

CLEVELAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

Cleveland Independent School District
Annual Financial Report
For the Year Ended August 31, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board	1	
FINANCIAL SECTION		
Independent Auditor's Report	4-5	
Management's Discussion and Analysis (Required Supplementary Information)	7-13	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	16	A-1
Statement of Activities	17	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	18	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets	19	C-2
Statement of Revenues, Expenditures, and Changes in		
Fund Balance – Governmental Funds	20	C-3
Reconciliation of the Statement of Revenues, Expenditures, and		
Changes in Fund Balance of Governmental Funds to the		
Statement of Activities	21	C-4
Statement of Net Assets – Proprietary Funds	22	D-1
Statement of Revenues, Expenses, and Changes in Fund Net		
Assets – Proprietary Funds	23	D-2
Statement of Cash Flows – Proprietary Funds	24	D-3
Statement of Fiduciary Net Assets – Fiduciary Funds	25	E-1
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	26	E-2
Notes to the Financial Statements	27-40	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule:		
General Fund	42	F-1
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable	44-45	G-1
Indirect Cost Computation Schedule	46	G-2
Budgetary Comparison Schedules Required by the Texas Education Agency:		
Child Nutrition Program	47	G-4
Debt Service Fund	48	G-5

Cleveland Independent School District
Annual Financial Report
For the Year Ended August 31, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
FEDERAL AWARDS SECTION		
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	50-51	
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	52-53	
Schedule of Findings and Questioned Costs	54	
Summary Schedule of Prior Year Findings	55	
Corrective Action Plan	56	
Schedule of Expenditures of Federal Awards	57	H-1
Notes on Accounting Policies for Federal Awards	58	

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

CLEVELAND INDEPENDENT SCHOOL DISTRICT
Name of School District

Liberty
County

146901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 12th day of November 2012.

Skye Hamilton
Signature of Board Secretary

Chris Wood
Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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FINANCIAL SECTION

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees
Cleveland Independent School District
316 East Dallas
Cleveland, Texas 77327

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cleveland Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cleveland Independent School District as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows 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 November 2, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as required supplementary information on pages 7 through 13, and 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Cleveland Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Additionally, the Texas Education Agency requires school districts to include certain information in the Annual Financial Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as G-1 through G-5. These schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

November 2, 2012

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CLEVELAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the management of the Cleveland Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$2,702,062, or 13.8%, as a result of this year's operations.
- Total cost of all of the District's programs was \$32,416,780 in fiscal 2012, which represents approximately a 10.6% decrease from the prior year total program costs.
- The General Fund ended the year with a fund balance of \$12,040,223, an increase of \$3,227,830 from the prior year-end.
- The District had capital expenditures during the current year totaling \$210,950. These expenditures included the purchase of a bus and cafeteria equipment and improvements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (Exhibits A-1 and B-1). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriation budget. For the proprietary activities (the internal service fund), fund financial statements tell how goods or services of the District were provided to departments within the District. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 27) provide narrative explanation or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Required Supplementary Information includes a budgetary comparison schedule for the general fund, a major governmental fund for which a budget must be prepared. The section labeled Other Supplementary Information – TEA Required Schedules, and the Federal Award Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

CLEVELAND INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as payments received from students for food service and grants from state and federal agencies for specific programs (program revenues), and revenues provided by the local taxpayers or by the state in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District has only one kind of activity, Governmental Activities. The District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 18 and provide detailed information about the most significant funds-not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two fund types, governmental and proprietary, use different accounting approaches.

- *Governmental funds*-Most of the District's basic services are reported in governmental funds. These use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities, and governmental funds in reconciliation schedules following each of the fund financial statements.
- *Proprietary funds*-The District reports activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service fund (the District's only proprietary fund) reports activities that provide services for the District's other programs and activities-such as the District's self-funded workers' compensation program.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26. We excluded these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities increased from \$19,544,844 to \$22,246,906. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$15,114,259 at August 31, 2012, an increase of \$3,945,616 from the prior year end.

Table I
Cleveland Independent School District

	NET ASSETS		Increase (Decrease)
	<u>Governmental Activities</u> <u>2012</u>	<u>2011</u>	
Current and other assets	\$21,803,361	\$17,146,971	\$4,656,390
Capital assets, net	<u>44,813,600</u>	<u>46,367,605</u>	<u>(1,554,005)</u>
Total assets	<u>\$66,616,961</u>	<u>\$63,514,576</u>	<u>\$3,102,385</u>
Long-term liabilities	\$42,025,607	\$42,753,479	(\$727,872)
Other liabilities	<u>2,344,448</u>	<u>1,216,253</u>	<u>1,128,195</u>
Total liabilities	<u>\$44,370,055</u>	<u>\$43,969,732</u>	<u>\$400,323</u>
Net Assets:			
Invested in capital assets, net of related debt	\$2,970,910	\$4,242,112	(\$1,271,202)
Restricted	4,161,737	4,134,089	27,648
Unrestricted	<u>15,114,259</u>	<u>11,168,643</u>	<u>3,945,616</u>
Total net assets	<u>\$22,246,906</u>	<u>\$19,544,844</u>	<u>\$2,702,062</u>

Unrestricted net assets includes \$4,800,000 which has been assigned by management as funds, recorded in the general fund, earmarked for potential construction or emergency expenditures. Since assignment by management does not create a legally binding commitment, this amount is not considered a "restricted" net asset for the purposes of the government-wide financial statements.

The net effect of the changes in current assets and other liabilities basically reflects the results of operations for the current fiscal year. Other liabilities at the end of the current year includes \$1,054,016 of state entitlement overpayments to the District, which were deferred at year end and will be deducted from the District's allocable state revenue for the 2012-2013 fiscal year.

The decrease in capital assets primarily relates to current year depreciation of \$1,764,955, which was offset by net asset additions of \$210,950. The reduction in long-term liabilities reflects the scheduled repayment of bonds, net of accretion on capital appreciation bonds, and amortization of deferred amounts.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table II
Cleveland Independent School District

