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CLEVELAND SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2008

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



CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

CLEVELAND SCHOOL DISTRICT

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

Superintendent and School Board
Cleveland School District

I have audited the 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, 2008, 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.

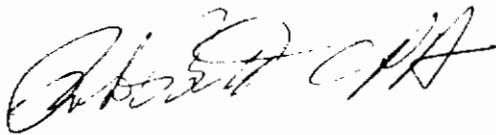
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Cleveland School District as of June 30, 2008, and the respective changes 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 August, 17, 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 36 through 38 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 basic financial statements taken as a whole.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.



August, 17, 2009

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. 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 \$ 1,460,691, which represents 55% increase from fiscal year 2007.

General revenues account for \$22,977,414 in revenue, or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,699,258 or 27% of total revenues.

The District had \$30,215,981 in expenses; only \$8,699,258 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$22,977,414 and assets carried over from the prior year were adequate to provide for these programs.

Among major funds, the General Fund had \$23,002,035 in revenues and \$21,496,259 in expenditures. The General Fund's fund balance increased \$998,131 over the prior year. This increase is from sound fiscal management. The Title I Fund had \$1,300,824 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 \$267,562.

Long-term liabilities decreased by \$708,962.

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 separate Statements 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 21-33 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 36-38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 40-41 of this report. a schedule of instructional, administrative and other expenditures - governmental funds as

required by the State Department of Education can be found on page 42 and a Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund - Last Four Years, and a Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds - Last Four Years, as required by the Mississippi Department of Education and can be found on pages 44-45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government’s financial position. In the case of the District, assets exceeded liabilities by \$4,102,065 as of June 30, 2008.

The largest portion of the District’s net assets (76.9%) 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, 2008 compared to the same period in 2007.

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Current assets	6,074,497	5,148,369	17.99%
Capital assets, net	<u>4,445,671</u>	<u>4,713,233</u>	<u>-5.68%</u>
Total assets	<u>10,520,168</u>	<u>9,861,602</u>	<u>6.68%</u>
Current liabilities	1,561,438	1,654,601	-5.63%
Long-term debt outstanding	<u>4,856,665</u>	<u>5,565,627</u>	<u>-12.74%</u>
Total liabilities	<u>6,418,103</u>	<u>7,220,228</u>	<u>-11.11%</u>
Net assets:			
Invested in capital assets, net of related debt	(99,188)	(564,398)	82.43%
Restricted	1,046,959	1,025,799	2.06%
Unrestricted	<u>3,154,294</u>	<u>2,179,973</u>	<u>44.69%</u>

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

The addition of \$52,630 in capital assets from the purchasing of equipment

The retirement of \$738,707 long term debt.

Changes in net assets. The District’s total revenues for the fiscal year ended June 20, 2008 were \$31,676,672. The total cost of all programs and services was \$30,215,981. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 compared to the same period in 2007.

Revenues:	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2008</u>	<u>2007</u>	
Program revenues			
Charges for services	716,868	690,279	3.85%
Operating Grants and contributions	7,982,390	7,912,670	0.88%

General Revenues			
Property taxes	7,337,185	7,025,041	4.44%
Grants and contributions not restricted	15,304,029	14,266,033	7.28%
Other	336,200	306,572	9.66%
Total revenues	31,676,672	30,200,595	4.89%
Expenses:			
Instruction	17,078,356	16,761,893	1.89%
Support services	10,701,785	10,264,332	4.26%
Non-instructional	2,157,737	2,003,943	7.67%
Sixteenth Section	48,174	43,135	11.68%
Interest on long-term obligations	229,929	273,326	-15.88%
Total Expenses	30,215,981	29,346,629	2.96%
Change in net assets	1,460,691	853,966	71.05%
Net Assets - Beginning	2,641,374	1,787,408	47.78%
Net Assets - Ending	4,102,065	2,641,374	55.30%

