

**CLEVELAND INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

Cleveland Independent School District  
Annual Financial Report  
For the Year Ended August 31, 2015

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## ***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, 2015 at a meeting of the Board of Trustees of such school district on the 14<sup>th</sup> day of December, 2015.

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

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

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

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, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



### **Emphasis of Matter - Change in Accounting Principle**

As discussed in Note I and Note III-J to the financial statements, in the current fiscal year, the District adopted new accounting guidance prescribed by GASB No. 68 for its pension plan, a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB No. 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the District's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information-*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and other information on pages 7-13 and 48-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information-*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cleveland Independent School District's basic financial statements. The other supplementary information as listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by OMB Circular A-133, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, 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* in considering the District's internal control over financial reporting and compliance.

*Wiggins & Smith*  
WIGGINS & SMITH  
Certified Public Accountants

December 7, 2015

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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, 2015. Please read it in conjunction with the District's financial statements which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The District's net position increased by \$1,315,490, or 4.7%, as a result of this year's positive result of operations of \$5,049,417, which was partially offset by a prior period adjustment of \$3,733,927 to book the District's proportionate share of net pension liability as required by GASB 68.
- Total cost of all of the District's programs was \$35,636,045 in fiscal 2015, which represents approximately a 1.7% increase from the prior year total program costs.
- The General Fund ended the year with a fund balance of \$21,576,853, an increase of \$3,993,670 from the prior year-end.
- The District had capital expenditures during the current year totaling \$506,633. These expenditures included the purchase of 3 buses, trailers and equipment for agriculture and building trades, cafeteria equipment, and other equipment.
- Subsequent to the end of the fiscal year, the District's voters approved a bond referendum for \$35 million, to be used to make significant improvements, expansion, and repurposing of all elementary campuses and the middle school, and other district-wide 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 Position 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.

## CLEVELAND INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Reporting the District as a Whole**

#### ***The Statement of Net Position 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 Position includes all of the District's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

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 of 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 position and changes in it. The District's net position (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 position 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 Position 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 Position 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 Position 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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**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 Position and Changes in Fiduciary Net Position 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position of the District's governmental activities increased from \$28,299,774 to \$29,615,264. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$21,494,585 at August 31, 2015, an increase of \$716,637 from the prior year end.

**Table I**  
**Cleveland Independent School District**

**NET POSITION**

	<u>Governmental Activities</u> <u>2015</u>	<u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Current and other assets	\$32,643,068	\$27,453,397	\$5,189,671
Capital assets, net	40,570,637	41,791,736	(1,221,099)
Deferred charges for refunding	1,845,298	2,089,621	(244,323)
Deferred outflows related to TRS	<u>863,241</u>	<u>0</u>	<u>863,241</u>
Total assets and deferred outflow of resources	<u>\$75,922,244</u>	<u>\$71,334,754</u>	<u>\$4,587,490</u>
Long-term liabilities	\$43,565,910	\$41,651,843	\$1,914,067
Other liabilities	1,732,937	1,383,137	349,800
Deferred inflows related to TRS	<u>1,008,133</u>	<u>0</u>	<u>1,008,133</u>
Total liabilities and deferred inflows	<u>\$46,306,980</u>	<u>\$43,034,980</u>	<u>\$3,272,000</u>
Net Position:			
Invested in capital assets, net of related debt	\$2,229,577	\$2,315,604	(\$86,027)
Restricted	5,891,102	5,206,222	684,880
Unrestricted	<u>21,494,585</u>	<u>20,777,948</u>	<u>716,637</u>
Total net position	<u>\$29,615,264</u>	<u>\$28,299,774</u>	<u>\$1,315,490</u>

The significant increases in total assets and deferred outflows, and liabilities and deferred inflows, with a net increase in the District's total net position are primarily the result of:

- (1) Increase in net position due to positive operating results of \$5,049,417.

