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**CLEVELAND SCHOOL DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
**For The Year Ended June 30, 2011**

**CUNNINGHAM CPAs, PLLC**  
Certified Public Accountants

CLEVELAND SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**CUNNINGHAM CPAs, PLLC**  
Certified Public Accountants & Consultants

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

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

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board  
Cleveland School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2011, 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. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2011, 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*, we have also issued our report dated August 3, 2012, on our consideration of the Cleveland School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cleveland School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cleveland School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, 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, we do not express an opinion or provide any assurance on it.

  
Cunningham CPAs, PLLC

August 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

## CLEVELAND SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The following discussion and analysis of Cleveland School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

#### FINANCIAL HIGHLIGHTS

- Total net assets for 2011 decreased \$315,683, including prior period adjustments of \$437,619, which represents a 6% decrease from fiscal year 2010. Total net assets for 2010 increased \$1,034,909, including prior period adjustments of \$55,838 which represents a 25% increase from fiscal year 2009.
- General revenues amounted to \$23,009,898 and \$23,162,097, or 71% and 73% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,456,552, or 29% of total revenues for 2011, and \$8,429,677, or 27% of total revenues for 2010.
- The District had \$32,344,514 and \$30,612,703 in expenses for fiscal years 2011 and 2010; only \$9,456,552 for 2011 and \$8,429,677 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$23,009,898 for 2011 were adequate to provide for these programs and \$23,162,097 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$21,914,457 in revenues and \$20,976,776 in expenditures for 2011, and \$21,284,419 in revenues and \$20,828,249 in expenditures in 2010. The General Fund's fund balance increased by \$715,021 from 2010 to 2011, and increased by \$542,756 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$403,756, net of prior period adjustments of \$437,619, for 2011 and decreased by \$193,725, net of prior period adjustments of \$55,838, for 2010. The increase for 2011 was primarily due to current year additions, net of the increase in accumulated depreciation.
- Long-term debt increased by \$1,948,625 for 2011 and decreased by \$565,268 for 2010. This increase for 2011 was due primarily to issuing bonds and notes in the amount of \$2,551,437, net of principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$4,926 for 2011 and increased by \$17,430 for 2010.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

##### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## CLEVELAND SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The Statement of Net Assets presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether its financial position 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 periods.

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

#### **Fund Financial Statements**

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

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

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

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

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

#### **Reconciliation of Government-wide and Fund Financial Statements**

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual

# CLEVELAND SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

basis of accounting). The following summarizes the major differences between the two statements:

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

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

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

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

### **Required Supplemental Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

### **Supplemental Information**

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

### **Other Information**

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net assets**

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$4,873,912 as of June 30, 2011.

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

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

**Table 1**  
**Condensed Statement of Net Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 5,821,392	\$ 5,206,359	11.81 %
Restricted assets	1,496,541	810,639	84.61 %
Capital assets, net	4,791,867	4,388,111	9.20 %
<b>Total assets</b>	<b><u>12,109,800</u></b>	<b><u>10,405,109</u></b>	<b>16.38 %</b>
Current liabilities	1,688,237	1,611,562	4.76 %
Long-term debt outstanding	5,547,651	3,603,952	53.93 %
<b>Total liabilities</b>	<b><u>7,235,888</u></b>	<b><u>5,215,514</u></b>	<b>38.74 %</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	171,215	1,084,487	(84.21) %
Restricted	1,166,376	1,142,027	2.13 %
Unrestricted	3,536,321	2,963,081	19.35 %
<b>Total net assets</b>	<b><u>\$ 4,873,912</u></b>	<b><u>\$ 5,189,595</u></b>	<b>(6.08) %</b>

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

- Increase in net capital assets in the amount of \$403,756.
- The principal retirement of \$608,411 of long-term debt.
- Issuing bonds and notes in the amount of \$2,551,437.

**Changes in net assets**

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$32,466,450 and \$31,591,774, respectively. The total cost of all programs and services was \$32,344,514 for 2011 and \$30,612,703 for 2010.

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

**Table 2**  
**Changes in Net Assets**

	Year Ended June 30, 2011	Year Ended June 30, 2010	Percentage Change
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 604,326	\$ 601,126	0.53 %
Operating grants and contributions	8,852,226	7,828,551	13.08 %
General revenues:			
Property taxes	8,359,429	8,165,845	2.37 %
Grants and contributions not restricted	14,391,497	14,785,123	(2.66) %
Other	258,972	211,129	22.66 %
<b>Total revenues</b>	<b>32,466,450</b>	<b>31,591,774</b>	<b>2.77 %</b>
<b>Expenses:</b>			
Instruction	17,810,284	17,751,975	0.33 %
Support services	12,304,864	10,693,219	15.07 %
Non-instructional	2,083,336	2,080,279	0.15 %
Sixteenth section	44,011	26,075	68.79 %
Interest expense and other debt issuance costs	102,019	61,155	66.82 %
<b>Total expenses</b>	<b>32,344,514</b>	<b>30,612,703</b>	<b>5.66 %</b>
<b>Increase (Decrease) in net assets</b>	<b>121,936</b>	<b>979,071</b>	<b>(87.55) %</b>
<b>Net Assets, July 1, as originally reported</b>	<b>5,189,595</b>	<b>4,154,686</b>	<b>24.91 %</b>
<b>Prior period adjustments</b>	<b>(437,619)</b>	<b>55,838</b>	<b>(883.73) %</b>
<b>Net Assets, July 1, as restated</b>	<b>4,751,976</b>	<b>4,210,524</b>	<b>12.86 %</b>
<b>Net Assets, June 30,</b>	<b>\$ 4,873,912</b>	<b>\$ 5,189,595</b>	<b>(6.08) %</b>