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

	Total Cost of Services		Percent Change	Net Revenue (Expense)		Percent Change
	2008	2007		2008	2007	
Instruction	17,078,356	16,761,893	1.89%	(12,987,548)	(12,823,440)	1.28%
Support services	10,701,785	10,264,332	4.26%	(8,145,032)	(7,603,172)	7.13%
Non-instructional	2,157,737	2,003,943	7.67%	(495,904)	(390,471)	27.00%
Sixteenth section	48,174	43,135	11.68%	(48,174)	(43,135)	11.68%
Interest on long-term obligations	229,929	273,326	-15.88%	159,935	116,538	37.24%
	<u>30,215,981</u>	<u>29,346,629</u>	<u>2.96%</u>	<u>(21,516,723)</u>	<u>(20,743,680)</u>	<u>3.73%</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 \$114,188 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 \$4,598,737, an increase of \$991,517 due

primarily to sound fiscal management. \$3,496,442 or 76% 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 \$ 998,131 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 \$6,614 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 increased slightly from those originally budgeted. 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 activity 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, 2008, the District's total capital assets were \$10,846,483, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$52,630 from the previous year due primarily to the purchase of food service equipment. Total accumulated depreciation as of June 30, 2008 was \$6,400,812 and total depreciation expense for the year was \$320,192, resulting in total net assets of \$4,445,671.

	Capital Assets Net of Depreciation		Percentage
	2008	2007	Change
Land	111,036	111,036	0.00%
Buildings	3,477,931	3,604,445	-3.51%
Improvements other than buildings	22,650	24,116	-6.08%
Mobile equipment	635,239	734,375	-13.50%
Furniture and equipment	177,854	155,948	14.05%
Leased property under capital lease	20,961	83,313	-74.84%
Total	<u>4,445,671</u>	<u>4,713,233</u>	<u>-5.68%</u>

Additional information of the District's capital assets can be found in Note 5 on pages 28 and 29 of this report.

Debt Administration. At June 30, 2008, the District had \$4,856,665 in general obligation bonds and other long-term debt outstanding, of which \$681,901 is due within one year.

The District maintains a AA bond rating.

	Outstanding Debt		Percentage
	2008	2007	Change
Limited obligation bonds payable	\$3,275,000	\$3,500,000	-6.43%
Three mill notes payable	\$1,261,211	\$1,712,429	-26.35%
Obligations under capital lease	\$8,648	\$28,286	-69.43%

Other loans payable	\$5,934	\$11,869	-50.00%
Compensated absences payable	<u>\$305,872</u>	<u>\$276,127</u>	10.77%
Total	<u>\$4,856,665</u>	<u>\$5,565,627</u>	-12.74%

Additional information of the District's long-term debt can be found in Note 6 on pages 29 through 32 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 30 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
Statement of Net Assets
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,123,906
Investments	1,057,664
Due from other governments	1,331,310
Other receivables, net	96,170
Inventories	32,606
Restricted assets	432,841
Capital assets not being depreciated	
Land	111,036
Capital assets net of accumulated depreciation	
Buildings	3,477,931
Improvements other than buildings	22,650
Mobile equipment	635,239
Furniture and equipment	177,854
Leased property under capital lease	20,961
	<hr/>
Total Assets	\$ 10,520,168
Liabilities	
Accounts payable and accrued liabilities	\$ 1,475,760
Interest payable on long-term liabilities	85,678
Long-term liabilities, due within one year	
Capital related liabilities	675,966
Non-capital related liabilities	5,934
Long-term liabilities, due beyond one year	
Capital related liabilities	3,868,893
Non-capital related liabilities	305,872
	<hr/>
Total Liabilities	\$ 6,418,103
Net Assets	
Invested in capital assets, net of related debt	\$ (99,188)
Restricted net assets:	
Expendable:	
School based activities	82,948
Debt service	455,897
Forestry improvements	146
Unemployment benefits	75,127
Nonexpendable	
Sixteenth section	432,841
Unrestricted	3,154,294
	<hr/>
Total Net Assets	\$ 4,102,065