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

- (2) Adjustments required by GASB 68 to reflect the District's proportional share of the net Pension Liability of the Teacher Retirement System of Texas. The District's share of the Net Pension Liability was \$3,295,597, and is recorded as a noncurrent liability. Recording of the District's proportional share of the Net Pension Liability also resulted in the recording of a prior period adjustment to the District's net position of \$3,733,927.

Unrestricted net position 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.

**Table II**  
**Cleveland Independent School District**

**CHANGES IN NET POSITION**

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2015</u>	<u>2014</u>	<u>(Decrease)</u>
Revenues:			
Program Revenues:			
Charges for services	\$648,545	\$671,934	(\$23,389)
Operating grants and contributions	6,210,629	5,836,696	373,933
General Revenues:			
Maintenance and operations taxes	8,892,729	7,828,297	1,064,432
Debt service taxes	2,351,248	2,050,702	300,546
State aid – formula grants	21,988,875	20,695,340	1,293,535
Investment earnings	91,538	80,523	11,015
Miscellaneous and other	<u>501,898</u>	<u>670,273</u>	<u>(168,375)</u>
Total Revenues	<u>\$40,685,462</u>	<u>\$37,833,765</u>	<u>\$2,851,697</u>
Expenses:			
Instruction, curriculum and media services	\$19,610,526	\$18,901,591	\$708,935
Instructional and school leadership	2,291,296	1,971,183	320,113
Student support services	2,563,245	2,917,973	(354,728)
Child nutrition	2,123,640	1,944,016	179,624
Cocurricular activities	821,881	817,079	4,802
General administration	1,419,083	1,329,514	89,569
Plant maintenance, security and data processing	4,278,491	4,686,829	(408,338)
Community services	1,758	7,284	(5,526)
Debt services – interest and fees	1,757,147	1,812,615	(55,468)
Payments related to shared service arrangements	499,361	394,033	105,328
Other intergovernmental charges-CAD	<u>269,617</u>	<u>256,973</u>	<u>12,644</u>
Total Expenses	<u>\$35,636,045</u>	<u>\$35,039,090</u>	<u>\$596,955</u>
Increase (decrease) in net position	\$5,049,417	\$2,794,675	\$2,254,742
Net position at beginning of year	28,299,774	25,505,099	2,794,675
Prior period adjustment – net pension liability	<u>(3,733,927)</u>	<u>0</u>	<u>(3,733,927)</u>
Net position at end of year	<u>\$29,615,264</u>	<u>\$28,299,774</u>	<u>\$1,315,490</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's total revenues increased approximately 7.5% from prior year revenues. The total cost of all programs and services increased by 1.7% from prior year costs.

The District's primary sources of revenues include local taxes (29%), state aid from formula grants (54%), and other state and federal grants (15%). The remaining 2% of revenues includes charges for services and other revenue. The most significant costs are for instructional services (55%).

The increase in total revenues includes the following factors:

- (1) Overall property tax revenues, increased \$1,364,978, or 13.8% from the prior year, primarily as a result of an increase in taxable value of 12.2%.
- (2) State aid from formula grants increased for the 2014-2015 school year by \$1,293,535 or 6.3%. The increase results primarily from an increase in refined and weighted ADA as compared to the prior year, and due to changes in the state funding allotment.
- (3) The increase in program revenue from operating grants results primarily from a net increase in federal revenue funded through the State Health and Related Services (SHARS) program of \$361,737.

The increase in expenses is primarily the result of an overall increase in staff which produced an increase in payroll costs of approximately \$1.9 million. Facility maintenance and operating costs, and bus maintenance and operating costs decreased approximately \$440,000 due to decreases in utility costs, fuel costs, and contracted services.

## FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

### Individual Funds

As of August 31, 2015, the District's governmental funds (as presented in the balance sheet – Exhibit C-1, on page 18) reported a combined fund balance of \$26,757,729, an increase of \$4,599,835 from the prior year's combined balance of \$22,157,894. The increase in the combined fund balance resulted primarily from the results of operations for the year in the General Fund – increase of \$3,993,670, the Debt Service Fund – increase of \$579,394, and the Food Service Fund – increase of \$26,771.