CHANGES IN NET ASSETS

	Governmental Activities		Increase
	2012	2011	(Decrease)
Revenues:			
Program Revenues:			
Charges for services	\$456,864	\$467,535	(\$10,671)
Operating grants and contributions	6,339,692	7,114,894	(775,202)
General Revenues:			
Maintenance and operations taxes	7,320,646	7,080,773	239,873
Debt service taxes	1,935,609	1,925,553	10,056
State aid – formula grants	17,909,116	20,480,578	(2,571,462)
Grants and contributions not restricted to specific programs	9,933	8,285	1,648
Investment earnings	114,422	162,400	(47,978)
Penalty and interest - taxes	755,692	505,423	250,269
Miscellaneous	<u>276,868</u>	<u>572,948</u>	<u>(296,080)</u>
Total Revenues	<u>\$35,118,842</u>	<u>\$38,318,389</u>	<u>(\$3,199,547)</u>
Expenses:			
Instruction, curriculum and media services	\$17,952,289	\$21,544,328	(\$3,592,039)
Instructional and school leadership	1,843,369	1,982,089	(138,720)
Student support services	2,636,752	2,959,176	(322,424)
Child nutrition	1,823,677	1,943,555	(119,878)
Cocurricular activities	688,487	750,178	(61,691)
General administration	879,452	1,130,703	(251,251)
Plant maintenance, security and data processing	3,987,715	3,925,213	62,502
Community services	111,345	37,239	74,106
Debt services – interest and fees	2,229,874	1,746,264	483,610
Payments related to shared service arrangements	0	912	(912)
Other intergovernmental charges-CAD	<u>263,820</u>	<u>238,510</u>	<u>25,310</u>
Total Expenses	<u>\$32,416,780</u>	<u>\$36,258,167</u>	<u>(\$3,841,387)</u>
Increase (decrease) in net assets	\$2,702,062	\$2,060,222	\$641,840
Net assets at beginning of year	<u>19,544,844</u>	<u>17,484,622</u>	<u>2,060,222</u>
Net assets at end of year	<u>\$22,246,906</u>	<u>\$19,544,844</u>	<u>\$2,702,062</u>

The District's total revenues decreased approximately 8.4% from prior year revenues. The total cost of all programs and services decreased by 10.6% from prior year costs.

The District's primary sources of revenues include local taxes (29%), state aid from formula grants (51%), and other state and federal grants (18%). The remaining 2% of revenues includes charges for services and other revenue. The most significant costs are for instructional services (55%).

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The decrease in total revenues includes the following factors:

- (1) Overall property tax revenues increased \$500,198, or 5.2%, from the prior year. This increase primarily was the result of an increase in tax collections for the year, including delinquent taxes and penalty and interest. Tax rates remained the same as the prior year.
- (2) State aid from formula grants decreased for the 2011-2012 school year by \$2,571,462 or 12.6%. The decrease results primarily from a decrease in enrollment/ADA of approximately 2% from the prior year, and adjustments to prior year's funding which were reflected in the 2011-2012 fiscal year.
- (3) The decrease in program revenue from operating grants primarily results from a net decrease in revenue from federal grant programs under the American Recovery and Reinvestment Act (stimulus funding) totaling \$694,114. Funding under these programs decreased from \$1,325,313 in the prior year to \$631,199 in the current fiscal year.

The decrease in expenses is primarily the result of a significant decrease in staff and overall cost containment efforts. The decrease in payroll costs for the instruction, instructional resources and staff development, and school leadership functions totaled \$3,494,118. District wide payroll costs decreased a total of \$4,225,057 for the current fiscal year as compared to prior year totals.

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Individual Funds

As of August 31, 2012, the District's governmental funds (as presented in the balance sheet – Exhibit C-1, on page 18) reported a combined fund balance of \$15,644,461, an increase of \$3,954,964 from the prior year's combined balance of \$11,689,497. The increase in the combined fund balance resulted primarily from the results of operations for the year in the General Fund – increase of \$3,227,830, the Debt Service Fund – increase of \$616,700, and the Food Service Fund – increase of \$110,434.

The improved results of operations of the governmental funds are essentially the result of the factors discussed above for the government-wide financial statements.

General Fund Budgetary Highlights

In accordance with State law, the District prepares an annual budget for the General Fund, the Food Service Special Revenue Fund, and the Debt Service Fund. When necessary, the District also budgets a Capital Projects Fund for each project, which may cover more than one year, and other Special Revenue Funds on a project basis.

During the year ended August 31, 2012, the Board of Trustees revised the budget for the General Fund several times. These amendments generally included reductions in functional categories to reflect reduced payroll costs. Revenue budgets were amended to reflect increased tax revenues in excess of the original budget. Total estimated revenues included in the original budget were amended up by 3.0% during the year, with expenditure appropriations being decreased by approximately 10.5% from the original budget to the final amended budget.

As indicated on the Budgetary Comparison Schedule – General Fund on page 42, the overall budget variance for the year was positive, and there were no negative variances for any of the expenditure functions.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2012, the District had \$62,135,384 invested in a broad range of capital assets, before depreciation, including facilities and equipment for instruction, transportation, athletics, administration, technology, and maintenance. This amount represents a net increase of \$93,831 above the prior year totals.

This year's major additions included:

Bus	\$90,995
Cafeteria Serving Lines – Northside Campus	81,079
Cafeteria Equipment – Middle School	38,876
Less - Net adjustment for deleted assets	(117,119)
Net additions	<u>\$93,831</u>

More detailed information about the District's capital assets is presented in Note III.F to the financial statements.

Debt

Following is a summary of the outstanding long-term liabilities at August 31, 2012. More detailed information regarding these outstanding obligations is presented in Note III.G to the financial statements.

Analysis of Long-Term Liabilities

	Governmental Activities <u>August 31, 2012</u>
Unlimited Tax Bonds – Series 2003	\$930,000
Unlimited Tax Refunding Bonds – Series 2006	8,719,989
Unlimited Tax Refunding Bonds – Series 2007	7,500,708
Unlimited Tax Refunding Bonds – Series 2010	20,715,812
Net Deferred Amounts	4,069,291
Accrued Interest	<u>89,807</u>
Total Long-Term Liabilities	<u>\$42,025,607</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Trustees and management officials considered many factors when setting the fiscal year 2013 budget and tax rates. Following are some items considered:

- Student enrollment for 2012-2013 is projected to decrease approximately 1.0%.
- Revenues available for general operations from ad valorem taxes are projected to decrease approximately \$800,000 in 2012-13 primarily due to the projected reduction in the collection of delinquent taxes and the related penalty and interest. Cleveland ISD adopted an M & O tax rate of \$1.04/\$100 valuation, plus a debt service rate of \$0.275/\$100 valuation for 2012-2013, the same rates as adopted for the 2011-2012 fiscal year.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Preliminary estimates of State foundation program entitlements for the General Fund for the 2012-2013 school year indicate that the District should receive approximately \$17.4 million, an increase of approximately \$859,000 from the 2011-2012 actual State foundation revenue. The estimated State revenue increase is primarily the result of the decrease in the 2011-2012 funding from adjustments to previous year's allocations.

After considering all factors, an operating budget for the General Fund of \$26,499,095 was adopted, a 14.6% increase from the fiscal 2012 actual expenditures. The budget increase includes: (1) Significant restoration of staffing, which had been seriously reduced from the 2011 fiscal year to the 2012 fiscal year; (2) No significant capital expenditures were included in the budget. The budget, as adopted, projects the use of \$225,234 of the carryover fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Cleveland Independent School District, 316 East Dallas, Cleveland, Texas, 77327.