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

CLEVELAND SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 17,078,356	340,714	3,750,094	(12,987,548)
Support services	10,701,785	85,797	2,470,956	(8,145,032)
Non-instructional	2,157,737	290,357	1,371,476	(495,904)
16th Section	48,174			(48,174)
Interest on long-term liabilities	229,929		389,864	159,935
Total governmental activities	\$ 30,215,981	716,868	7,982,390	(21,516,723)
Taxes:				
				7,092,547
General purpose levies				244,638
Debt service levies				
Gaming				
Unrestricted grants and contributions:				
				15,187,028
State				117,001
Federal				114,188
Unrestricted investment earnings				178,522
Sixteenth section sources				43,490
Other				
Total General Revenues				22,977,414
Change in Net Assets				1,460,691
Net Assets - Beginning				2,641,374
Net Assets - Ending			\$	4,102,065

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

CLEVELAND SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2008

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Title I Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,647,576		476,330	3,123,906
Investments (Note 2)	918,801		571,704	1,490,505
Due from other governments	300,892	270,299	760,119	1,331,310
Other receivables, net	46,956		0	46,956
Due from other funds (Note 3)	698,400		0	698,400
Advances to other funds (Note 3)	20,000		0	20,000
Inventories			32,606	32,606
Total Assets	\$ 4,632,625	270,299	1,840,759	6,743,683
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,166,525	50,518	258,717	1,475,760
Due to other funds (Note 3)		219,781	449,405	669,186
Total Liabilities	1,166,525	270,299	708,122	2,144,946
Fund Balances:				
Reserved for:				
Advances	20,000			20,000
Inventory			32,606	32,606
Debt service			541,575	541,575
Unemployment benefits			75,127	75,127
Forestry improvements			146	146
Permanent fund purposes			432,841	432,841
Unreserved:				
Undesignated, reported in:				
General fund	3,446,100			3,446,100
Special Revenue funds			50,342	50,342
Total Fund Balances	3,466,100	0	1,132,637	4,598,737
Total Liabilities and Fund Balances	\$ 4,632,625	270,299	1,840,759	6,743,683

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, 2008

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,598,737
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 6,400,812. (Note 5)	4,445,671
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(4,856,665)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	(85,678)
Total Net Assets - Governmental Activities	\$ <u>4,102,065</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, 2008

	Major Funds			Total Governmental Funds
	General Fund	Title I Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 7,688,593		585,927	8,274,520
State sources	15,196,441		1,402,215	16,598,656
Federal sources	117,001	1,300,824	5,206,073	6,623,898
Sixteenth section sources			178,521	178,521
Total Revenues	23,002,035	1,300,824	7,372,736	31,675,595
Expenditures:				
Instruction	13,170,072	739,548	2,996,433	16,906,053
Support services	8,086,582	450,160	2,022,126	10,558,868
Non instructional services	812	34,930	2,137,182	2,172,924
16th Section			48,174	48,174
Debt service:				
Principal	191,007	7,450	540,250	738,707
Interest	47,786	1,078	208,839	257,703
Total Expenditures	21,496,259	1,233,166	7,953,004	30,682,429
Excess (Deficiency) of Revenues Over Expenditures	1,505,776	67,658	(580,268)	993,166
Other Financing Sources (Uses):				
Insurance loss recovery	1,077		0	1,077
Operating transfers in	367,119		875,841	1,242,960
Operating transfers out	(875,841)	(67,658)	(299,461)	(1,242,960)
Total Other Financing Sources (Uses)	(507,645)	(67,658)	576,380	1,077
Net Change in Fund Balances	998,131	0	(3,888)	994,243
Fund Balances:				
July 1, 2007	2,467,969	0	1,139,251	3,607,220
Decrease in reserve for inventory			(2,726)	(2,726)
June 30, 2008	\$ 3,466,100	0	1,132,637	4,598,737

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, 2008

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 994,243
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 \$ 52,630 and the depreciation expense amounted to \$320,192. See Note 5)	(267,562)
2. Increase in Compensated absences is not recorded in the governmental funds, but increases expense in the statement of activity.	(29,745)
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.	27,774
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.	738,707
5. 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.	(2,726)
Change in Net Assets of Governmental Activities	\$ <u>1,460,691</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, 2008

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	<u>81,344</u>
Total Assets	\$	<u>81,344</u>
Liabilities		
Due to student clubs		32,130
Due to other funds		29,214
Advances from other funds		<u>20,000</u>
Total Liabilities	\$	<u>81,344</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, 2008

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered 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 county district.

