants and contributions not restricted	14,266,033	13,862,227	2.91%
Other	306,572	289,403	5.93%
Total revenues	<u>30,200,595</u>	<u>29,517,498</u>	<u>2.31%</u>
Expenses:			
Instruction	16,761,893	16,127,979	3.93%
Support services	10,264,332	9,981,868	2.83%
Non-instructional	2,003,943	1,799,595	11.36%
Sixteenth Section	43,135	26,561	62.40%
Interest on long-term obligations	273,326	324,892	-15.87%
Total Expenses	<u>29,346,629</u>	<u>28,260,895</u>	<u>3.84%</u>
Increase (Decrease) in net assets	<u>853,966</u>	<u>1,256,603</u>	<u>-32.04%</u>

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.

	2007	2006	Change	2007	2006	Change
Instruction	16,761,893	16,127,979	3.93%	(12,823,440)	(11,923,465)	7.55%
Support services	10,264,332	9,981,868	2.83%	(7,603,172)	(7,323,388)	3.82%
Non-instructional	2,003,943	1,799,595	11.36%	(390,471)	(297,492)	31.25%
Sixteenth section	43,135	26,561	62.40%	(43,135)	(26,561)	62.40%
Interest on long-term obligatio	273,326	324,892	-15.87%	116,538	64,972	79.37%
	<u>29,346,629</u>	<u>28,260,895</u>	<u>3.84%</u>	<u>(20,743,680)</u>	<u>(19,505,934)</u>	<u>6.35%</u>

Net cost of governmental activities \$20,743,680, was financed by general revenue, which is made up of primarily property taxes \$7,025,041, state revenue \$14,141,598, and federal revenue \$124,435.

Investment earnings accounted for \$139,104 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 \$3,607,220, an increase of \$71,671 due primarily to sound fiscal management. \$2,501,382 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 \$1,105,838 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 \$ 191,606 primarily due primarily to sound fiscal management. The Title I Fund had no change in fund balance. The fund balance of Other Governmental Funds showed an decrease of \$119,935 due primarily to funds retirement of long term debt.

BUDGETARY HIGHLIGHTS

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

Budget amounts for revenue in the general fund were decreased because revenues were slightly less than those originally expected. Expenditures were increased or reduced to match actual expenditures. Budgeted amounts for revenue and expenditures in the Title I Fund were adjusted to actual amounts as revenue is realized at the point of expenditure. In other governmental funds expenditures and revenue was adjusted to actual amounts.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District’s total capital assets were \$10,793,853, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$333,918 from the previous year due primarily to the purchase of transportation and food service equipment. Total accumulated depreciation as of June 30, 2007 was \$6,080,620 and total depreciation expense for the year was \$343,229, resulting in total net assets of \$4,713,233.

	Capital Assets Net of Depreciation		Percentage
	2007	2006	Change
Land	111,036	111,036	0.00%
Buildings	3,604,445	3,730,959	-3.39%
Improvements other than buildings	24,116	25,582	-5.73%
Mobile equipment	734,375	568,240	29.24%
Furniture and equipment	155,948	153,410	1.65%
Leased property under capital lease	83,313	125,737	-33.74%
Total	4,713,233	4,714,964	-0.04%

Additional information of the District’s capital assets can be found in Note 4 on page 28 of this report.

Debt Administration. At June 30, 2007, the District had \$5,565,627 in general obligation bonds and other long-term debt outstanding, of which \$741,595 is due within one year.

The District maintains a AA bond rating.

	Outstanding Debt		Percentage
	2007	2006	Change
Limited obligation bonds payable	\$3,500,000	\$3,720,000	-5.91%
Three mill notes payable	\$1,712,429	\$2,166,090	-20.94%
Obligations under capital lease	\$28,286	\$60,705	-53.40%
Obligations under energy efficiency lease	\$36,916	\$97,469	-62.13%

Other loans payable	\$11,869	\$17,804	-33.34%
Compensated absences payable	<u>\$276,127</u>	<u>\$280,962</u>	<u>-1.72%</u>
Total	<u>\$5,565,627</u>	<u>\$6,343,030</u>	<u>-12.26%</u>

Additional information of the District's long-term debt can be found in Note 5 on pages 28 through 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 in the future. 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 approximately 100 students. The budget for the next fiscal year has taken this into account 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 Dr, Cleveland, MS 38632.