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BASIC FINANCIAL STATEMENTS

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

Data Control Codes		Primary Government
		Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 15,650,037
1220	Property Taxes Receivable (Delinquent)	3,810,625
1230	Allowance for Uncollectible Taxes	(381,063)
1240	Due from Other Governments	2,157,493
1290	Other Receivables, net	32,772
1300	Inventories	30,665
1420	Capitalized Bond and Other Debt Issuance Costs	502,832
Capital Assets:		
1510	Land	999,446
1520	Buildings, Net	42,415,030
1530	Furniture and Equipment, Net	1,399,124
1000	Total Assets	66,616,961
LIABILITIES		
2110	Accounts Payable	447,546
2150	Payroll Deductions & Withholdings	83,284
2160	Accrued Wages Payable	703,153
2300	Deferred Revenues	1,110,465
Noncurrent Liabilities		
2501	Due Within One Year	1,245,515
2502	Due in More Than One Year	40,780,092
2000	Total Liabilities	44,370,055
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	2,970,910
3820	Restricted for Federal and State Programs	336,062
3850	Restricted for Debt Service	3,825,675
3900	Unrestricted Net Assets	15,114,259
3000	Total Net Assets	\$ 22,246,906

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 16,937,331	\$ 54,097	\$ 3,517,808	\$ (13,365,426)
12 Instructional Resources and Media Services	325,353	-	16,552	(308,801)
13 Curriculum and Staff Development	689,605	-	367,540	(322,065)
21 Instructional Leadership	104,677	-	4,450	(100,227)
23 School Leadership	1,738,692	-	218,315	(1,520,377)
31 Guidance, Counseling and Evaluation Services	910,849	-	174,937	(735,912)
33 Health Services	253,801	-	104,034	(149,767)
34 Student (Pupil) Transportation	1,472,102	-	38,544	(1,433,558)
35 Food Services	1,823,677	364,574	1,509,567	50,464
36 Extracurricular Activities	688,487	31,963	18,598	(637,926)
41 General Administration	879,452	-	28,275	(851,177)
51 Facilities Maintenance and Operations	3,246,877	6,230	206,976	(3,033,671)
52 Security and Monitoring Services	256,324	-	12,608	(243,716)
53 Data Processing Services	484,514	-	10,991	(473,523)
61 Community Services	111,345	-	110,497	(848)
72 Debt Service - Interest on Long Term Debt	2,194,558	-	-	(2,194,558)
73 Debt Service - Bond Issuance Cost and Fees	35,316	-	-	(35,316)
99 Other Intergovernmental Charges	263,820	-	-	(263,820)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 32,416,780	\$ 456,864	\$ 6,339,692	(25,620,224)
Data Control Codes				
General Revenues:				
MT	Property Taxes, Levied for General Purposes			7,320,646
DT	Property Taxes, Levied for Debt Service			1,935,609
SF	State Aid - Formula Grants			17,909,116
GC	Grants and Contributions not Restricted			9,933
IE	Investment Earnings			114,422
MI	Miscellaneous Local and Intermediate Revenue			1,032,560
TR	Total General Revenues			28,322,286
CN	Change in Net Assets			2,702,062
NB	Net Assets--Beginning			19,544,844
NE	Net Assets--Ending			\$ 22,246,906

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

EXHIBIT C-1

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 12,080,755	\$ 3,054,023	\$ 402,591	\$ 15,537,369
1220 Property Taxes - Delinquent	3,084,729	725,896	-	3,810,625
1230 Allowance for Uncollectible Taxes (Credit)	(308,473)	(72,590)	-	(381,063)
1240 Receivables from Other Governments	522,668	-	1,634,825	2,157,493
1260 Due from Other Funds	1,529,544	201,463	-	1,731,007
1290 Other Receivables	26,082	6,690	-	32,772
1300 Inventories	-	-	30,665	30,665
1000 Total Assets	<u>\$ 16,935,305</u>	<u>\$ 3,915,482</u>	<u>\$ 2,068,081</u>	<u>\$ 22,918,868</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ 18,540	\$ -	\$ 56,635	\$ 75,175
2150 Payroll Deductions and Withholdings Payable	83,284	-	-	83,284
2160 Accrued Wages Payable	613,763	-	89,390	703,153
2170 Due to Other Funds	464,223	-	1,529,544	1,993,767
2300 Deferred Revenues	3,715,272	647,306	56,450	4,419,028
2000 Total Liabilities	<u>4,895,082</u>	<u>647,306</u>	<u>1,732,019</u>	<u>7,274,407</u>
Fund Balances:				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	336,062	336,062
3480 Retirement of Long-Term Debt	-	3,268,176	-	3,268,176
3490 Other Restricted Fund Balance	604,340	-	-	604,340
Assigned Fund Balance:				
3550 Construction	2,800,000	-	-	2,800,000
3590 Other Assigned Fund Balance	2,000,000	-	-	2,000,000
3600 Unassigned Fund Balance	6,635,883	-	-	6,635,883
3000 Total Fund Balances	<u>12,040,223</u>	<u>3,268,176</u>	<u>336,062</u>	<u>15,644,461</u>
4000 Total Liabilities and Fund Balances	<u>\$ 16,935,305</u>	<u>\$ 3,915,482</u>	<u>\$ 2,068,081</u>	<u>\$ 22,918,868</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2012