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

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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 FUND TYPES

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

The District's fiduciary funds include the following.

Student Club Funds - This fund accounts for amounts collected by or from students of the school district for specific functions as defined by the club. Assets equal liabilities.

Payroll and Accounts Payable Clearing Funds - These funds are used to handle the transfer of cash to vendors and employees. Assets equal liabilities.

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 recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

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

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

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

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. Assets, liabilities, and net assets or equity.

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments are reported at fair market value.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items.

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

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.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the statement of net assets because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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 5 for details.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

7. Compensated Absences.

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

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

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums.

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

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

9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 a 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.

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.

G. Estimates.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

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 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 \$3,123,906 and \$81,344, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,123,906. The bank balance was \$4,723,659.

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, 2008, none of the district's bank balance of \$4,723,659 was exposed to custodial credit risk.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

Investments.

As of June 30, 2008, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
CMA Governmental Securities Fund Money Market	Less than 1 year	68,961	None
Hancock Horizon Treasury Money Market Mutual Fund	Less than 1 year	138,863	None
Mississippi State Bond	Less than 1 year	206,395	AA
Federal Home Loan Bank	1 to 5	698,708	AAA
Federal Home Loan Mortgage Notes	1 to 5	<u>377,578</u>	AAA
Total Investments		<u>1,490,505</u>	
As reported in the Statement of Net Assets			
Investments		1,057,664	
Restricted Assets		<u>432,841</u>	
Total		<u>1,490,505</u>	

The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Money Market Mutual Fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

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, 2008, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Hancock Horizon Treasury Money Market Mutual Fund	138,863	9.32%
Mississippi State Bond	206,395	13.85%
Federal Home Loan Bank - District Maintenance Fund and Sixteenth Section Principal Fund	698,708	46.88%
Federal Home Loan Mortgage Notes	<u>377,578</u>	25.33%
	<u>\$1,421,544</u>	

(3) Interfund Transactions.

The following is a summary of interfund transactions:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

A Due From To Other Funds:

Due From/To Other Funds:	<u>Due From</u>	<u>Due to</u>
Governmental Funds		
General Fund	698,400	
Title I Fund		219,781
Other Governmental Funds		449,405
Fiduciary Funds		29,214
	_____	_____
Total	\$698,400	\$698,400

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

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

C Transfers In/Out:

Governmental Funds	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	267,481	984,639
Title I Fund		38,149
Other Governmental Funds	964,389	229,082
	_____	_____
Total	1,231,870	1,251,870

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.

(4) Restricted Assets

The restricted assets represent the investment balance, totaling \$432,841 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.

(5) Capital Assets.

The following is a summary of changes in capital assets:

	<u>Balance</u> 07/01/2007	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> 06/30/2008
Non-depreciable Capital Assets					
Land	111,036				111,036
Depreciable Capital Assets					
Buildings	7,563,482				7,563,482
Improvements other than buildings	83,939				83,939
Mobile equipment	2,005,629	7,642			2,013,271

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2008

Furniture and equipment	729,802	44,988		251,699	1,026,489
Leased property under capital lease	299,965			(251,699)	48,266
Total Depreciable Capital Assets	10,682,817	52,630	0	0	10,735,447
Less accumulated depreciation for:					
Buildings	3,959,037	126,514			4,085,551
Improvements other than buildings	59,823	1,466			61,289
Mobile equipment	1,271,254	106,778			1,378,032
Furniture and equipment	573,854	60,938		213,843	848,635
Leased property under capital lease	216,652	24,496		(213,843)	27,305
Total accumulated depreciation	6,080,620	320,192	0	0	6,400,812
Net depreciable assets	4,602,197	(267,562)	0	0	4,334,635
Governmental activities capital assets net	4,713,233	(267,562)	0	0	4,445,671

Depreciation was charged to the following functions:

	Amount
Instruction	142,558
Support services	150,559
Non-instructional	27,075
Total depreciation expense	320,192

The adjustments listed are to move assets off capital lease to equipment at the end of the leases.