**Governmental activities**

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

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

**Table 3**  
**Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Instruction	\$ 17,810,284	\$ 17,751,975	0.33 %
Support services	12,304,864	10,693,219	15.07 %
Non-instructional	2,083,336	2,080,279	0.15 %
Sixteenth section	44,011	26,075	68.79 %
Interest expense and other debt issuance costs	102,019	61,155	66.82 %
<b>Total expenses</b>	<b>\$ 32,344,514</b>	<b>\$ 30,612,703</b>	<b>5.66 %</b>

  

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Instruction	\$ (13,163,314)	\$ (13,848,377)	(4.95) %
Support services	(9,449,657)	(8,156,893)	15.85 %
Non-instructional	(128,961)	(90,526)	42.46 %
Sixteenth section	(44,011)	(26,075)	68.79 %
Interest expense and other debt issuance costs	(102,019)	(61,155)	66.82 %
<b>Total net (expense) revenue</b>	<b>\$ (22,887,962)</b>	<b>\$ (22,183,026)</b>	<b>3.18 %</b>

- Net cost of governmental activities (\$22,887,962 for 2011 and \$22,183,026 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$8,359,429 for 2011 and \$8,165,845 for 2010) and state and federal revenues (\$14,391,497 for 2011 and \$14,785,123 for 2010). In addition, there was \$172,251 and \$157,190 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$19,178 for 2011 and \$14,707 for 2010.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$5,198,154, an increase of \$794,941, which includes an increase in reserve for inventory of \$19,032. \$3,752,233 or 72% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,445,921 or 28% is either nonspendable, restricted, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

CLEVELAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

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 \$715,021. The fund balance of Other Governmental Funds showed an increase in the amount of \$402,393, which includes an increase in reserve for inventory of \$19,032, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
ARRA Energy Grant Fund	\$ (322,473)

**BUDGETARY HIGHLIGHTS**

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and each additional major special revenue fund is provided in this report as required supplemental information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2011, the District's total capital assets were \$11,934,274, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$741,249 from 2010. Total accumulated depreciation as of June 30, 2011, was \$7,142,407, and total depreciation expense for the year was \$294,810, resulting in total net capital assets of \$4,791,867.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 111,036	\$ 111,036	0.00 %
Buildings	2,965,944	3,477,842	(14.72) %
Building improvements	887,384	49,645	1,687.46 %
Improvements other than buildings	42,024	43,490	(3.37) %
Mobile equipment	725,175	599,586	20.95 %
Furniture and equipment	60,304	106,512	(43.38) %
<b>Total</b>	<b>\$ 4,791,867</b>	<b>\$ 4,388,111</b>	<b>9.20 %</b>

Additional information on the District's capital assets can be found in Note 5 included in this report.

CLEVELAND SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011

**Debt Administration.** At June 30, 2011, the District had \$5,547,651 in outstanding long-term debt, of which \$449,401 is due within one year. The liability for compensated absences decreased \$4,926 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 2,740,000	\$ 2,945,000	(6.96) %
Three mill notes payable	780,000	403,411	93.35 %
Quality school construction bonds	1,771,437	-	N/A %
Compensated absences payable	295,402	300,328	(1.64) %
Total	<u>5,586,839</u>	<u>3,648,739</u>	53.12 %
Less bond issue costs	<u>(39,188)</u>	<u>(44,787)</u>	(12.50) %
Total	<u>\$ 5,547,651</u>	<u>\$ 3,603,952</u>	53.93 %

Additional information on the District's long-term debt can be found in Note 6 included in this report.

**CURRENT ISSUES**

The Cleveland School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Average daily attendance for the 2010-2011 year increased by 1% to 3,242 students.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report or additional financial information, contact the Superintendent's Office of the Cleveland School District, 305 Merritt Drive, Cleveland, Mississippi 38732.

FINANCIAL STATEMENTS

**CLEVELAND SCHOOL DISTRICT**

**Statement of Net Assets**  
**June 30, 2011**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 2,949,796
Investments	960,703
Due from other governments	1,802,496
Inventories	48,907
Prepaid items	19,941
Restricted assets	1,496,541
Deferred debt issuance costs	39,549
Capital assets, non-depreciable:	
Land	111,036
Capital assets, net of accumulated depreciation:	
Buildings	2,965,944
Building improvements	887,384
Improvements other than buildings	42,024
Mobile equipment	725,175
Furniture and equipment	60,304
Total Assets	12,109,800
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,645,595
Interest payable on long-term liabilities	42,642
Long-term liabilities, due within one year:	
Capital related liabilities	449,401
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,802,848
Non-capital related liabilities	295,402
Total Liabilities	7,235,888
<b>Net Assets</b>	
Invested in capital assets, net of related debt	171,215
Restricted for:	
Expendable:	
School-based activities	268,930
Debt service	393,716
Forestry improvements	146
Unemployment benefits	70,743
Non-expendable:	
Sixteenth section	432,841
Unrestricted	3,536,321
Total Net Assets	\$ 4,873,912