CLEVELAND SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

CLEVELAND SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,241,773
Investments	991,530
Due from other governments	1,379,344
Other receivables, net	29,980
Due from other funds	17,569
Advances to other funds	20,000
Inventories	35,332
Restricted assets	432,841
Capital assets not being depreciated	
Land	111,036
Capital assets net of accumulated depreciation	
Buildings	3,604,445
Improvements other than buildings	24,116
Mobile equipment	734,375
Furniture and equipment	155,948
Leased property under capital lease	83,313
Total Assets	\$ 9,861,602
Liabilities	
Accounts payable and accrued liabilities	\$ 1,541,149
Interest payable on long-term liabilities	113,452
Long-term liabilities, due within one year	
Capital related liabilities	730,825
Non-capital related liabilities	10,770
Long-term liabilities, due beyond one year	
Capital related liabilities	4,546,806
Non-capital related liabilities	277,226
Total Liabilities	\$ 7,220,228
Net Assets	
Investment in capital assets, net of related debt	\$ (564,398)
Restricted net assets:	
Expendable:	
School-based activities	88,745
Debt service	428,299
Forestry improvements	146
Unemployment benefits	75,768
Nonexpendable	
Sixteenth section	432,841
Unrestricted	2,179,973
Total Net Assets	\$ 2,641,374

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

CLEVELAND SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 16,761,893	373,076	3,565,377	(12,823,440)
Support services	10,264,332	20,001	2,641,159	(7,603,172)
Non-instructional	2,003,943	297,202	1,316,270	(390,471)
16th Section	43,135			(43,135)
Interest on long-term liabilities	273,326		389,864	116,538
Total governmental activities	\$ 29,346,629	690,279	7,912,670	(20,743,680)
Taxes:				
				6,773,906
General purpose levies				251,135
Debt service levies				
Unrestricted grants and contributions:				
				14,141,598
State				124,435
Federal				139,104
Unrestricted investment earnings				167,468
Sixteenth section sources				
Total General Revenues				21,597,646
Change in Net Assets				853,966
Net Assets - Beginning				1,787,408
Net Assets - Ending				\$ 2,641,374

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

CLEVELAND SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Title I Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,740,355		501,418	2,241,773
Investments	861,675		562,696	1,424,371
Due from other governments	373,651	283,293	722,400	1,379,344
Other receivables, net	29,980		0	29,980
Due from other funds	581,365		0	581,365
Advances to other funds	20,000		0	20,000
Inventories			35,332	35,332
Total Assets	\$ 3,607,026	283,293	1,821,846	5,712,165
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,139,057	81,143	320,949	1,541,149
Due to other funds		202,150	361,646	563,796
Total Liabilities	1,139,057	283,293	682,595	2,104,945
Fund Balances:				
Reserved for:				
Advances	20,000			20,000
Inventory			35,332	35,332
Debt service			541,751	541,751
Unemployment benefits			75,768	75,768
Forestry improvements			146	146
Permanent fund purposes			432,841	432,841
Unreserved:				
Undesignated, reported in:				
General fund	2,447,969			2,447,969
Special Revenue funds			53,413	53,413
Total Fund Balances	2,467,969	0	1,139,251	3,607,220
Total Liabilities and Fund Balances	\$ 3,607,026	283,293	1,821,846	5,712,165

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, 2007

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,607,220
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 \$ 6,080,620. (Note 4)	4,713,233
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(5,565,627)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	(113,452)
	<hr/>
Total Net Assets - Governmental Activities	\$ <u>2,641,374</u>