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 15,644,461
The District uses internal service funds to charge the costs of certain self-insurance activities to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.	3,057
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	44,813,600
Property taxes receivable which are not available to pay for current period expenditures are deferred in the governmental fund balance sheet.	3,308,563
Payables for unmatured bond principal are not reported in the governmental funds.	(37,866,509)
Accrued and accreted interest on long-term debt is not reported in the governmental funds.	(6,445,782)
Debt issuance cost, net of amortization, is not reported in the governmental funds.	502,832
Premium and discount on bonds and deferred amounts from bond refundings, net of amortization, are not reported in the governmental funds.	2,286,684
Net Assets of Governmental Activities	<u>\$ 22,246,906</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 8,709,194	\$ 2,166,540	\$ 366,971	\$ 11,242,705
5800 State Program Revenues	17,492,133	1,374,190	851,852	19,718,175
5900 Federal Program Revenues	130,243	-	4,410,323	4,540,566
5020 Total Revenues	26,331,570	3,540,730	5,629,146	35,501,446
EXPENDITURES:				
Current:				
0011 Instruction	12,959,970	-	2,840,106	15,800,076
0012 Instructional Resources and Media Services	325,353	-	-	325,353
0013 Curriculum and Instructional Staff Development	335,708	-	353,897	689,605
0021 Instructional Leadership	104,677	-	-	104,677
0023 School Leadership	1,547,133	-	135,233	1,682,366
0031 Guidance, Counseling and Evaluation Services	710,442	-	144,081	854,523
0033 Health Services	227,581	-	26,220	253,801
0034 Student (Pupil) Transportation	1,413,979	-	-	1,413,979
0035 Food Services	-	-	1,766,104	1,766,104
0036 Extracurricular Activities	648,989	-	-	648,989
0041 General Administration	840,233	-	-	840,233
0051 Facilities Maintenance and Operations	3,083,997	-	142,029	3,226,026
0052 Security and Monitoring Services	247,444	-	545	247,989
0053 Data Processing Services	404,015	-	-	404,015
0061 Community Services	848	-	110,497	111,345
Debt Service:				
0071 Principal on Long Term Debt	-	1,144,283	-	1,144,283
0072 Interest on Long Term Debt	-	1,778,147	-	1,778,147
0073 Bond Issuance Cost and Fees	-	1,600	-	1,600
Intergovernmental:				
0099 Other Intergovernmental Charges	263,820	-	-	263,820
6030 Total Expenditures	23,114,189	2,924,030	5,518,712	31,556,931
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	3,217,381	616,700	110,434	3,944,515
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	10,449	-	-	10,449
7080 Total Other Financing Sources (Uses)	10,449	-	-	10,449
1200 Net Change in Fund Balances	3,227,830	616,700	110,434	3,954,964
0100 Fund Balance - September 1 (Beginning)	8,812,393	2,651,476	225,628	11,689,497
3000 Fund Balance - August 31 (Ending)	\$ 12,040,223	\$ 3,268,176	\$ 336,062	\$ 15,644,461

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ 3,954,964
The net revenue (loss) of internal service funds is reported with governmental activities, but is not included in the governmental funds.	123
Current year capital outlays are expenditures in the fund financial statements, but increase capital assets in the government-wide financial statements.	210,950
Depreciation of capital assets is included in the statement of activities but not in the fund statements.	(1,764,955)
Repayment of long term debt principal is an expenditure in the fund statements but reduces the liability in the statement of net assets.	1,144,283
Certain property tax revenues not available to pay current expenditures are deferred in the fund statements. Tax revenue in the statement of activities is recognized on the accrual basis when levied. The net change in tax revenue recognition for the year is this amount.	(393,176)
Interest is accrued on long term debt for the statement of activities. The decrease in accrued interest from the beginning of the year to the end of the year is this amount.	1,631
Accretion on capital appreciation bonds is reflected in the statement of activities but not in the fund statements.	(178,696)
Bond premiums/discounts, debt issuance costs, and deferred amounts from bond refundings are amortized in the statement of activities but not in the fund statements.	(273,062)
Change in Net Assets of Governmental Activities	\$ 2,702,062

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31,2012

EXHIBIT D-1

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 112,668
Due from Other Funds	<u>262,760</u>
Total Assets	375,428
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>372,371</u>
Total Liabilities	372,371
NET ASSETS	
Unrestricted Net Assets	<u>3,057</u>
Total Net Assets	<u><u>\$ 3,057</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 236,539
Total Operating Revenues	236,539
OPERATING EXPENSES:	
Other Operating Costs	236,679
Total Operating Expenses	236,679
Operating Income (Loss)	(140)
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	263
Total Nonoperating Revenues (Expenses)	263
Change in Net Assets	123
Total Net Assets - September 1 (Beginning)	2,934
Total Net Assets - August 31 (Ending)	\$ 3,057

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 238,539
Cash Payments for Claims and Administration	(178,228)
Net Cash Provided by Operating Activities	60,311
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	263
Net Increase in Cash and Cash Equivalents	60,574
Cash and Cash Equivalents at Beginning of Year	52,094
Cash and Cash Equivalents at End of Year	\$ 112,668
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ (140)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	2,000
Increase (decrease) in Accounts Payable	58,451
Net Cash Provided by Operating Activities	\$ 60,311
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 112,668
	\$

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2012

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 1,383	\$ 62,895
Total Assets	<u>1,383</u>	<u>\$ 62,895</u>
LIABILITIES		
Due to Other Governments	-	\$ 21,631
Due to Student Groups	-	41,264
Total Liabilities	<u>-</u>	<u>\$ 62,895</u>
NET ASSETS		
Unrestricted Net Assets	<u>1,383</u>	
Total Net Assets	<u>\$ 1,383</u>	

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT E-2

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 9
Total Additions	<u>9</u>
DEDUCTIONS:	
Scholarships Distributed	500
Total Deductions	<u>500</u>
Change in Net Assets	(491)
 Total Net Assets - September 1 (Beginning)	 <u>1,874</u>
 Total Net Assets - August 31 (Ending)	 <u><u>\$ 1,383</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cleveland Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's *Financial Accountability System Resource Guide* ("Resource Guide"). The Governmental Accounting Standard Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Board of Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Cleveland Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include school lunch charges. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. The District's only proprietary fund type is its internal service fund, which is combined with governmental activities in the government-wide financial statements. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statement. The District considers some governmental funds as major and reports their financial condition and results of operations in a separate column.

Proprietary fund types distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-wide, Proprietary and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, entitlements and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses). The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors may require the District to refund all or part of the unused amount.

When fund balance resources are available for a specific purpose in more than one classification, it is the District's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

The General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the District reports the following fund types:

Other Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Fund Type:

Internal Service Fund – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the Public Entity Risk Pool for workers' compensation, which is consolidated with the governmental funds in the government-wide financial statements.

Fiduciary Fund Types:

Private Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Trust Fund.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are student activity funds and the textbook custodial fund.

E. OTHER ACCOUNTING POLICIES

1. **Cash and Temporary Investments** - Cash includes cash on hand and cash in demand and short-term time deposit accounts. Cash deposits are reported at carrying amount which reasonably estimates fair value.

Temporary investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

For purposes of the statement of cash flows for proprietary and similar trust fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

2. **Inventories** - Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. The District records other purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.
3. **Long-Term Obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Significant bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. **Compensated Absences** – The District's policy to permit professional employees to accumulate earned but unused local sick leave benefits was rescinded during the prior fiscal year for anyone not currently qualifying. At the end of the current fiscal year, only two remaining employees satisfied the vesting qualifications. Any potential liability as of August 31, 2012 was not significant to the District, and no liability was recorded.

5. **Capital Assets** – Capital assets, which include land, buildings, furniture and equipment (and infrastructure assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	15-20
Vehicles	7-10
Office and Other Equipment	5-10
Computer Equipment	7

- 6 **Fund Equity** – Beginning with fiscal year 2011, the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official body to which the governing body delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The District’s Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Authority to assign fund balance has been delegated by the Trustees to the Superintendent. Assigned fund balance can be established through adoption or amendment of the budget or long term plans for a specific purpose (such as purchase of fixed assets, construction, or other purposes).