The improved results of operations of the governmental funds are essentially the result of the factors discussed above for the government-wide financial statements. The increase in state funding in the General Fund was approximately \$1.2 million, with tax revenue increasing approximately 1.0 million.

### 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, 2015, the Board of Trustees revised the budget for the General Fund several times. These amendments generally included changes in functional categories of expenditures to more accurately reflect actual operations. Revenue budgets were amended to reflect increased tax revenues and anticipated changes in state and federal funding. Total estimated revenues included in the original budget were amended down by 2.3% during the year, with expenditure appropriations being decreased by approximately 5.8% from the original budget to the final amended budget.

As indicated on the Budgetary Comparison Schedule – General Fund on page 48, 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, 2015, the District had \$63,039,194 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 \$423,240 above the prior year totals.

This year's major additions included:

Specially Equipped 54 Passenger Bus	\$95,960
2 – 77 Passenger Buses and Dodge Caravan	200,285
2 – Used Pickups, Maintenance	22,200
Radio Station Equipment	45,559
Trailers and Equipment – Ag and Building Trades	71,762
Cafeteria Equipment	70,867
Undepreciated Cost – Equipment Removed	<u>(83,393)</u>
Net additions	<u>\$423,240</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, 2015. 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, 2015</u>
Unlimited Tax Refunding Bonds – Series 2006	\$8,464,989
Unlimited Tax Refunding Bonds – Series 2007	6,280,000
Unlimited Tax Refunding Bonds – Series 2010	20,652,406
Premiums/Discounts and Accumulated Accretion	4,788,963
Accrued Interest	<u>83,955</u>
Total Long-Term Liabilities	<u>\$40,270,313</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 2016 budget and tax rates. Following are some items considered:

- Student enrollment for 2015-2016 is projected to increase approximately 1-2%.
- Revenues available for general operations from ad valorem taxes are projected to be similar to the prior year. Cleveland ISD adopted an M & O tax rate of \$1.04/\$100 valuation, plus a debt service rate of \$0.275/\$100 valuation for 2015-2016, the same rates as adopted for the 2014-2015 fiscal year.



CLEVELAND INDEPENDENT SCHOOL DISTRICT  
*MANAGEMENT'S DISCUSSION AND ANALYSIS*

- Preliminary estimates of State foundation program entitlements for the General Fund for the 2015-2016 school year indicate that the District should receive approximately \$21.5 million, an increase of approximately 2.9% from the 2014-2015 actual State foundation revenue.

After considering all factors, an operating budget for the General Fund of \$33,137,562 was adopted, a 16.9% increase from the fiscal 2015 actual expenditures. The budget increase includes an increase in the number of instructional personnel. Also, the District revised its local pay schedule for normal step increases. The District budgeted \$152,700 for capital expenditures for equipment. The budget, as adopted, projects the use of approximately \$2.2 million 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 POSITION  
AUGUST 31, 2015

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 24,235,044
1220 Property Taxes Receivable (Delinquent)	4,523,994
1230 Allowance for Uncollectible Taxes	(452,400)
1240 Due from Other Governments	4,271,727
1290 Other Receivables, net	53,437
1300 Inventories	11,266
Capital Assets:	
1510 Land	999,446
1520 Buildings, Net	38,155,009
1530 Furniture and Equipment, Net	1,416,182
1000 Total Assets	73,213,705
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	1,845,298
1705 Deferred Outflow Related to TRS	863,241
1700 Total Deferred Outflows of Resources	2,708,539
<b>LIABILITIES</b>	
2110 Accounts Payable	348,947
2150 Payroll Deductions & Withholdings	398,506
2160 Accrued Wages Payable	964,867
2300 Unearned Revenue	20,617
Noncurrent Liabilities	
2501 Due Within One Year	771,505
2502 Due in More Than One Year	39,498,808
2540 Net Pension Liability (District's Share)	3,295,597
2000 Total Liabilities	45,298,847
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS	1,008,133
2600 Total Deferred Inflows of Resources	1,008,133
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	2,229,577
3820 Restricted for Federal and State Programs	685,101
3850 Restricted for Debt Service	5,206,001
3900 Unrestricted	21,494,585
3000 Total Net Position	\$ 29,615,264