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, 2011**

**Exhibit B**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 17,810,284	298,930	4,348,040	-	(13,163,314)
Support services	12,304,864	-	2,855,207	-	(9,449,657)
Non-instructional	2,083,336	305,396	1,648,979	-	(128,961)
Sixteenth section	44,011	-	-	-	(44,011)
Interest on long-term liabilities and other debt issuance costs	102,019	-	-	-	(102,019)
<b>Total Governmental Activities</b>	<b>\$ 32,344,514</b>	<b>604,326</b>	<b>8,852,226</b>	<b>-</b>	<b>(22,887,962)</b>
 <b>General Revenues:</b>					
Taxes:					
					8,225,227
					134,202
Unrestricted grants and contributions:					
					13,290,487
					1,101,010
					19,178
					172,251
					67,543
					<u>23,009,898</u>
					<u>121,936</u>
					5,189,595
					<u>(437,619)</u>
					<u>4,751,976</u>
					<u>\$ 4,873,912</u>

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

**CLEVELAND SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet**

**Exhibit C**

**June 30, 2011**

	Major Funds			
	General Fund	ARRA Energy Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,681,610	\$ -	\$ 1,167,178	\$ 3,848,788
Cash with fiscal agents	-	-	164,708	164,708
Investments	960,703	-	432,841	1,393,544
Due from other governments	288,234	322,473	1,136,768	1,747,475
Due from other funds	1,088,505	-	-	1,088,505
Advances	20,000	-	-	20,000
Prepaid items	19,941	-	-	19,941
Inventories	-	-	48,907	48,907
<b>Total Assets</b>	<b>\$ 5,058,993</b>	<b>\$ 322,473</b>	<b>\$ 2,950,402</b>	<b>\$ 8,331,868</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 1,125,762	\$ -	\$ 519,833	\$ 1,645,595
Due to other funds	-	322,473	731,011	1,053,484
Unearned revenue	-	322,473	112,162	434,635
<b>Total Liabilities</b>	<b>1,125,762</b>	<b>644,946</b>	<b>1,363,006</b>	<b>3,133,714</b>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Advances	20,000	-	-	20,000
Inventory	-	-	48,907	48,907
Prepaid items	19,941	-	-	19,941
Permanent fund principal	-	-	432,841	432,841
<b>Restricted:</b>				
Debt service	-	-	436,358	436,358
Capital projects	-	-	631,597	631,597
Forestry improvement purposes	-	-	146	146
Unemployment benefits	-	-	70,743	70,743
Grant activities	-	(322,473)	(33,196)	(355,669)
<b>Assigned:</b>				
School based activities	141,057	-	-	141,057
<b>Unassigned</b>	<b>3,752,233</b>	<b>-</b>	<b>-</b>	<b>3,752,233</b>
<b>Total Fund Balances</b>	<b>3,933,231</b>	<b>(322,473)</b>	<b>1,587,396</b>	<b>5,198,154</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,058,993</b>	<b>\$ 322,473</b>	<b>\$ 2,950,402</b>	<b>\$ 8,331,868</b>

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

**CLEVELAND SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2011**

**Exhibit C-1**

**Total fund balances for governmental funds** \$ 5,198,154

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:			
Land	\$	111,036	
Buildings		7,488,140	
Building improvements		1,095,726	
Improvements other than buildings		112,238	
Mobile equipment		2,384,433	
Furniture and equipment		742,701	
Accumulated depreciation		<u>(7,142,407)</u>	4,791,867
2. Bond issue costs related to advance refunding are reported as expenses in the fund financial statements but are capitalized as deferred charges and amortized over the life of the debt in government-wide financial statements.			39,549
3. Revenues received more than 60 days after year end are reported as unearned income in the fund financial statements and are recognized as earned income in the government-wide financial statements.			434,635
4. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:			
Limited obligation bonds		(2,740,000)	
Three mill notes payable		(780,000)	
Quality school construction bonds		(1,771,437)	
Compensated absences		(295,402)	
Unamortized premiums and other debt issuance costs		39,188	
Accrued interest payable		<u>(42,642)</u>	<u>(5,590,293)</u>
<b>Net assets of governmental activities</b>			\$ <u><u>4,873,912</u></u>