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

CLEVELAND SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Title I Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 7,276,419		574,579	7,850,998
State sources	14,141,598		1,245,349	15,386,947
Federal sources	124,435	1,233,437	5,437,310	6,795,182
Sixteenth section sources			167,468	167,468
Total Revenues	21,542,452	1,233,437	7,424,706	30,200,595
Expenditures:				
Instruction	12,499,091	790,649	3,316,502	16,606,242
Support services	7,868,616	389,484	2,146,279	10,404,379
Non instructional services	21,643	6,933	1,991,416	2,019,992
16th Section			43,135	43,135
Debt service:				
Principal	223,426	6,495	542,647	772,568
Interest	43,446	1,727	234,776	279,949
Total Expenditures	20,656,222	1,195,288	8,274,755	30,126,265
Excess (Deficiency) of Revenues Over Expenditures	886,230	38,149	(850,049)	74,330
Other Financing Sources (Uses):				
Sale of other property	2,534		0	2,534
Operating transfers in	267,481		964,389	1,231,870
Operating transfers out	(964,639)	(38,149)	(229,082)	(1,231,870)
Total Other Financing Sources (Uses)	(694,624)	(38,149)	735,307	2,534
Net Change in Fund Balances	191,606	0	(114,742)	76,864
Fund Balances:				
July 1, 2006	2,276,363		1,259,186	3,535,549
Decrease in reserve for inventory			(5,193)	(5,193)
June 30, 2007	\$ 2,467,969	0	1,139,251	3,607,220

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, 2007

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 76,864
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 \$341,575 and the depreciation expense amounted to \$343,229.	(1,654)
2. Decrease in Compensated absences is not recorded in the governmental funds, but decreases expense in the statement of activity.	4,835
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.	772,568
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the statement of activities, net of proceeds.	(77)
6. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are increased in the statement of activity.	<u>(5,193)</u>
Change in Net Assets of Governmental Activities	\$ <u>853,966</u>

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

CLEVELAND SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	72,865
Total Assets	\$	<u>72,865</u>
Liabilities		
Accounts payable and accrued liabilities		
Due to student clubs		35,296
Due to other funds		17,569
Advances from other funds		<u>20,000</u>
Total Liabilities	\$	<u>72,865</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, 2007

(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 statements 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. 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 as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used regardless of when the related cash flow takes place. 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, 2007

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.

Title I Fund - this is the school district's federally reimbursable fund that serves to fund remedial math and reading services to low-income, program eligible students.

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

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.

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.

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

FIDUCIARY FUNDS

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

Account Classifications.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2007

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with original maturities of three 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 an original maturity greater than three months 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 acquisitions 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.

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 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 4 for details.

J. Long-term liabilities.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2007

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. In the government-wide Statement of Net Assets, long-term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions.

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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or the budget requires to collect to the fund that statute or the 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 3 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.

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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2007

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.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

M. Property Taxes

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

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 only 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) Cash and Cash Equivalents and Investments.

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district deposits in financial institutions are 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 a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2007

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 \$2,241,773 and \$72,865, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$2,241,773. The bank balance was \$3,146,031.

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, 2007, none of the district's bank balance of \$3,146,031 was exposed to custodial credit risk.

Investments.

As of June 30, 2007, 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	267,862	None
Hancock Horizon Treasury Fund	Less than 1 year	129,855	None
Federal National Mortgage Association Notes	Less than 1 year	342,861	AAA
Federal Home Loan Mortgage Discount Notes	Less than 1 year	<u>683,793</u>	AAA
Total Investments		<u><u>1,424,371</u></u>	
As reported in the Statement of Net Assets			
Investments		991,530	
Restricted Assets		<u>432,841</u>	
Total		<u><u>1,424,371</u></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 investment in the Hancock Horizon Treasury Securities Money Market Mutual Fund are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2007

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, 2007, the district had the following investments:

Issuer	Fair Value	% of Total Investments
CMA Governmental Securities Fund Money Market	267,862	18.81%
Hancock Horrizon Treasury Fund	129,855	9.12%
Federal National Mortgage Association Notes- District maintenance Fund and Sixteenth Section Principal Fund	342,861	24.07%
Federal Home Loan Mortgage Notes- District maintenance Fund and Sixteenth Section Principal Fund	683,793	48.01%

(3) Interfund Transactions.

The following is a summary of interfund transactions:

A. Due From/To Other Funds:

Due From/To Other Funds:	Due From	Due to
Governmental Funds		
General Fund	581,365	
Title I Fund		202,150
Other Governmental Funds		361,646
Fiduciary Funds		17,569
Total	\$581,365	\$581,365

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

B. Advances To/From Other Funds:

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

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

C. Transfers In/Out:

	Transfers In	Transfers Out
Governmental Funds		
General Fund	267,481	964,639
Title I Fund		38,149
Other Governmental Funds	964,389	229,082
Total	1,231,870	1,231,870

Transfers were made from federal funds for indirect costs. Also, transfers were made from the General Fund to other governmental funds to offset program cost which were not reimbursed by state or federal funds.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2007

(4) Capital Assets.