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, 2015

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3 Charges for Services	4 Operating Grants and Contributions	
	Expenses			
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 18,843,418	\$ 248,905	\$ 2,957,179	\$ (15,637,334)
12 Instructional Resources and Media Services	276,577	-	13,791	(262,786)
13 Curriculum and Staff Development	490,531	-	236,719	(253,812)
21 Instructional Leadership	131,852	-	9,046	(122,806)
23 School Leadership	2,159,444	-	119,303	(2,040,141)
31 Guidance, Counseling and Evaluation Services	714,363	-	39,897	(674,466)
32 Social Work Services	32,977	-	16,452	(16,525)
33 Health Services	309,192	-	703,494	394,302
34 Student (Pupil) Transportation	1,506,713	-	53,212	(1,453,501)
35 Food Services	2,123,640	355,057	1,693,670	(74,913)
36 Extracurricular Activities	821,881	36,533	22,573	(762,775)
41 General Administration	1,419,083	-	61,436	(1,357,647)
51 Facilities Maintenance and Operations	3,331,679	8,050	247,576	(3,076,053)
52 Security and Monitoring Services	452,106	-	21,929	(430,177)
53 Data Processing Services	494,706	-	12,849	(481,857)
61 Community Services	1,758	-	1,503	(255)
72 Debt Service - Interest on Long Term Debt	1,755,353	-	-	(1,755,353)
73 Debt Service - Bond Issuance Cost and Fees	1,794	-	-	(1,794)
93 Payments related to Shared Services Arrangements	499,361	-	-	(499,361)
99 Other Intergovernmental Charges	269,617	-	-	(269,617)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 35,636,045	\$ 648,545	\$ 6,210,629	(28,776,871)
Data Control Codes	General Revenues:			
MT	Property Taxes, Levied for General Purposes			8,892,729
DT	Property Taxes, Levied for Debt Service			2,351,248
GC	Grants and Contributions not Restricted			21,988,875
IE	Investment Earnings			91,538
MI	Miscellaneous Local and Intermediate Revenue			501,898
TR	Total General Revenues			33,826,288
CN	Change in Net Position			5,049,417
NB	Net Position - Beginning			28,299,774
PA	Prior Period Adjustment - Net Pension Liability			(3,733,927)
NE	Net Position--Ending			\$ 29,615,264

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 19,398,695	\$ 4,478,748	\$ 199,048	\$ 24,076,491
1220 Property Taxes - Delinquent	3,634,904	889,090	-	4,523,994
1230 Allowance for Uncollectible Taxes (Credit)	(363,491)	(88,909)	-	(452,400)
1240 Receivables from Other Governments	2,923,630	-	1,348,097	4,271,727
1260 Due from Other Funds	770,976	-	-	770,976
1290 Other Receivables	42,410	11,027	-	53,437
1300 Inventories	-	-	11,266	11,266
1000 Total Assets	<u>\$ 26,407,124</u>	<u>\$ 5,289,956</u>	<u>\$ 1,558,411</u>	<u>\$ 33,255,491</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 52,637	\$ -	\$ 76,805	\$ 129,442
2150 Payroll Deductions and Withholdings Payable	398,506	-	-	398,506
2160 Accrued Wages Payable	940,613	-	24,254	964,867
2170 Due to Other Funds	282,102	-	751,634	1,033,736
2300 Unearned Revenues	-	-	20,617	20,617
2000 Total Liabilities	<u>1,673,858</u>	<u>-</u>	<u>873,310</u>	<u>2,547,168</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	3,156,413	794,181	-	3,950,594
2600 Total Deferred Inflows of Resources	<u>3,156,413</u>	<u>794,181</u>	<u>-</u>	<u>3,950,594</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	685,101	685,101
3480 Retirement of Long-Term Debt	-	4,495,775	-	4,495,775
3490 Other Restricted Fund Balance	509,089	-	-	509,089
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	16,267,764	-	-	16,267,764
3000 Total Fund Balances	<u>21,576,853</u>	<u>4,495,775</u>	<u>685,101</u>	<u>26,757,729</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 26,407,124</u>	<u>\$ 5,289,956</u>	<u>\$ 1,558,411</u>	<u>\$ 33,255,491</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 POSITION  
AUGUST 31, 2015