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

**CLEVELAND SCHOOL DISTRICT**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2011**

**Exhibit D**

	Major Funds			Total Governmental Funds
	General Fund	ARRA Energy Grant Fund	Other Governmental Funds	
<b>Revenues:</b>				
Local sources	\$ 8,599,467	\$ -	\$ 447,436	\$ 9,046,903
State sources	13,096,456	-	949,690	14,046,146
Federal sources	218,534	145,990	8,398,420	8,762,944
Sixteenth section sources	-	-	173,763	173,763
<b>Total Revenues</b>	<b>21,914,457</b>	<b>145,990</b>	<b>9,969,309</b>	<b>32,029,756</b>
<b>Expenditures:</b>				
Instruction	12,319,137	-	5,333,928	17,653,065
Support services	8,352,654	468,463	3,624,631	12,445,748
Noninstructional services	142,094	-	1,942,585	2,084,679
Sixteenth section	-	-	44,011	44,011
Facilities acquisition and construction	-	-	880,750	880,750
Debt service:				
Principal	153,411	-	455,000	608,411
Interest	9,480	-	80,625	90,105
Other	-	-	999	999
<b>Total Expenditures</b>	<b>20,976,776</b>	<b>468,463</b>	<b>12,362,529</b>	<b>33,807,768</b>
Excess (Deficiency) of Revenues over (under) Expenditures	937,681	(322,473)	(2,393,220)	(1,778,012)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued	-	-	2,551,437	2,551,437
Insurance loss recoveries	2,484	-	-	2,484
Operating transfers in	583,981	-	809,125	1,393,106
Operating transfers out	(809,125)	-	(583,981)	(1,393,106)
<b>Total Other Financing Sources (Uses)</b>	<b>(222,660)</b>	<b>-</b>	<b>2,776,581</b>	<b>2,553,921</b>
<b>Net Change in Fund Balances</b>	<b>715,021</b>	<b>(322,473)</b>	<b>383,361</b>	<b>775,909</b>
<b>Fund Balances:</b>				
July 1, 2010	3,218,210	-	1,185,003	4,403,213
Increase (decrease) in reserve for inventory	-	-	19,032	19,032
<b>June 30, 2011</b>	<b>\$ 3,933,231</b>	<b>\$ (322,473)</b>	<b>\$ 1,587,396</b>	<b>\$ 5,198,154</b>

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

**CLEVELAND SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2011**

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ 775,909

Amounts reported for governmental activities in the statement of activities are different because:

1.	Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
	Capital outlay	\$ 1,136,610	
	Depreciation expense	<u>(294,810)</u>	841,800
2.	In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.		(425)
3.	Revenues received more than 60 days after the year end are reported as unearned income in the fund financial statements and are recognized as earned income in the government-wide financial statements.		434,635
4.	The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
	Bonds and notes issued	(2,551,437)	
	Payments of debt principal	608,411	
	Accrued interest payable	<u>334</u>	(1,942,692)
5.	Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
	Change in compensated absences	4,926	
	Amortization of deferred charges, premiums and discounts	(11,249)	
	Change in inventory reserve	<u>19,032</u>	<u>12,709</u>
	<b>Change in net assets of governmental activities</b>		\$ <u>121,936</u>

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

CLEVELAND SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities  
June 30, 2011

Exhibit E

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 57,713
Total Assets	<u>\$ 57,713</u>
<b>Liabilities</b>	
Advances from other funds	\$ 20,000
Due to student clubs	2,692
Due to other funds	35,021
Total Liabilities	<u>\$ 57,713</u>

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

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

### Note 1 – Summary of Significant Accounting Policies

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

#### A. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

#### B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, Yazoo City since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

#### C. Government-wide and Fund Financial Statements

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

The Statement of Net Assets presents the District's non-fiduciary 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 of 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.

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

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

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

The school district reports the following major governmental funds:

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

ARRA Energy Grant Fund - This fund accounts for the activities of the energy conservation and retrofit program on school facilities which were financed by the ARRA Energy Grant.

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

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

### GOVERNMENTAL FUNDS

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

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

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

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

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

### FIDUCIARY FUNDS

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

#### **D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

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/fund balances**

#### **1. Cash, Cash Equivalents and Investments**

##### Cash and cash equivalents

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

##### Investments

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

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

Investments for the district are reported at fair market value.

#### **2. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **3. Due from Other Governments**

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

#### **4. Inventories and Prepaid Items**

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

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net 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 table below.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. 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).

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

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

### 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 Balances

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

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

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

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

*Assigned fund balance* includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the District's management pursuant to authorization established by the District's School Board.

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

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

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

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

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

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

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

#### Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,848,788 and \$57,713, respectively.

**Custodial Credit Risk - Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the district's bank balance of \$5,696,258 was exposed to custodial credit risk.

#### Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$164,708.

#### Investments

As of June 30, 2011, the district had the following investments:

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
BIF Government Securities Fund	None	less than 1	\$ 255,603
Federal National Mortgage Association	AAA	1 to 5	<u>1,137,941</u>
Total			<u>\$ 1,393,544</u>

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2011, the district did not have any investments to which this would apply.

*Concentration of Credit Risk.* Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2011, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
BIF Government Securities Fund	\$ 255,603	18%
Federal National Mortgage Association	<u>1,137,941</u>	<u>82%</u>
Total	<u>\$ 1,393,544</u>	<u>100%</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

**Note 3 – Inter-fund Receivables, Payables and Transfers**

The following is a summary of inter-fund transactions and balances:

**A. Due From/To Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	ARRA energy grant fund	\$ 322,473
	Other governmental funds	731,011
	Fiduciary funds	<u>35,021</u>
Total		<u>\$ 1,088,505</u>

The primary purpose of the interfund receivables and payables are to close out the federal programs at year end.

**B. Advances To/From Other Funds**

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

Advances were made for cash flow reasons.