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

(6) Long-term liabilities.

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

	Balance 07/01/2007	Additions	Reductions	Balance 06/30/2008	Due within one year
A. Limited obligation bonds payable	\$3,500,000		\$225,000	\$3,275,000	\$235,000
B. Three mill notes payable	1,712,429		451,218	1,261,211	432,318
C. Obligations under capital lease	28,286		19,638	8,648	8,648
D. Obligations under energy efficiency lease	36,916		36,916	0	0
E. Other loans payable	11,869		5,935	5,934	5,934
F. Compensated absences payable	276,127	29,745		305,872	0
Total	\$5,565,627	\$29,745	\$738,707	\$4,856,665	\$681,900

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:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

<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	2/1/19	\$5,275,000	\$3,275,000

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>
2009	235,000	147,408	382,408
2010	245,000	136,965	381,965
2011	260,000	125,725	385,725
2012	265,000	113,780	378,780
2013	280,000	87,638	367,638
2014 - 2018	1,610,000	192,613	1,802,613
2019 - 2023	380,000	9,025	389,025
Total	<u>3,275,000</u>	<u>813,154</u>	<u>4,088,154</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>Description</u>	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1999 certificate of indebtedness	4.875%	08/09/1999	08/09/2009	240,000	29,254
2000 certificate of indebtedness	5.500%	07/10/2000	07/10/2010	300,000	73,494
Alternative school	3.830%	10/29/2002	10/29/2012	1,080,000	443,463
Limited tax notes, Series 2000	3.7-4.1%	09/01/2000	09/01/2010	1,975,000	715,000
Total				<u>3,595,000</u>	<u>1,261,211</u>

Details of the district's June 30, three mill notes payable are as follows:

1. 1999 certificate of indebtedness issued August 9, 1999.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	29,254	1,426	30,680
Total	<u>29,254</u>	<u>1,426</u>	<u>30,680</u>

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

2. 2000 certificate of indebtedness issued July 10, 2000.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	35,763	4,042	39,805
2009	37,731	2,075	39,806
Total	<u>73,494</u>	<u>6,117</u>	<u>79,611</u>

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2008

3. Alternative school notes issued October 29, 2002.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	142,301	16,985	159,286
2009	147,752	11,534	159,286
2010	<u>153,410</u>	<u>5,875</u>	<u>159,285</u>
Total	<u>443,463</u>	<u>34,394</u>	<u>477,857</u>

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

4. Limited tax notes, Series 2000 issued September 1, 2000

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	225,000	29,522	254,522
2009	240,000	18,131	258,131
2010	<u>250,000</u>	<u>6,125</u>	<u>256,125</u>
Total	<u>715,000</u>	<u>53,778</u>	<u>768,778</u>

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

Total three mill notes payable payments for all issues:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	432,318	51,975	484,293
2009	425,483	31,740	457,223
2010	<u>403,410</u>	<u>12,000</u>	<u>415,410</u>
Total	<u>1,261,211</u>	<u>95,715</u>	<u>1,356,926</u>

C. Obligations under capital leases.

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

1. Two Xerox DC425AC copiers located in various 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 payment due on this debt:

<u>Year Ending June 30,</u>	<u>Interest and Maintenance</u>		<u>Total</u>
	<u>Principal</u>	<u>Charges</u>	
2009	<u>8,648</u>	<u>467</u>	<u>9,115</u>
Total	<u>8,648</u>	<u>467</u>	<u>9,115</u>

This debt will be retired from the District Maintenance Fund.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2008

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	\$ 5,934

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>
2009	<u>5,934</u>	<u> </u>	<u>5,934</u>
Total	<u>5,934</u>	<u>0</u>	<u>5,934</u>

This debt will be retired from the district maintenance fund.

F. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required 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 employer' rate for fiscal year ended June 30, 2008 was 11.85% 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, 2008, 2007, and 2006 were \$2,039,325, \$1,875,934 and \$1,704,910, respectively, which equaled the required contribution for each year.