<b>Total Fund Balances - Governmental Funds</b>	\$ 26,757,729
1 The District uses the internal service fund to charge the costs of certain self-insurance activities to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase (decrease) net position.	201,808
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	40,570,637
3 Property taxes receivable which are not available to pay for current period expenditures are deferred in the governmental fund balance sheets.	3,950,594
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$3,295,597, a Deferred Resource Inflow related to TRS in the amount of \$1,008,133 and a Deferred Resource Outflow related to TRS in the amount of \$863,241. These amounts are not reported in the fund financial statements.	(3,440,489)
5 Payables for unmatured bond principal are not reported in the governmental funds.	(35,397,395)
6 Accrued and accreted interest on long-term debt is not reported in the governmental funds.	(4,596,068)
7 Premiums and discounts on bonds, net of amortization, are not reported in the governmental funds.	(276,850)
8 Deferred amounts from bond refundings, net of amortization, are not reported in the governmental funds.	1,845,298
<b>19 Net Position of Governmental Activities</b>	\$ 29,615,264

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, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 9,516,539	\$ 2,396,005	\$ 357,006	\$ 12,269,550
5800 State Program Revenues	22,113,506	1,077,743	525,739	23,716,988
5900 Federal Program Revenues	698,067	-	3,784,449	4,482,516
5020 Total Revenues	32,328,112	3,473,748	4,667,194	40,469,054
EXPENDITURES:				
Current:				
0011 Instruction	15,882,560	-	2,162,256	18,044,816
0012 Instructional Resources and Media Services	279,512	-	-	279,512
0013 Curriculum and Instructional Staff Development	272,302	-	221,164	493,466
0021 Instructional Leadership	131,852	-	-	131,852
0023 School Leadership	2,135,505	-	-	2,135,505
0031 Guidance, Counseling and Evaluation Services	678,687	-	-	678,687
0032 Social Work Services	17,643	-	15,334	32,977
0033 Health Services	267,077	-	45,049	312,126
0034 Student (Pupil) Transportation	1,666,085	-	-	1,666,085
0035 Food Services	-	-	2,023,906	2,023,906
0036 Extracurricular Activities	788,979	-	-	788,979
0041 General Administration	1,397,255	-	-	1,397,255
0051 Facilities Maintenance and Operations	3,179,768	-	170,300	3,350,068
0052 Security and Monitoring Services	442,313	-	911	443,224
0053 Data Processing Services	425,671	-	-	425,671
0061 Community Services	255	-	1,503	1,758
Debt Service:				
0071 Principal on Long Term Debt	-	663,390	-	663,390
0072 Interest on Long Term Debt	-	2,229,170	-	2,229,170
0073 Bond Issuance Cost and Fees	-	1,794	-	1,794
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	499,361	-	-	499,361
0099 Other Intergovernmental Charges	269,617	-	-	269,617
6030 Total Expenditures	28,334,442	2,894,354	4,640,423	35,869,219
1200 Net Change in Fund Balances	3,993,670	579,394	26,771	4,599,835
0100 Fund Balance - September 1 (Beginning)	17,583,183	3,916,381	658,330	22,157,894
3000 Fund Balance - August 31 (Ending)	\$ 21,576,853	\$ 4,495,775	\$ 685,101	\$ 26,757,729