**C. Inter-fund Transfers**

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 809,125
Other governmental funds	General fund	583,981
Total		<u>\$ 1,393,106</u>

The primary purpose of the interfund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance totaling \$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.

In addition, the restricted assets represent the cash balance, totaling \$741,268, of the Three Mill Levy Construction Fund.

In addition, the restricted assets represent the cash balance, totaling \$60,935, of the Three Mill Levy Debt Service Fund.

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

In addition, the restricted assets represent the cash and cash with fiscal agents balance, totaling \$13,977 and 164,708, respectively, of the MAEP Limited Obligation Bond/Note Fund.

In addition, the restricted assets represent the cash balance, totaling \$82,812, of the unspent Qualified School Construction Bond proceeds.

**Note 5 – Capital Assets**

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

	Balance 7/1/2010	Increases	Decreases	Adjustments	Balance 6/30/2011
<b>Governmental Activities:</b>					
<u>Non-depreciable capital assets:</u>					
Land	\$ 111,036	\$ -	\$ -	\$ -	\$ 111,036
Total non-depreciable capital assets	<u>111,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,036</u>
<u>Depreciable capital assets:</u>					
Buildings	7,687,754	-	-	(199,614)	7,488,140
Building improvements	214,976	880,750	-	-	1,095,726
Improvement other than buildings	112,238	-	-	-	112,238
Mobile equipment	2,136,521	222,690	-	25,222	2,384,433
Furniture and equipment	930,500	33,170	(42,467)	(178,502)	742,701
Total depreciable capital assets	<u>11,081,989</u>	<u>1,136,610</u>	<u>(42,467)</u>	<u>(352,894)</u>	<u>11,823,238</u>
<u>Less accumulated depreciation for:</u>					
Buildings	4,209,912	123,877	-	188,407	4,522,196
Building improvements	165,331	36,362	-	6,649	208,342
Improvement other than buildings	68,748	1,466	-	-	70,214
Mobile equipment	1,536,935	96,369	-	25,954	1,659,258
Furniture and equipment	823,988	36,736	(42,042)	(136,285)	682,397
Total accumulated depreciation	<u>6,804,914</u>	<u>294,810</u>	<u>(42,042)</u>	<u>84,725</u>	<u>7,142,407</u>
Total depreciable capital assets, net	<u>4,277,075</u>	<u>841,800</u>	<u>(425)</u>	<u>(437,619)</u>	<u>4,680,831</u>
Governmental activities capital assets, net	<u>\$ 4,388,111</u>	<u>\$ 841,800</u>	<u>\$ (425)</u>	<u>\$ (437,619)</u>	<u>\$ 4,791,867</u>

Adjustments were made to correct errors in prior years and to balance capital assets to the subsidiary records.

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 162,145
Support services	114,976
Non-instructional	17,689
Total depreciation expense - Governmental activities	<u>\$ 294,810</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amounts due Within one year
A. Limited obligation bonds payable	\$ 2,945,000	-	(205,000)	2,740,000	310,000
B. Three mill notes payable	403,411	780,000	(403,411)	780,000	145,000
C. Quality school construction bonds	-	1,771,437	-	1,771,437	-
D. Compensated absences payable	300,328	-	(4,926)	295,402	-
Total	<u>3,648,739</u>	<u>2,551,437</u>	<u>(613,337)</u>	<u>5,586,839</u>	<u>455,000</u>
Add bond issue premium	7,937	-	(992)	6,945	992
Less deferred amounts on issues	<u>(52,724)</u>	-	<u>6,591</u>	<u>(46,133)</u>	<u>(6,591)</u>
Total - net	<u>\$ 3,603,952</u>	<u>2,551,437</u>	<u>(607,738)</u>	<u>5,547,651</u>	<u>449,401</u>

A. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, series 2009	4.90%	7/1/2009	2/1/2018	\$ 3,155,000	\$ 2,740,000
Total				<u>\$ 3,155,000</u>	<u>\$ 2,740,000</u>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 310,000	\$ 69,350	\$ 379,350
2013	320,000	62,890	382,890
2014	330,000	55,818	385,818
2015	335,000	47,918	382,918
2016	345,000	38,555	383,555
2017-2018	1,100,000	45,310	1,145,310
Total	<u>\$ 2,740,000</u>	<u>\$ 319,841</u>	<u>\$ 3,059,841</u>

CLEVELAND SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

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 Retirement Fund.

B. Three mill-ten notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes, series 2010	1.75-2.25%	11/12/2010	11/1/2015	\$ 780,000	\$ 780,000
Total				\$ 780,000	\$ 780,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 145,000	\$ 14,420	\$ 159,420
2013	150,000	12,338	162,338
2014	160,000	9,713	169,713
2015	160,000	6,913	166,913
2016	165,000	3,711	168,711
Total	\$ 780,000	\$ 47,095	\$ 827,095

C. Qualified school construction bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trustmark Bank \$1,771,437 limited tax note, series 2010	0.36%	11/19/2010	12/1/2024	\$ 1,771,437	\$1,771,437
Total				\$ 1,771,437	\$1,771,437

D. 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.

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

### Note 7 – Prior Year Defeasance of Debt

In prior years, the Cleveland School District defeased certain limited obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2011, \$2,535,000 of bonds outstanding are defeased.

### Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2012	\$ 142,744
2013	142,744
2014	142,744
2015	98,344
2016	76,924
2017-2021	233,245
2022-2026	232,755
2027-2031	225,051
Thereafter	611,537
Total	<u>\$ 1,906,088</u>

### Note 9 – 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 Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% 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, 2011, 2010 and 2009 were \$2,031,112, \$2,129,243 and \$2,109,236, respectively, which equaled the required contributions for each year.

### Note 10 – Contingencies

**Federal Grants –** The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and

# CLEVELAND SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2011

conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

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

### **Note 11 – Risk Management**

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

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 72 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

### **Note 12 – Qualified School Construction Bonds**

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2010 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. There was \$82,812 of unspent bond proceeds at June 30, 2011. The district was not required to make a sinking fund deposit for the year ended June 30, 2011. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

OL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2011

Year Ending June 30	Amount
2012	\$ 126,531
2013	126,531
2014	126,531
2015	126,531
2016	126,531
2017-2021	632,655
2022-2025	506,127
Total	<u>\$ 1,771,437</u>

**Note 13 – Prior Period Adjustments**

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
i. Adjustment to reconcile capital assets to the subsidiary ledgers.	<u>\$ (437,619)</u>
Total	<u>\$ (437,619)</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CLEVELAND SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 8,799,252	\$ 8,599,467	\$ 8,599,467	\$ (199,785)	\$ -
State sources	13,624,188	13,096,457	13,096,456	(527,731)	(1)
Federal sources	140,000	218,534	218,534	78,534	-
<b>Total Revenues</b>	<b>22,563,440</b>	<b>21,914,458</b>	<b>21,914,457</b>	<b>(648,982)</b>	<b>(1)</b>
<b>Expenditures:</b>					
Instruction	18,914,731	12,319,135	12,319,137	6,595,596	(2)
Support services	2,870,752	8,352,654	8,352,654	(5,481,902)	-
Noninstructional services	7,950	142,093	142,094	(134,143)	(1)
Debt service:					
Principal	159,806	153,410	153,411	6,396	(1)
Interest	9,480	9,480	9,480	-	-
<b>Total Expenditures</b>	<b>21,962,719</b>	<b>20,976,772</b>	<b>20,976,776</b>	<b>985,947</b>	<b>(4)</b>
Excess (Deficiency) of Revenues over (under) Expenditures	600,721	937,686	937,681	336,965	(5)
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	-	2,484	2,484	2,484	-
Operating transfers in	2,953,814	3,354,810	583,981	400,996	(2,770,829)
Operating transfers out	(3,720,172)	(3,579,955)	(809,125)	140,217	2,770,830
<b>Total Other Financing Sources (Uses)</b>	<b>(766,358)</b>	<b>(222,661)</b>	<b>(222,660)</b>	<b>543,697</b>	<b>1</b>
<b>Net Change in Fund Balances</b>	<b>(165,637)</b>	<b>715,025</b>	<b>715,021</b>	<b>880,662</b>	<b>(4)</b>
<b>Fund Balances:</b>					
July 1, 2010	3,218,210	3,218,210	3,218,210	-	-
June 30, 2011	\$ 3,052,573	\$ 3,933,235	\$ 3,933,231	\$ 880,662	\$ (4)

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

**CLEVELAND SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule  
ARRA Energy Grant Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ -	\$ 468,463	\$ 145,990	\$ 468,463	\$ (322,473)
Total Revenues	-	468,463	145,990	468,463	(322,473)
<b>Expenditures:</b>					
Support services	-	468,463	468,463	(468,463)	-
Total Expenditures	-	468,463	468,463	(468,463)	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	-	(322,473)	-	(322,473)
Net Change in Fund Balances	-	-	(322,473)	-	(322,473)
Fund Balances:					
July 1, 2010	-	-	-	-	-
June 30, 2011	\$ -	\$ -	\$ (322,473)	\$ -	\$ (322,473)

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

# CLEVELAND SCHOOL DISTRICT

## Notes to the Required Supplemental Information For the Year Ended June 30, 2011

### Budgetary Comparison Schedule

(1) Basis of Presentation

Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each additional major special revenue fund consistent with accounting principles generally accepted in the United States of America.

(3) Budget Variances

The budget variances for the General Fund were a result of rounding and do not result in a state compliance violation. The budget variance and negative fund balance for the ARRA Energy Grant Fund is a result of auditor adjustments and does not result in a state compliance violation.