The following is a summary of changes in capital assets:

	Balance 07/01/2006	Additions	Deletions	Balance 06/30/2007
Non-depreciable Capital Assets				
Land	111,036			111,036
Depreciable Capital Assets				
Buildings	7,563,482			7,563,482
Buildings improvements	83,939			83,939
Mobile equipment	1,723,657	281,972		2,005,629
Furniture and equipment	677,856	59,603	7,657	729,802
Leased property under capital lease	299,965			299,965
Total Depreciable Capital Assets	10,348,899	341,575	7,657	10,682,817
Less accumulated depreciation for:				
Buildings	3,832,523	126,514		3,959,037
Improvements other than buildings	58,357	1,466		59,823
Mobile equipment	1,155,417	115,837		1,271,254
Furniture and equipment	524,446	56,988	7,580	573,854
Leased property under capital lease	174,228	42,424		216,652
Total accumulated depreciation	5,744,971	343,229	7,580	6,080,620
Net depreciable assets	4,603,928	(1,654)	77	4,602,197
Governmental activities capital assets net	4,714,964	(1,654)	77	4,713,233

Depreciation was charged to the following functions:

	Amount
Instruction	160,486
Support services	157,090
Non-instructional	25,653
Total depreciation expense	343,229

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.

(5) Long-term liabilities.

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

	Balance 07/01/2006	Additions	Reductions	Balance 06/30/2007	Due within one year
A. Limited obligation bonds payable	\$3,720,000		\$220,000	\$3,500,000	\$225,000
B. Three mill notes payable	2,166,090		453,661	1,712,429	451,218
C. Obligations under capital lease	60,705		32,419	28,286	17,691
D. Obligations under energy efficiency lease	97,469		60,553	36,916	36,916
E. Other loans payable	17,804		5,935	11,869	5,935
F. Compensated absences payable	280,962		4,835	276,127	4,835
Total	\$6,343,030	\$0	\$777,403	\$5,565,627	\$741,595

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2007

A. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement Bonds, Series 1998	4.25-5.875%	5/28/98	2/1/18	\$5,275,000	\$3,500,000

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>Intereat</u>	<u>Total</u>
2008	225,000	157,298	382,298
2009	235,000	147,407	382,407
2010	245,000	136,965	381,965
2011	260,000	125,725	385,725
2012	265,000	113,780	378,780
2013 - 2017	1,535,000	363,899	1,898,899
2018 - 2022	735,000	26,481	761,481
Total	<u>3,500,000</u>	<u>1,071,555</u>	<u>4,571,555</u>

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.

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>
1998 certificate of indebtednes	5.500%	08/10/1998	08/10/2008	300,000	37,356
1999 certificate of indebtednes	4.875%	08/09/1999	08/09/2009	240,000	57,181
2000 certificate of indebtednes	5.500%	07/10/2000	07/10/2010	300,000	107,377
Alternative school	3.830%	10/29/2002	10/29/2012	1,080,000	580,515
Limited tax notes, Series 2000	Varies	09/01/2000	09/01/2010	1,975,000	930,000
Total				<u>3,895,000</u>	<u>1,712,429</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>Intereat</u>	<u>Total</u>
2008	451,218	73,306	524,524
2009	432,318	51,975	484,293
2010	425,482	31,740	457,222
2011	403,411	12,000	415,411
Total	<u>1,712,429</u>	<u>169,021</u>	<u>1,881,450</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2007

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 DC490C copier located in the district central office.
2. Eight Xerox DC425AC copiers located in vairious schools.

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 payments due on this debt:

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	
2008	17,691	1,944	19,635
2009	10,595	467	11,062
Total	28,286	2,411	30,697

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	
2008	36,916	692	37,608
Total	36,916	692	37,608

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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2007

E. Other loans payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Asbestos Removal Note	0.00%	4/19/91	5/30/11	\$106,825	\$ 11,869

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

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	5,935		5,935
2009	5,934		5,934
Total	<u>11,869</u>	<u>0</u>	<u>11,869</u>

This debt will be retired from the district maintenance fund.

F. Compensated absences payable.

As more fully explained in Note I(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.