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, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 4,599,835
The net income (loss) of the internal service fund is reported with governmental activities, but is not included in the governmental funds.	(118,076)
Current year capital outlays are expenditures in the fund financial statements, but increase capital assets in the government-wide financial statements.	506,633
Depreciation of capital assets is included in the statement of activities but not in the fund statements.	(1,704,104)
The undepreciated value of a capital asset disposed of in the current year was reflected in the statement of activities but not in the fund statements.	(23,628)
Repayment of long term debt principal is an expenditure in the fund financial statements but reduces the liability in the statement of net position.	663,390
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.	358,112
The District's adjustments to record it's proportionate share of the net pension liability as required by GASB 68, resulted in recording pension expense as determined by TRS, and de-expending amounts contributed to TRS which were expended in the fund financial statements. This amount is the net change.	293,438
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.	2,135
Accretion on capital appreciation bonds is reflected in the statement of activities but not in the fund statements.	(146,957)
Bond premiums/discounts, and deferred amounts from bond refundings are amortized in the statement of activities but not in the fund statements.	(227,971)
Repayment of accumulated accretion on capital appreciation bonds paid off in fiscal 2014 is an expenditure in the fund statements but reduces the liability in the statement of net position.	846,610
<b>Change in Net Position of Governmental Activities</b>	\$ 5,049,417

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2015

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 158,553
Due from Other Funds	262,760
Total Assets	<u>421,313</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	219,505
Total Liabilities	<u>219,505</u>
NET POSITION	
Restricted for Other Purposes	201,808
Total Net Position	<u><u>\$ 201,808</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 POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Assessments from Other Funds	\$ 19,622
Total Operating Revenues	<u>19,622</u>
OPERATING EXPENSES:	
Other Operating Costs	<u>138,445</u>
Total Operating Expenses	<u>138,445</u>
Operating Income (Loss)	<u>(118,823)</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	<u>747</u>
Total Nonoperating Revenues (Expenses)	<u>747</u>
Change in Net Position	(118,076)
Total Net Position September 1 (Beginning)	<u>319,884</u>
Total Net Position August 31 (Ending)	<u><u>\$ 201,808</u></u>

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, 2015

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 19,622
Cash Payments for Insurance Claims	(142,375)
Net Cash Used for Operating Activities	(122,753)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	747
Net Decrease in Cash and Cash Equivalents	(122,006)
Cash and Cash Equivalents at Beginning of Year	280,559
Cash and Cash Equivalents at End of Year	\$ 158,553
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (118,823)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(3,930)
Net Cash Used for Operating Activities	\$ (122,753)
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 158,553
	\$

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2015

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 901	\$ 83,751
Total Assets	<u>901</u>	<u>\$ 83,751</u>
<b>LIABILITIES</b>		
Due to Other Governments	-	\$ 23,159
Due to Student Groups	-	60,592
Total Liabilities	<u>-</u>	<u>\$ 83,751</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>901</u>	
Total Net Position	<u>\$ 901</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 POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

	Private Purpose Trust Fund
ADDITIONS:	
Assessments from Other Funds	\$ 3,505
Total Additions	<u>3,505</u>
DEDUCTIONS:	
Scholarships	<u>3,500</u>
Total Deductions	<u>3,500</u>
Change in Net Position	5
 Total Net Position September 1 (Beginning)	 <u>896</u>
 Total Net Position August 31 (Ending)	 <u><u>\$ 901</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, 2015

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Cleveland Independent School district (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas.

The basic financial statements of 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 Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Pensions.** The district and its employees participate in a cost-sharing multiple-employer defined benefit pension plan that is administered by the Teacher Retirement System of Texas (TRS). The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS’s fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **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 Position 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 Position 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 the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. The determination of whether resources should be classified as restricted in the government-wide statement of net position begins at the fund level.

### **D. FUND ACCOUNTING**

The District reports the following major governmental funds:

**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** - Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and they are 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 position. Significant bond premiums and discounts, as well as deferred charges for refunding, 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. **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

5. **Fund Balances of Governmental Funds** – Fund balances of the governmental funds are classified as follows:

- Nonexpendable 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).

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

6. **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.