(8) 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.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2008

Year Ending June 30,

2009	141,082
2010	103,093
2011	88,227
2012	58,970
2013	58,867
2014 - 2018	230,518
2019 - 2023	139,278
2024 - 2028	139,278
2029 - 2033	134,711
2034 - 2038	120,984
2039 - 2043	107,544
Subsequent Years	<u>233,021</u>
Total	<u>1,555,573</u>

(9) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess 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

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CLEVELAND SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2008

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 7,875,667	7,640,281	7,688,593	(235,386)	48,312
State sources	15,030,291	15,387,129	15,196,441	356,838	(190,688)
Federal sources	161,000	117,001	117,001	(43,999)	0
Total Revenues	23,066,958	23,144,411	23,002,035	77,453	(142,376)
Expenditures:					
Instruction	13,569,582	13,170,072	13,170,072	399,510	0
Support services	7,373,261	8,086,582	8,086,582	(713,321)	0
Noninstructional services	0	812	812	(812)	0
Facilities acquisition & construction	1,500,000		0	1,500,000	0
Debt service:					
Principal	191,007	191,007	191,007	0	0
Interest	51,588	47,786	47,786	3,802	0
Total Expenditures	22,685,438	21,496,259	21,496,259	1,189,179	0
Excess (Deficiency) of Revenues Over Expenditures	381,520	1,648,152	1,505,776	1,266,632	(142,376)
Other Financing Sources (Uses):					
Insurance loss recovery		1,077	1,077	1,077	0
Operating transfers in	318,126	367,119	367,119	48,993	0
Operating transfers out	(1,152,427)	(875,841)	(875,841)	276,586	0
Total Other Financing Sources (Uses)	(834,301)	(507,645)	(507,645)	326,656	0
Net Change in Fund Balances	(452,781)	1,140,507	998,131	1,593,288	(142,376)
Fund Balances:					
July 1, 2007	2,220,656	2,327,902	2,467,969	107,246	140,067
June 30, 2008	1,767,875	3,468,409	3,466,100	1,700,534	(2,309)

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

CLEVELAND SCHOOL DISTRICT

Schedule 2

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,491,755	1,300,824	1,300,824	(190,931)	0
Total Revenues	1,491,755	1,300,824	1,300,824	(190,931)	0
Expenditures:					
Instruction	798,705	739,547	739,548	59,158	(1)
Support services	563,825	450,161	450,160	113,664	1
Noninstructional services	40,530	34,930	34,930	5,600	0
Debt service:					
Principal	8,121	7,450	7,450	671	0
Interest	1,116	1,078	1,078	38	0
Total Expenditures	1,412,297	1,233,166	1,233,166	179,131	0
Excess (Deficiency) of Revenues Over Expenditures	79,458	67,658	67,658	(11,800)	0
Other Financing Sources (Uses):					
Operating transfers out	(79,458)	(67,658)	(67,658)	11,800	0
Total Other Financing Sources (Uses)	(79,458)	(67,658)	(67,658)	11,800	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2007	0	0	0	0	0
June 30, 2008	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, 2008

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, 2008

Schedule 3

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Direct programs		
Distance Learning and Telemedicine Loans and Grants	10.855	61,783
Total Direct programs		61,783
Passed through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	357,980
National School Lunch Program	10.555	1,148,680
Total Nutrition Cluster		1,506,660
Child and adult care food program	10.558	2,061
Total Passed through Mississippi Department of Education		1,508,721
Total U.S. Department of Agriculture		1,570,504
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	117,001
Total Federal Communication Commission		117,001
<u>U.S. Department of Education</u>		
Direct programs		
Magnet school assistance	84.165	1,540,057
Fund for the Advancement of Education	84.215	257,820
Total Direct programs		1,797,877
Passed through Mississippi Department of Education		
Special Education Cluster		
Special education grants to states	84.027	932,202
Special education - preschool grants	84.173	36,180
Total Special Education Cluster		968,382
Title I grants to local educational agencies	84.010	1,315,367
Career and technical education _ basic grants to states	84.048	46,437
Safe and drug free schools and communities- state grants	84.186	29,233
Even start - state educational agencies	84.213	127,938