7. **Interfund Transactions** - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. All interfund transactions and balances were eliminated in the preparation of the government-wide statement of net assets and statement of activities.

8. *Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
9. *Data Control Codes* - The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report is Required Supplementary Information and appears in Exhibit F-1, and the other two reports are in Exhibit G4 and G5, as Other Supplementary Information.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year, with such amendments being reflected in the final budget amounts in the applicable budgetary comparison schedule.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

A reconciliation of fund balances for both appropriated and nonappropriated budget special revenue funds is as follows:

	August 31, 2012 <u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Fund	\$336,062
Nonappropriated Budget Funds	<u>0</u>
All Special Revenue Funds	<u>\$336,062</u>

5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no significant end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance – Related Legal and Contractual Provisions –
In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance – related legal and contractual provisions must be reported, along with actions taken to address such violations. No violations were noted which would require disclosure.
2. Deficit Fund Balance or Fund Net Assets of Individual Funds –
The District had no funds at August 31, 2012, with a deficit balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers’ acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The Cleveland Independent School District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2012, and throughout the fiscal year, the District invested only in savings accounts and certificates of deposit at the depository bank, which are included in cash deposits.

Additional policies and contractual provisions governing deposits and investments for the Cleveland Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District’s policy limits its investments in obligations and securities authorized by state statutes to the top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2012, and for the year then ended, the District invested only in certificates of deposit, which were fully secured by pledged securities or FDIC coverage.

Custodial Credit Risk for Investments As previously stated, the District’s investments during the current year were limited to certificates of deposit at the depository institution, which were fully secured at all times by the combination of FDIC coverage and properly pledged securities.

Concentration of Credit Risk The District's investment policy does not specifically limit an investment in any one issuer.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District normally requires that investments in certificates of deposit or other such instruments be monitored by using weighted average maturity and specific identification.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available, by the governmental funds (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The District's current year tax rate was \$1.315 per \$100 valuation, with \$1.04 for general fund maintenance and operations, and \$0.275 for debt service. The rate was applied to a total net assessed value of \$710,410,722.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND RECEIVABLES AND PAYABLES

Due To and From Other Funds –

Interfund balances at August 31, 2012 consisted of the following individual fund balances:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Special Revenue Funds	\$1,529,544	\$ 0
Internal Service Fund	0	262,760
Debt Service Fund	0	201,463
Special Revenue Funds:		
General Fund	0	1,529,544
Debt Service Fund:		
General Fund	201,463	0
Internal Service Fund:		
General Fund	<u>262,760</u>	<u>0</u>
TOTAL	<u>\$1,993,767</u>	<u>\$1,993,767</u>

All interfund balances result from normal operating activity, and are expected to be repaid within one year. The District had no operating or equity transfers between funds during the current year.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Accrual and Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$3,084,729	\$522,668	\$1,529,544	\$26,082	\$5,163,023
Debt Service Fund	725,896	0	201,463	6,690	934,049
Internal Service Fund	0	0	262,760	0	262,760
Other Nonmajor Funds	<u>0</u>	<u>1,634,825</u>	<u>0</u>	<u>0</u>	<u>1,634,825</u>
Total	<u>\$3,810,625</u>	<u>\$2,157,493</u>	<u>\$1,993,767</u>	<u>\$32,772</u>	<u>\$7,994,657</u>

Amount not scheduled for
collection during the
subsequent year

<u>\$381,063</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$381,063</u>
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Payables at August 31, 2012, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	\$18,540	\$697,047	\$464,223	\$1,179,810
Internal Service Fund	372,371	0	0	372,371
Other Nonmajor Funds	<u>56,635</u>	<u>89,390</u>	<u>1,529,544</u>	<u>1,675,569</u>
Total	<u>\$447,546</u>	<u>\$786,437</u>	<u>\$1,993,767</u>	<u>\$3,227,750</u>
Amount not scheduled for payments during the subsequent year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$999,446	\$ 0	\$ 0	\$999,446
Total Capital Assets not being Depreciated	<u>\$999,446</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$999,446</u>
Capital Assets being Depreciated:				
Buildings and Improvements	\$57,007,654	\$ 0	\$ 0	\$57,007,654
Furniture and Equipment	<u>4,034,453</u>	<u>210,950</u>	<u>(117,119)</u>	<u>4,128,284</u>
Total Capital Assets being Depreciated	<u>\$61,042,107</u>	<u>\$210,950</u>	<u>(\$117,119)</u>	<u>\$61,135,938</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(\$13,148,669)	(\$1,443,955)	\$ 0	(\$14,592,624)
Furniture and Equipment	<u>(2,525,279)</u>	<u>(321,000)</u>	<u>117,119</u>	<u>(2,729,160)</u>
Total Accumulated Depreciation	<u>(\$15,673,948)</u>	<u>(\$1,764,955)</u>	<u>\$117,119</u>	<u>(\$17,321,784)</u>
Capital Assets being Depreciated - Net	<u>\$45,368,159</u>	<u>(\$1,554,005)</u>	<u>\$ 0</u>	<u>\$43,814,154</u>
Governmental Activity Capital Assets - Net	<u>\$46,367,605</u>	<u>(\$1,554,005)</u>	<u>\$ 0</u>	<u>\$44,813,600</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$1,137,255
School Leadership	56,326
Guidance, Counseling and Evaluation Services	56,326
Student (Pupil) Transportation	149,118
Food Services	177,528
Cocurricular/Extracurricular Activities	39,498
General Administration	39,219
Plant Maintenance and Operations	20,851
Security	8,335
Data Processing Services	<u>80,499</u>
Total Depreciation Expense	<u>\$1,764,955</u>

G. LONG-TERM LIABILITIES

Long-term liabilities include current interest bonds and capital appreciation bonds, which are serviced through the Debt Service Fund. The District has no local policies regarding debt limitation or debt margin, but must comply with State requirements.