(6) 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 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 11.30% 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, 2007, 2006, and 2005 were \$1,875,934, \$1,704,910 and \$1,496,815, respectively, which equaled the required contribution for each year.

(7) Sixteenth Section Lands.

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,

2008	133,744
2009	133,612
2010	96,254
2011	93,337

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2007

2012	47,602
2013 - 2017	99,420
2018 - 2022	98,771
2023 - 2027	98,771
2028 - 2032	92,168
Subsequent Years	<u>345,046</u>
Total	<u><u>1,238,725</u></u>

(8) 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 consists of approximately 121 school districts and one community college 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 BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

CLEVELAND SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT

Schedule 1

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 7,600,856	7,148,813	7,276,419	(452,043)	127,606
State sources	13,778,817	14,141,598	14,141,598	362,781	0
Federal sources	115,000	124,435	124,435	9,435	0
Total Revenues	21,494,673	21,414,846	21,542,452	(79,827)	127,606
Expenditures:					
Instruction	12,276,152	12,499,091	12,499,091	(222,939)	0
Support services	8,779,568	7,868,615	7,868,616	910,953	(1)
Noninstructional services	23,912	21,643	21,643	2,269	0
Debt service:					
Principal	212,757	223,427	223,426	(10,670)	1
Interest	70,000	43,446	43,446	26,554	0
Total Expenditures	21,362,389	20,656,222	20,656,222	706,167	0
Excess (Deficiency) of Revenues Over Expenditures	132,284	758,624	886,230	626,340	127,606
Other Financing Sources (Uses):					
Sale of other property		2,534	2,534	2,534	0
Operating transfers in	266,304	267,231	267,481	927	250
Operating transfers out	(698,133)	(964,639)	(964,639)	(266,506)	0
Total Other Financing Sources (Uses)	(431,829)	(694,874)	(694,624)	(263,045)	250
Net Change in Fund Balances	(299,545)	63,750	191,606	363,295	127,856
Fund Balances:					
July 1, 2006	2,207,647	2,264,153	2,276,363	56,506	12,210
June 30, 2007	1,908,102	2,327,903	2,467,969	419,801	140,066

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

CLEVELAND SCHOOL DISTRICT

Budgetary Comparison Schedule

Title I Fund

June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	1,451,650	1,233,437	1,233,437	(218,213)	0
Total Revenues	1,451,650	1,233,437	1,233,437	(218,213)	0
Expenditures:					
Instruction	775,632	790,649	790,649	(15,017)	0
Support services	611,479	389,484	389,484	221,995	0
Noninstructional services	14,487	6,933	6,933	7,554	0
Debt service:					
Principal	7,187	6,495	6,495	692	0
Interest	1,907	1,727	1,727	180	0
Total Expenditures	1,410,692	1,195,288	1,195,288	215,404	0
Excess (Deficiency) of Revenues Over Expenditures	40,958	38,149	38,149	(2,809)	0
Other Financing Sources (Uses):					
Operating transfers out	(40,958)	(38,149)	(38,149)	2,809	0
Total Other Financing Sources (Uses)	(40,958)	(38,149)	(38,149)	2,809	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2006	0	0	0	0	0
June 30, 2007	0	0	0	0	0

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, 2007

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 October 15th. 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

SUPPLEMENTAL INFORMATION

CLEVELAND SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2007

Schedule 3

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Catalog of Federal Domestic <u>Assistance Number</u>	Federal <u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	95,155
Child Nutrition Cluster:		
School Breakfast Program	10.553	352,358
National School Lunch Program	10.555	997,072
Total Nutrition Cluster		<u>1,349,430</u>
Child and adult care food program	10.558	5,173
Fresh fruits and vegetables program	10.582	<u>44,141</u>
Total Passed through Mississippi Department of Education		<u>1,493,899</u>
Total U.S. Department of Agriculture		<u>1,493,899</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>124,435</u>
Total Federal Communications Commission		<u>124,435</u>
<u>U.S. Department of Education</u>		
Direct programs		
Magnet school assistance	84.165	1,804,542
Literacy through school libraries	84.364	<u>92,566</u>
Total Direct programs		<u>1,897,108</u>
Passed through Mississippi Department of Education		
Special Education Cluster:		
Special education - grants to state	84.027	1,121,489
Special education - preschool grants	84.173	<u>30,413</u>
Total Special Education Cluster		1,151,902