Twenty-first century community learning centers	84,287	83,138
State grants for innovative programs	94,298	7,154
Education technology state grants	84,318	25,879
Special education - state personnel development	84,323	26,669
Rural education	84,358	137,298
Improving teacher quality - state grants	84,367	369,323
Grants for state assessments and related activities	84,369	<u>1,698</u>
Total Passed through Mississippi Department of Education		<u>3,138,516</u>
Total U.S. Department of Education		<u>4,936,393</u>
Total for All Federal Awards		<u><u>6,623,898</u></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 financial statements
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The balance outstanding at June 30, 2008 of the loan received in a previous year under former CFDA #66.702 for asbestos removal was \$5,934

CLEVELAND SCHOOL DISTRICT

Schedule 4

Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds
For the Year Ended June 30, 2008

Functions/Programs	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 22,513,225	\$ 17,218,826	\$ 1,164,684	\$ 1,706,699	\$ 2,423,016
Other expenditures	8,169,204	2,847,350	284,831	257,247	4,779,776
Total	\$ 30,682,429	\$ 20,066,176	\$ 1,449,515	\$ 1,963,946	\$ 7,202,792
Total number of students:	3,297				
Cost per student:	\$ <u>9,306</u>	\$ <u>6,086</u>	\$ <u>440</u>	\$ <u>596</u>	\$ <u>2,185</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 - includes all expenditure functions not included in Instruction or Administration Categories

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

CLEVELAND SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

CLEVELAND SCHOOL DISTRICT

Schedule 5

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

"UNAUDITED"

Last Four years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 7,688,593	7,276,419	6,891,647	6,362,825
State sources	15,196,441	14,141,598	13,766,340	12,827,478
Federal sources	117,001	124,435	120,963	110,558
Total Revenues	23,002,035	21,542,452	20,778,950	19,300,861
Expenditures:				
Instruction	13,170,072	12,499,091	11,866,901	11,765,783
Support services	8,086,582	7,868,616	7,155,447	6,801,261
Non instructional services	812	21,643		
Debt service:				
Principal	191,007	223,426	212,295	207,365
Interest	47,786	43,446	68,237	74,291
Total Expenditures	21,496,259	20,656,222	19,302,880	18,848,700
Excess (Deficiency) of Revenues Over Expenditures	1,505,776	886,230	1,476,070	452,161
Other Financing Sources (Uses):				
Insurance loss recovery	1,077		13,202	
Sale of other property		2,534		200
Operating transfers in	367,119	267,481	269,135	242,608
Operating transfers out	(875,841)	(964,639)	(1,129,410)	(1,169,918)
Total Other Financing Sources (Uses)	(507,645)	(694,624)	(847,073)	(927,110)
Net Change in Fund Balances	998,131	191,606	628,997	(474,949)
Fund Balances:				
Beginning of year	2,467,969	2,276,363	1,647,366	2,122,315
End of year	\$ 3,466,100	2,467,969	2,276,363	1,647,366

* SOURCE - PRIOR YEAR AUDIT REPORTS

CLEVELAND SCHOOL DISTRICT

Schedule 6

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

"UNAUDITED"