Changes in long-term liabilities for the year ended August 31, 2012, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable -					
Unlimited Tax Bonds, Series 2003, 3.55%	\$1,820,000	\$ 0	(\$890,000)	\$930,000	\$930,000
Unlimited Tax Refunding Bonds, Series 2006, 3.70-4.375%	8,799,989	0	(80,000)	8,719,989	80,000
Unlimited Tax Refunding Bonds, Series 2007, 4.00%	7,674,991	0	(174,283)	7,500,708	145,708
Unlimited Tax Refunding Bonds, Series 2010, 3.00-4.00%	<u>20,715,812</u>	<u>0</u>	<u>0</u>	<u>20,715,812</u>	<u>0</u>
	\$39,010,792	\$ 0	(\$1,144,283)	\$37,866,509	\$1,155,708
Deferred Amounts -					
Issuance Premiums	411,882	0	(19,833)	392,049	0
Issuance Discounts	(69,624)	0	3,481	(66,143)	0
Accretion on Capital Appreciation Bonds	6,177,279	178,696	0	6,355,975	0
Deferred Amount - 2006 Refunding Bonds	(392,927)	0	16,301	(376,626)	0
Deferred Amount - 2007 Refunding Bonds	(262,005)	0	27,596	(234,409)	0
Deferred Amount - 2010 Refunding Bonds	<u>(2,213,356)</u>	<u>0</u>	<u>211,801</u>	<u>(2,001,555)</u>	<u>0</u>
Total Bonds Payable	\$42,662,041	\$178,696	(\$904,937)	\$41,935,800	\$1,155,708

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Other Liabilities - Accrued Interest	<u>\$91,438</u>	<u>\$89,807</u>	<u>(\$91,438)</u>	<u>\$89,807</u>	<u>\$89,807</u>
Governmental Activities Long-Term Liabilities	<u>\$42,753,479</u>	<u>\$268,503</u>	<u>(\$996,375)</u>	<u>\$42,025,607</u>	<u>\$1,245,515</u>

Debt service requirements on long-term debt are as follows:

<u>Year ended, August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,155,708	\$1,786,679	\$2,942,387
2014	650,016	2,217,369	2,867,385
2015	663,390	2,229,170	2,892,560
2016	687,550	2,228,600	2,916,150
2017	723,079	2,215,071	2,938,150
2018-2022	7,256,777	7,841,423	15,098,200
2023-2027	9,564,989	6,309,614	15,874,603
2028-2032	14,190,000	2,080,301	16,270,301
2033	<u>2,975,000</u>	<u>59,500</u>	<u>3,034,500</u>
Total	<u>\$37,866,509</u>	<u>\$26,967,727</u>	<u>\$64,834,236</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2012.

H. COMMITMENTS UNDER LEASES

The District has the following commitments under operating (noncapitalized) lease agreements for equipment which provides for minimum future rental payments beyond the current year:

<u>Year ending August 31,</u>	<u>Amount</u>
2013	<u>\$80,500</u>
Total Minimum Rentals	<u>\$80,500</u>
Rental Expenditures for the Fiscal year ended August 31, 2012	<u>\$149,851</u>

The District had no capital leases outstanding during the current year.

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Cleveland Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas, 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; and (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011, and 2010, and a state contribution rate of 6.58% for periods through December 31, 2009, 6.644% for January 1, 2010 to August 31, 2011, and 6.0% for September 1, 2011 to August 31, 2012. . In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of Cleveland Independent School District's employees for the years ended August 31, 2012, 2011 and 2010 were \$784,960, \$961,695, and \$1,006,843, respectively. Cleveland Independent School District paid additional state contributions for the years ended August 31, 2012, 2011, and 2010 in the amount of \$267,862, \$383,601, and \$379,685, respectively, on the portion of the employees' salaries that exceeded the statutory minimum and for salaries paid from federal and private grants.

J. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. The Cleveland Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2011, and 2010. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the fiscal years 2012, 2011, and 2010, the State's contributions to TRS-Care with respect to the Cleveland ISD payroll were \$152,379, \$211,002, and \$212,442, respectively, the active member contributions were \$108,954, \$137,196, and \$138,087, respectively, and the school district's contributions were \$92,191, \$116,089, and \$116,843, respectively, which equaled the required contributions for each period.

Medicare Part D Subsidy. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care Program to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by each school district. The total subsidy to TRS-Care allocable to the Cleveland Independent School District for the current fiscal year is \$41,704.

K. HEALTH CARE COVERAGE

During the year ended August 31, 2012, the District participated in the TRS Active Care Health Insurance Plan administered by the State.

The District paid \$197.00-\$249.00 per month for employee only health coverage under this plan, and up to \$540.00 per month for full family coverage. Additional costs were paid by the employee through payroll deductions.

L. PARTICIPATION IN A PUBLIC ENTITY RISK POOL

The District is a member of the East Texas Educational Insurance Association Workers' Compensation Self-Insurance Joint Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for workers' compensation coverage and develop a comprehensive loss control program.

The Fund shall obtain insurance to provide coverage to indemnify the Plan for a claim in excess of the single occurrence self-insurance retention maximum of \$500,000 from any one Plan Sponsor's employee(s) or total claims that exceed the combined loss fund maximum of \$5,000,000 of all Plan Sponsors, with the aggregate limits of the insurance contract.

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of financial statements and the amount of the loss can be reasonably estimated. The estimate of incurred but not reported losses are based on historical experience.

Changes in the Fund's claims liability amount in fiscal 2012 and 2011 are as follows:

	<u>Beginning of Fiscal year</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Fiscal Year</u>
<u>2012</u>				
Incurred Claims	\$161,102	\$218,117	\$178,118	\$201,101
Incurred but not Reported (Estimated)	<u>152,818</u>	<u>18,452</u>	<u>N/A</u>	<u>171,270</u>
Total	<u>\$313,920</u>	<u>\$236,569</u>	<u>\$178,118</u>	<u>\$372,371</u>
<u>2011</u>				
Incurred Claims	\$83,043	\$216,796	\$138,737	\$161,102
Incurred but not Reported (Estimated)	<u>143,278</u>	<u>9,540</u>	<u>N/A</u>	<u>152,818</u>
Total	<u>\$226,321</u>	<u>\$226,336</u>	<u>\$138,737</u>	<u>\$313,920</u>

M. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Total</u>
Deferred Tax Revenue	\$2,661,256	\$ 0	\$647,306	\$3,308,562
Food Service Commodity Inventory	0	30,665	0	30,665
Unearned State Revenue	<u>1,054,016</u>	<u>25,785</u>	<u>0</u>	<u>1,079,801</u>
Total	<u>\$3,715,272</u>	<u>\$56,450</u>	<u>\$647,306</u>	<u>\$4,419,028</u>

N. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs.

Amounts due from federal and state governments as of August 31, 2012, are summarized below:

<u>Fund</u>	<u>State Entitlements and Grants</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$516,976	\$5,692	\$522,668
Special Revenue	<u>6,400</u>	<u>1,628,425</u>	<u>1,634,825</u>
	<u>\$523,376</u>	<u>\$1,634,117</u>	<u>\$2,157,493</u>

Amounts due from the State in the General Fund consists of estimated funds earned in August 2012, payable from the state aid funding for the 2012-2013 school year.