Title 1 - grants to local educational agencies	84.010	1,309,062
Vocational education basic grants to states	84.048	49,031
Safe and drug free schools and communities- state grants	84.186	33,836
Even start - state educational agencies	84.213	83,532
State grants for innovative programs	84.298	5,464
Twenty-first century community learning centers	84.287	103,281
Title I accountability grants	84.348	118,306
Rural education	84.358	61,525
Improving teacher quality - state grants	84.367	<u>363,800</u>
Total Passed through Mississippi Department of Education		<u>3,279,739</u>
Total U.S. Department of Education		<u>5,176,847</u>
Total for All Federal Awards		<u>6,795,181</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 4

Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds
For the Year Ended June 30, 2007

Functions/Programs	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 22,569,002	\$ 16,891,322	\$ 1,292,236	\$ 1,782,786	\$ 2,602,658
Other expenditures	<u>7,557,263</u>	<u>2,652,143</u>	<u>190,710</u>	<u>184,507</u>	<u>4,529,903</u>
Total	\$ <u>30,126,265</u>	\$ <u>19,543,465</u>	\$ <u>1,482,946</u>	\$ <u>1,967,293</u>	\$ <u>7,132,561</u>
Total number of students: *	3,255				
Cost per student:	\$ <u>9,255</u>	\$ <u>6,004</u>	\$ <u>456</u>	\$ <u>604</u>	\$ <u>2,191</u>

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.

*Includes the number of students reported on the ada report submission for month 9, whi h is the final submission for the fixcal year.

CLEVELAND SCHOOL DISTRICT

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

CLEVELAND SCHOOL DISTRICT

(This page left blank intentionally)

Robert Britt, CPA, P. A.

P. O. BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6094
FAX 662-627-3994
CLARKSDALE MISSISSIPPI 39614

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS 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, 2007, which collectively comprise the Cleveland School District's basic financial statements and have issued my report thereon dated January 19, 2009. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose describe in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted a certain immaterial instance of noncompliance or other matter that I have reported to management of the school district in a separate letter dated January 19, 2009, which is included in this report.

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.



January 19, 2009

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

(This page intentionally left blank)

Robert Britt, CPA, P. A.

P.O. BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6064
FAX 662-627-3964
CLARKSDALE MISSISSIPPI 38614

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, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the 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 school 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 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 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 on 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the school district' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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.



January 19, 2009

CLEVELAND SCHOOL DISTRICT

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

CLEVELAND SCHOOL DISTRICT

(This page intentionally left blank)

Robert Britt, CPA, P. A.

P O BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-0094
FAX 662-627-3954
CLARKSDALE MISSISSIPPI 38614

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, 2007, which collectively comprise Cleveland School District's basic financial statements and have issued my report thereon dated January 19, 2009. 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)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, 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 my audit and, accordingly, I 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 \$ 51,125 of classroom supply funds carried over from previous years.

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

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed the following instance of noncompliance related to incorrect or in appropriate functional level expenditure coding. The noncompliance is reported in finding number 1 below.

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 my audit and, accordingly, I do not express such an opinion.

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.

My finding and recommendation and your response are as follows:

Finding 1.

The district reported all expenditures in the capital projects fund as facilities acquisition and construction. Total expenditures were only \$6,655 and should have been reported as repairs under operation and maintenance of plant.

Recommendation.

The school district should only report items in facilities acquisition and construction if they meet the criteria for capitalization. All other expenditures should be reported as repairs under operation and maintenance of plant.

Response.

This was reported as a non capital expenditure in the category facilities acquisition and construction. We realize this category should be limited to projects subject to capitalization. This will not happen again.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

The Cleveland School District's response to the finding included in this report was not audited and, accordingly, I express no opinion on it.

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.



January 19, 2009

CLEVELAND SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT

(This page intentionally left blank)

CLEVELAND SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2007

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. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |

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. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 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 |
| Special Education Cluster | |
| Special Education - Grants to States | - CFDA 84.027 |
| Special Education - Preschool Grants | - CFDA 84.173 |
| Title I Grants to Local Educational Agencies | - CFDA 84.010 |
| 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 results of my tests did not disclose any findings and questioned cost related to the federal awards