SUPPLEMENTAL INFORMATION

**CLEVELAND SCHOOL DISTRICT**

**Supplemental Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 427,805
National school lunch program	10.555	1,289,160
Total child nutrition cluster		<u>1,716,965</u>
Total passed-through Mississippi Department of Education		<u>1,716,965</u>
<b>Total U.S. Department of Agriculture</b>		<u>1,716,965</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	150,423
<b>Total Federal Communications Commission</b>		<u>150,423</u>
<b><u>U.S. Department of Education</u></b>		
Direct programs:		
Magnet school assistance	84.165	1,636,248
Fund for the advancement of education	84.215	152,227
Total direct programs		<u>1,788,475</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	42,275
Safe and drug-free schools and communities - state grants	84.186	8,687
Education technology state grants	84.318	14,566
Gaining early awareness and readiness for undergraduate programs	84.334	19,607
Rural education	84.358	99,480
Improving teacher quality state grants	84.367	371,027
Education jobs fund	84.410	138,826
Subtotal		<u>694,468</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	1,598,929
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	306,080
Total Title I cluster		<u>1,905,009</u>

**CLEVELAND SCHOOL DISTRICT**

**Supplemental Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	783,572
Special education - preschool grants	84.173	24,469
ARRA - Special education - grants to states, Recovery Act	84.391	695,380
ARRA - Special education - preschool grants, Recovery Act	84.392	27,574
Total special education cluster		<u>1,530,995</u>
Education for homeless children and youth cluster:		
ARRA - Education for homeless children and youth, Recovery Act	84.387	5,055
Total education for homeless children and youth cluster		<u>5,055</u>
ARRA - State Fiscal Stabilization Fund - Education state grants, Recovery Act	84.394	882,476
Total State Fiscal Stabilization Fund cluster		<u>882,476</u>
Total passed-through Mississippi Department of Education		<u>5,018,003</u>
<b>Total U.S. Department of Education</b>		<u><b>6,806,478</b></u>
 <b><u>U.S. Department of Energy</u></b>		
Passed-through Mississippi Development Authority:		
State energy program	81.041	468,463
Total passed-through Mississippi Development Authority		<u>468,463</u>
<b>Total U.S. Department of Energy</b>		<u><b>468,463</b></u>
 <b><u>U.S. Department of Health and Human Services</u></b>		
Medical assistance program	93.778	68,111
Total passed-through Mississippi Department of Education		<u>68,111</u>
<b>Total U.S. Department of Health and Human Services</b>		<u><b>68,111</b></u>
 Total for All Federal Awards		 <u><b>\$ 9,210,440</b></u>

**NOTES TO SCHEDULE**

1. This schedule was prepared using the same basis of accounting and the same 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.

**CLEVELAND SCHOOL DISTRICT**

**Supplemental Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
For the Year Ended June 30, 2011**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 22,780,427	17,231,210	1,003,371	1,972,159	2,573,687
Other	11,027,341	3,929,369	250,382	54,144	6,793,446
<b>Total</b>	<b>\$ 33,807,768</b>	<b>21,160,579</b>	<b>1,253,753</b>	<b>2,026,303</b>	<b>9,367,133</b>
Total number of students *	3,242				
Cost per student	\$ 10,428	6,527	387	625	2,889

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

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

OTHER INFORMATION

**CLEVELAND SCHOOL DISTRICT**

**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**General Fund  
Last Four Years  
UNAUDITED**

	2011	2010*	2009*	2008*
<b>Revenues:</b>				
Local sources	\$ 8,599,467	\$ 8,260,919	\$ 7,646,615	\$ 7,688,593
State sources	13,096,456	12,872,978	14,016,742	15,196,441
Federal sources	218,534	150,522	156,869	117,001
<b>Total Revenues</b>	<b>21,914,457</b>	<b>21,284,419</b>	<b>21,820,226</b>	<b>23,002,035</b>
<b>Expenditures:</b>				
Instruction	12,319,137	12,625,265	14,027,152	13,170,072
Support services	8,352,654	7,960,924	8,284,169	8,086,582
Noninstructional services	142,094	78,943	210	812
Facilities acquisition and construction	-	-	83,835	-
Debt service:				
Principal	153,411	147,751	150,069	191,007
Interest	9,480	15,366	25,951	47,786
<b>Total Expenditures</b>	<b>20,976,776</b>	<b>20,828,249</b>	<b>22,571,386</b>	<b>21,496,259</b>
<b>Excess (Deficiency) of Revenues over (under) Expenditures</b>	<b>937,681</b>	<b>456,170</b>	<b>(751,160)</b>	<b>1,505,776</b>
<b>Other Financing Sources (Uses):</b>				
Sale of other property	-	-	27,612	-
Insurance loss recoveries	2,484	-	-	1,077
Operating transfers in	583,981	515,491	483,829	367,119
Operating transfers out	(809,125)	(428,905)	(530,927)	(875,841)
<b>Total Other Financing Sources (Uses)</b>	<b>(222,660)</b>	<b>86,586</b>	<b>(19,486)</b>	<b>(507,645)</b>
<b>Net Change in Fund Balances</b>	<b>715,021</b>	<b>542,756</b>	<b>(770,646)</b>	<b>998,131</b>
<b>Fund Balances:</b>				
Beginning of period	3,218,210	2,675,454	3,466,100	2,467,969
End of Period	\$ 3,933,231	\$ 3,218,210	\$ 2,695,454	\$ 3,466,100

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**CLEVELAND SCHOOL DISTRICT**