Last Four years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 8,274,520	7,850,998	7,469,939	7,043,721
State sources	16,598,656	15,386,947	14,685,935	13,837,463
Federal sources	6,623,898	6,795,182	7,203,343	6,067,310
Sixteenth section sources	178,521	167,468	158,281	144,735
Total Revenues	<u>31,675,595</u>	<u>30,200,595</u>	<u>29,517,498</u>	<u>27,093,229</u>
Expenditures:				
Instruction	16,906,053	16,606,242	15,957,501	15,368,692
Support services	10,558,868	10,404,379	10,004,117	9,455,553
Non instructional services	2,172,924	2,019,992	1,787,111	1,723,272
16th Section	48,174	43,135	26,561	27,102
Debt service:				
Principal	738,707	772,568	763,029	727,521
Interest	257,703	279,949	331,515	366,275
Total Expenditures	<u>30,682,429</u>	<u>30,126,265</u>	<u>28,869,834</u>	<u>27,668,415</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>993,166</u>	<u>74,330</u>	<u>647,664</u>	<u>(575,186)</u>
Other Financing Sources (Uses):				
Proceeds of loans				48,266
Insurance loss recovery	1,077		13,202	
Sale of other property		2,534		200
Operating transfers in	1,242,960	1,231,870	1,382,149	1,412,694
Operating transfers out	<u>(1,242,960)</u>	<u>(1,231,870)</u>	<u>(1,382,149)</u>	<u>(1,412,694)</u>
Total Other Financing Sources (Uses)	<u>1,077</u>	<u>2,534</u>	<u>13,202</u>	<u>48,466</u>
Net Change in Fund Balances	<u>994,243</u>	<u>76,864</u>	<u>660,866</u>	<u>(526,720)</u>
Fund Balances:				
Beginning of year	<u>3,607,220</u>	<u>3,535,549</u>	<u>2,867,158</u>	<u>3,406,970</u>
Decrease in reserve for inventory	<u>(2,726)</u>	<u>(5,193)</u>	<u>7,525</u>	<u>(13,092)</u>
End of year	<u>\$ 4,598,737</u>	<u>3,607,220</u>	<u>3,535,549</u>	<u>2,867,158</u>

* SOURCE - PRIOR YEAR AUDIT REPORTS

CLEVELAND SCHOOL DISTRICT

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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

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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, 2008, which collectively comprise the Cleveland School District's basic financial statements and have issued my report thereon dated August 17, 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.

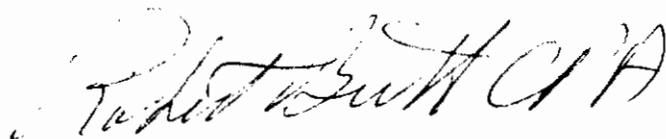
My consideration of the internal control over financial reporting was for the limited purpose describe in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

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 certain immaterial instances of noncompliance or other matters that I have reported to management of the school district in a separate letter dated August 17, 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.



August 17, 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

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

Superintendent and School Board
Cleveland School District

Compliance

I have audited the compliance of the Cleveland School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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, 2008.

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.



August 17, 2009

CLEVELAND SCHOOL DISTRICT

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

CLEVELAND SCHOOL DISTRICT

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

Superintendent and School Board
Cleveland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2008, which collectively comprise Cleveland School District's basic financial statements and have issued my report thereon dated August 17, 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 \$ 36,400 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 no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, 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 disclosed the following immaterial instances of noncompliance with other state laws and regulations. My findings and recommendations and your responses are as follows:

Finding 1.

The district reported all interest received on its pooled deposits in the district's general fund. Section 37-9-18(3)(b), Miss. Code Ann. (1972), requires all investment income of \$100 or more of any fund must be credited to those funds. The district's pooled account had several funds with balances which would have earned more than \$100.

Recommendation.

The school district should comply with Section 37-9-18(3)(b), Miss. Code Ann. (1972) and credit investment income of \$100 or more of any fund to those funds.

Response.

The district will formulate a plan to determine the investment earnings of individual funds within the district's pooled bank account and allocate interest to all funds whose earnings exceed \$100.

Finding 2.

The district overpaid several employees during the year. When it was discovered, the district allowed these employee to spread repayment over several months, which extended beyond the current year. State law does not provide for loans to employees and all amounts overpaid should have been collected immediately.

Recommendation.

Should such an error occur again, the school district should take steps to collect all overpayments immediately.

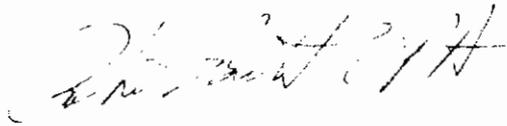
Response.

The district made the mistake which caused the overpayment and felt it was our responsibility to ease the burden on our employees to repay the money to the district. All money owed to the district has now been repaid.

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

The Cleveland School District's responses to the findings included in this report were not audited and, accordingly, I no opinion on them.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "John P. ...".

August 17, 2009

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT

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CLEVELAND SCHOOL DISTRICT

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

Section 1: Summary of Auditor's results

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditor's report issued on the basic financial statements: | Unqualified |
| 2. Material noncompliance relating to the basic 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