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
Property Taxes	\$7,643,431	\$ 0	\$2,006,000	\$ 0	\$9,649,431
Penalties, Interest and Other					
Tax Related Income	619,151	0	136,540	0	755,691
Investment Income	87,503	2,655	24,000	263	114,421
Payments in Lieu of Taxes	187,123	0	0	0	187,123
Food Sales	0	354,490	0	0	354,490
Other	<u>171,986</u>	<u>9,826</u>	<u>0</u>	<u>236,539</u>	<u>418,351</u>
Total	<u>\$8,709,194</u>	<u>\$366,971</u>	<u>\$2,166,540</u>	<u>\$236,802</u>	<u>\$11,479,507</u>

P. LITIGATION AND CONTINGENCIES

At August 31, 2012, Cleveland Independent School District had no significant known lawsuits, claims or assessments pending or threatened directly against it which could have a material adverse effect on its financial condition.

Federal grant funds and certain state funds require expenditures in prescribed programs or for specific items. Such funds are subject to future audit by applicable state and federal agencies. The District does not anticipate any substantial disallowance of project costs or reduction in future funding due to any such examinations.

Additionally, the District's allocation of state funds for the 2011-2012 fiscal year is subject to change based upon actual daily attendance and other factors. Any change in this allocation will be reflected as an increase or decrease in funding for the subsequent year.

As part of the District's risk management policies, insurance coverage is obtained against loss from physical damage to facilities, contents, and equipment, and general liabilities of the District and the Board of Trustees. The District's potential loss from any related event or litigation is generally limited to its deductible.

Q. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

No significant construction projects were started in the current year, and no significant commitments have been budgeted for the 2012-13 fiscal year.

R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for alternative education for at risk groups with seven other school districts, through the Gulf Coast Education Consortium. The Liberty Independent School District is the fiscal agent manager and is responsible for reporting all financial activity of the consortium. The District's total payments to the Consortium during the current fiscal year were \$244,622.

The District participates in a cooperative program for special education serving deaf and hard of hearing students, which includes 17 school districts. The Goose Creek Independent School District is the fiscal agent manager and is responsible for reporting all financial activities of the Tri-County East Regional Day School Program for the Deaf. The member districts provide funds to the fiscal agent, with payments from the Cleveland Independent School District to the cooperative in the current period totaling \$6,986.

The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agents. The fiscal agent is neither accumulating significant financial resources nor fiscal requirements that would give rise to a future additional benefit or burden to Cleveland Independent School District. The fiscal agent managers are responsible for all financial activities of the shared services arrangement.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 7,446,747	\$ 8,644,237	\$ 8,709,194	\$ 64,957
5800	State Program Revenues	18,184,470	17,920,351	17,492,133	(428,218)
5900	Federal Program Revenues	286,240	129,170	130,243	1,073
5020	Total Revenues	25,917,457	26,693,758	26,331,570	(362,188)
EXPENDITURES:					
Current:					
0011	Instruction	14,578,763	12,988,102	12,959,970	28,132
0012	Instructional Resources and Media Services	351,094	328,585	325,353	3,232
0013	Curriculum and Instructional Staff Development	499,447	337,373	335,708	1,665
0021	Instructional Leadership	120,595	106,000	104,677	1,323
0023	School Leadership	1,656,956	1,554,393	1,547,133	7,260
0031	Guidance, Counseling and Evaluation Services	817,939	713,276	710,442	2,834
0033	Health Services	219,758	230,581	227,581	3,000
0034	Student (Pupil) Transportation	1,619,099	1,432,525	1,413,979	18,546
0036	Extracurricular Activities	766,188	652,918	648,989	3,929
0041	General Administration	1,103,762	840,328	840,233	95
0051	Facilities Maintenance and Operations	3,213,976	3,084,745	3,083,997	748
0052	Security and Monitoring Services	355,876	247,456	247,444	12
0053	Data Processing Services	290,304	404,866	404,015	851
0061	Community Services	1,500	860	848	12
Intergovernmental:					
0099	Other Intergovernmental Charges	325,000	263,820	263,820	-
6030	Total Expenditures	25,920,257	23,185,828	23,114,189	71,639
1100	Excess (Deficiency) of Revenues Over Expenditures	(2,800)	3,507,930	3,217,381	(290,549)
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	2,800	10,065	10,449	384
7080	Total Other Financing Sources (Uses)	2,800	10,065	10,449	384
1200	Net Change in Fund Balances	-	3,517,995	3,227,830	(290,165)
0100	Fund Balance - September 1 (Beginning)	8,812,393	8,812,393	8,812,393	-
3000	Fund Balance - August 31 (Ending)	\$ 8,812,393	\$ 12,330,388	\$ 12,040,223	\$ (290,165)

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It includes information which is required by the Texas Education Agency.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)	
	Tax Rates		Assessed/Appraised Value for School Tax Purposes	
	Maintenance	Debt Service		
2003 and prior years	Various	Various	\$	Various
2004	1.400000	0.30000		477,661,294
2005	1.400000	0.30000		496,916,135
2006	1.440000	0.30000		541,884,598
2007	1.310000	0.27500		554,653,502
2008	1.040000	0.27500		600,597,725
2009	1.040000	0.27500		643,319,240
2010	1.040000	0.27500		672,590,570
2011	1.040000	0.27500		714,082,966
2012 (School year under audit)	1.040000	0.27500		710,410,722
100 TOTALS				

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 397,584	\$ -	\$ 49,794	\$ 5,450	\$ (23,629)	\$ 318,711
128,379	-	22,617	4,847	(4,124)	96,791
158,996	-	23,322	4,998	(3,271)	127,405
221,762	-	33,903	7,062	(3,909)	176,888
280,923	-	52,753	11,074	(2,766)	214,330
360,794	-	69,469	18,367	(6,165)	266,793
569,050	-	129,119	34,137	(12,725)	393,069
975,739	-	284,688	75,267	(11,564)	604,220
1,154,250	-	362,854	95,932	(11,563)	683,901
-	9,341,901	6,614,912	1,748,866	(49,606)	928,517
<u>\$ 4,247,477</u>	<u>\$ 9,341,901</u>	<u>\$ 7,643,431</u>	<u>\$ 2,006,000</u>	<u>\$ (129,322)</u>	<u>\$ 3,810,625</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 234,715	\$ 324,411	\$ -	\$ -	\$ 559,126
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	10,951	13,182	-	-	-	24,133
6212	Audit Services	-	-	-	18,000	-	-	18,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	263,820	-	-	-	-	263,820
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	5,000	101,222	-	-	106,222
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	7,101	-	-	7,101
6240	Contr. Maint. and Repair	-	-	-	-	1,847	-	1,847
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	4,223	16,026	-	-	20,249
6290	Miscellaneous Contr.	7,830	5,557	54	16,725	-	-	30,166
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,062	-	2,615	55,389	-	-	59,066
6410	Travel, Subsistence, Stipends	285	-	2,799	2,136	-	-	5,220
6420	Ins. and Bonding Costs	25,690	-	-	71	-	-	25,761
6430	Election Costs	6,929	-	-	-	-	-	6,929
6490	Miscellaneous Operating	7,540	-	6,428	7,300	-	-	21,268
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 49,336	\$ 280,328	\$ 269,016	\$ 548,381	\$ 1,847	\$ -	\$ 1,148,908