**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**All Governmental Funds**

**Last Four Years**

**UNAUDITED**

	2011	2010*	2009*	2008*
<b>Revenues:</b>				
Local sources	\$ 9,046,903	\$ 8,818,592	\$ 8,202,068	\$ 8,274,520
State sources	14,046,146	14,113,801	15,331,191	16,598,656
Federal sources	8,762,944	8,499,872	7,491,618	6,623,898
Sixteenth section sources	173,763	159,509	166,507	178,521
<b>Total Revenues</b>	<b>32,029,756</b>	<b>31,591,774</b>	<b>31,191,384</b>	<b>31,675,595</b>
<b>Expenditures:</b>				
Instruction	17,653,065	17,603,002	18,051,351	16,906,053
Support services	12,445,748	10,584,735	10,817,135	10,558,868
Noninstructional services	2,084,679	2,069,769	2,139,410	2,172,924
Sixteenth section	44,011	26,075	38,448	48,174
Facilities acquisition and construction	880,750	-	83,835	-
Debt service:				
Principal	608,411	635,481	681,901	738,707
Interest	90,105	81,025	208,675	257,703
Other	999	50,849	-	-
<b>Total Expenditures</b>	<b>33,807,768</b>	<b>31,050,936</b>	<b>32,020,755</b>	<b>30,682,429</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(1,778,012)	540,838	(829,371)	993,166
<b>Other Financing Sources (Uses):</b>				
Proceeds of refunding bonds	-	3,155,000	-	-
Bonds and notes issued	2,551,437	-	-	-
Sale of other property	-	-	27,612	-
Insurance loss recoveries	2,484	-	-	1,077
Other financing sources	-	8,929	-	-
Operating transfers in	1,393,106	944,396	1,014,756	1,242,960
Operating transfers out	(1,393,106)	(944,396)	(1,014,756)	(1,242,960)
Payment to refunded bond escrow agent	-	(3,099,315)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>2,553,921</b>	<b>64,614</b>	<b>27,612</b>	<b>1,077</b>
<b>Net Change in Fund Balances</b>	<b>775,909</b>	<b>605,452</b>	<b>(801,759)</b>	<b>994,243</b>
<b>Fund Balances:</b>				
Beginning of period	4,403,213	3,798,735	4,598,737	3,607,220
Increase (Decrease) in reserve for inventory	19,032	(974)	1,757	(2,726)
<b>End of Period</b>	<b>\$ 5,198,154</b>	<b>\$ 4,403,213</b>	<b>\$ 3,798,735</b>	<b>\$ 4,598,737</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

# CUNNINGHAM CPAs, PLLC

Certified Public Accountants & Consultants

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

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

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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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2011, and have issued our report thereon dated August 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

Management of Cleveland School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cleveland School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cleveland School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cleveland School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cleveland School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

Cunningham CPAs, PLLC

August 3, 2012

# CUNNINGHAM CPAs, PLLC

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Belzoni, Mississippi 39038  
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10 South Bancroft Street  
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INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board  
Cleveland School District

### **Compliance**

We have audited Cleveland School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Cleveland School District's major federal programs for the year ended June 30, 2011. Cleveland School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cleveland School District's management. Our responsibility is to express an opinion on Cleveland School District's compliance based on our audit.

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

In our opinion, Cleveland School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### **Internal Control Over Compliance**

Management of Cleveland School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cleveland School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cleveland School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we 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.

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

Cunningham CPAs, PLLC

August 3, 2012

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

# CUNNINGHAM CPAs, PLLC

Certified Public Accountants & Consultants

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

10 South Bancroft Street  
Fairhope, Alabama 36532  
Office: (251) 929-7778  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
Cleveland School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland School District as of and for the year ended June 30, 2011, which collectively comprise Cleveland School District's basic financial statements and have issued our report thereon dated August 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$55,980 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 our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

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Cunningham CPAs, PLLC

August 3, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLEVELAND SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified   |
| 2. | Internal control over financial reporting:                   |               |
|    | a. Material weakness(es) identified?                         | No            |
|    | b. Significant deficiency(ies) identified?                   | None reported |
| 3. | Noncompliance material to the financial statements noted?    | No            |

Federal Awards:

- |    |  |               |
|----|--|---------------|
| 4. | Internal control over major programs:  |               |
|    | a. Material weakness(es) identified?   | No            |
|    | b. Significant deficiency(ies) identified?   | None reported |
| 5. | Type of auditor's report issued on compliance for major programs:  | Unqualified   |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No            |
| 7. | Identification of major programs:  |               |
|    | A. Title I - Grants to local educational agencies:   |               |
|    | CFDA #   | 84.010        |
|    | CFDA #   | 84.389        |
|    | B. ARRA - State Fiscal Stabilization - Education State Grants, Recovery Act  |               |
|    | CFDA #   | 84.394        |
|    | C. Special Education Cluster:  |               |
|    | CFDA #   | 84.027        |
|    | CFDA #   | 84.173        |
|    | CFDA #   | 84.391        |
|    | CFDA #   | 84.392        |
|    | D. ARRA Energy Grant, Recovery Act   |               |
|    | CFDA #   | 81.041        |
|    | E. Improving teacher quality - state grants  |               |
|    | CFDA #   | 84.367        |
|    | F. Education jobs fund   |               |
|    | CFDA #   | 84.410        |
|    | G. The schools and libraries program of the universal service fund   |               |
|    | CFDA #   | 32.xxx        |
| 8. | Dollar threshold used to distinguish between type A and type B programs:   | \$ 300,000    |
| 9. | Auditee qualified as a low-risk auditee?   | No            |

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.