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 28,632,901

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600) (10) \$ 220,258

Total Debt & Lease(6500) (11) -

Plant Maintenance (Function 51, 6100-6400) (12) 3,226,026

Food (Function 35, 6341 and 6499) (13) 724,434

Stipends (6413) (14) -

Column 4 (above) - Total Indirect Cost 548,381

SubTotal: 4,719,100

Net Allowed Direct Cost \$ 23,913,801

CUMULATIVE

Total Cost of Buildings before Depreciation (1520) (15) \$ 57,007,654

Historical Cost of Building over 50 years old (16) \$ 281,208

Amount of Federal Money in Building Cost (Net of #16) (17) \$ 734,155

Total Cost of Furniture & Equipment before Depreciation (1530 & 1540) (18) \$ 4,128,284

Historical Cost of Furniture & Equipment over 16 years old (19) \$ 426,369

Amount of Federal Money in Furniture & Equipment (Net of #19) (20) \$ -

(8) NOTE A: \$44,855 in Function 53 expenditures are included in this report on administrative costs.

\$263,820 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 413,410	\$ 360,499	\$ 366,971	\$ 6,472
5800	State Program Revenues	11,000	31,730	33,503	1,773
5900	Federal Program Revenues	1,355,940	1,615,554	1,614,841	(713)
5020	Total Revenues	1,780,350	2,007,783	2,015,315	7,532
EXPENDITURES:					
0035	Food Services	1,638,321	1,797,670	1,762,852	34,818
0051	Facilities Maintenance and Operations	142,029	142,029	142,029	-
6030	Total Expenditures	1,780,350	1,939,699	1,904,881	34,818
1200	Net Change in Fund Balances	-	68,084	110,434	42,350
0100	Fund Balance - September 1 (Beginning)	225,628	225,628	225,628	-
3000	Fund Balance - August 31 (Ending)	\$ 225,628	\$ 293,712	\$ 336,062	\$ 42,350

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,629,108	\$ 2,148,093	\$ 2,166,540	\$ 18,447
5800	State Program Revenues	1,295,122	1,172,727	1,374,190	201,463
5020	Total Revenues	2,924,230	3,320,820	3,540,730	219,910
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,144,283	1,144,283	1,144,283	-
0072	Interest on Long Term Debt	1,778,147	1,778,147	1,778,147	-
0073	Bond Issuance Cost and Fees	1,800	1,600	1,600	-
6030	Total Expenditures	2,924,230	2,924,030	2,924,030	-
1200	Net Change in Fund Balances	-	396,790	616,700	219,910
0100	Fund Balance - September 1 (Beginning)	2,651,476	2,651,476	2,651,476	-
3000	Fund Balance - August 31 (Ending)	\$ 2,651,476	\$ 3,048,266	\$ 3,268,176	\$ 219,910

FEDERAL AWARDS SECTION

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Independent Auditor's Report

Board of Trustees
Cleveland Independent School District
316 East Dallas
Cleveland, Texas 77327

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cleveland Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 2, 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

In planning and performing our audit, we considered the Cleveland Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the District'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 Independent 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 for the information of the District's trustees, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

November 2, 2012

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Board of Trustees
Cleveland Independent School District
316 East Dallas
Cleveland, Texas 77327

Members of the Board:

Compliance

We have audited the compliance of Cleveland Independent School District with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2012. The 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 Independent School District's administrators. Our responsibility is to express an opinion on the 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 Independent 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 on Cleveland Independent School District's compliance with those requirements.

In our opinion, Cleveland Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

The administration of Cleveland Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 the 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 for the information of the District's Trustees, the administration, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Wiggins & Smith

WIGGINS & SMITH

Certified Public Accountants

November 2, 2012

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

I. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes X No
- Significant deficiency identified that is not
considered to be a material weakness? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes X No
- Significant deficiency identified that is not
considered to be a material weakness? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
In accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	National School Breakfast and Lunch Cluster
84.410A	Education Jobs Fund - ARRA

Dollar threshold used to distinguish between type A and
type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

No response required.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

No response required.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT H-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
R.O.T.C.	12.000	146901	\$ 54,326
Total Direct Programs			\$ 54,326
TOTAL DEPARTMENT OF DEFENSE			\$ 54,326
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through San Jacinto & Montgomery Counties</u>			
Impact Aid - P.L. 81.874	84.041	146901	\$ 9,933
Total Passed Through San Jacinto & Montgomery Counties			\$ 9,933
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101146901	\$ 1,079,024
*IDEA - Part B, Formula	84.027A	126600011469016600	565,524
*IDEA - Part B, Discretionary	84.027A	126600021469016677	91,134
*IDEA - Part B, High Cost	84.027A	12660006146901	67,455
Total CFDA Number 84.027A			724,113
*IDEA - Part B, Preschool	84.173A	126610011469016610	22,438
Total Special Education Cluster (IDEA)			746,551
Career and Technical - Basic Grant	84.048A	12420006146901	48,393
Title III, Part A - English Language Acquisition	84.365A	12671001146901	81,218
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501146901	196,745
Summer School LEP	84.369A	69551102	3,222
Education Jobs Fund- ARRA	84.410	11550101146901	631,199
Total Passed Through State Department of Education			\$ 2,786,352
TOTAL DEPARTMENT OF EDUCATION			\$ 2,796,285
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	146901	\$ 5,879
Total Passed Through Texas Dept of Human Services			\$ 5,879
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 5,879
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401101	\$ 402,881
*National School Lunch Program - Cash Assistance	10.555	71301101	1,101,418
*National School Lunch Prog. - Non-Cash Assistance	10.555	146004A	110,542
Total CFDA Number 10.555			1,211,960
*Summer Feeding Program - Cash Assistance	10.559	146901	3,252
Total Child Nutrition Cluster			1,618,093
Total Passed Through the State Department of Agriculture			\$ 1,618,093
TOTAL DEPARTMENT OF AGRICULTURE			\$ 1,618,093
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,474,583

*Clustered Programs

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2012

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or Special Revenue Funds which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period expended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.

Amounts presented on the accompanying schedule differ from the total amount of federal revenues presented in the fund financial statements as follows:

Total Expenditures of Federal Awards per the Schedule of Federal Awards	\$ 4,474,583
Amount Reported in the General Fund as part of the School Health and Related Services – Not Included in the Schedule of Federal Awards	<u>65,983</u>
Total Federal Revenues per Exhibit C-3	<u>\$ 4,540,566</u>