7. **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.
8. **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 G-1, and the other two reports are in Exhibit J-4 and J-5, 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, 2015 <u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Fund	\$685,101
Nonappropriated Budget Funds	<u>0</u>
All Special Revenue Funds	<u>\$685,101</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 Position of Individual Funds –  
The District had no funds at August 31, 2015, 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, 2015, and throughout the fiscal year, the District invested only in savings accounts and money market accounts 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, 2015, and for the year then ended, the District invested only in savings accounts and money market accounts, 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 deposits 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 \$850,307,008.

## **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, 2015 consisted of the following individual fund balances:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Internal Service Fund	\$ 0	\$262,760
Special Revenue Funds	751,634	0
Internal Service Fund:		
General Fund	262,760	0
Special Revenue Funds:		
General Fund	<u>0</u>	<u>751,634</u>
TOTAL	<u>\$1,014,394</u>	<u>\$1,014,394</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, 2015, 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	\$3,634,904	\$2,923,630	\$770,976	\$42,410	\$7,371,920
Debt Service Fund	889,090	0	0	11,027	900,117
Internal Service Fund	0	0	262,760	0	262,760
Other Nonmajor Funds	<u>0</u>	<u>1,348,097</u>	<u>0</u>	<u>0</u>	<u>1,348,097</u>
Total	<u>\$4,523,994</u>	<u>\$4,271,727</u>	<u>\$1,033,736</u>	<u>\$53,437</u>	<u>\$9,882,894</u>
Amount not scheduled for collection during the subsequent year	<u>\$452,400</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$452,400</u>

Payables at August 31, 2015, 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	\$52,637	\$1,339,119	\$282,102	\$1,673,858
Internal Service Fund	219,505	0	0	219,505
Other Nonmajor Funds	<u>76,805</u>	<u>24,254</u>	<u>751,634</u>	<u>852,693</u>
Total	<u>\$348,947</u>	<u>\$1,363,373</u>	<u>\$1,033,736</u>	<u>\$2,746,056</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, 2015, 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	<u>\$999,446</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$999,446</u>
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>4,608,854</u>	<u>506,633</u>	<u>(83,393)</u>	<u>5,032,094</u>
Total Capital Assets being Depreciated	<u>\$61,616,508</u>	<u>\$506,633</u>	<u>(\$83,393)</u>	<u>\$62,039,748</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(\$17,466,906)	(\$1,385,739)	\$ 0	(\$18,852,645)
Furniture and Equipment	<u>(3,357,312)</u>	<u>(318,365)</u>	<u>59,765</u>	<u>(3,615,912)</u>
Total Accumulated Depreciation	<u>(\$20,824,218)</u>	<u>(\$1,704,104)</u>	<u>\$59,765</u>	<u>(\$22,468,557)</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets being Depreciated - Net	<u>\$40,792,290</u>	<u>(\$1,197,471)</u>	<u>(\$23,628)</u>	<u>\$39,571,191</u>
Governmental Activity Capital Assets - Net	<u>\$41,791,736</u>	<u>(\$1,197,471)</u>	<u>(\$23,628)</u>	<u>\$40,570,637</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$1,127,199
School Leadership	41,544
Guidance, Counseling and Evaluation Services	41,544
Student (Pupil) Transportation	142,741
Food Services	191,142
Cocurricular/Extracurricular Activities	38,770
General Administration	27,696
Plant Maintenance and Operations	12,615
Security	11,818
Data Processing Services	<u>69,035</u>
Total Depreciation Expense	<u>\$1,704,104</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, 2015, 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 Refunding Bonds, Series 2006, 4.00-4.375%	\$8,554,989	\$ 0	(\$90,000)	\$8,464,989	\$90,000
Unlimited Tax Refunding Bonds, Series 2007, 4.00%	6,835,000	0	(555,000)	6,280,000	590,000
Unlimited Tax Refunding Bonds, Series 2010, 3.00-4.00%	20,670,796	0	(18,390)	20,652,406	7,550
Issuance Premiums	352,383	0	(19,833)	332,550	0
Issuance Discounts	(59,181)	0	3,481	(55,700)	0
Accretion on Capital Appreciation Bonds	<u>5,211,766</u>	<u>146,957</u>	<u>(846,610)</u>	<u>4,512,113</u>	<u>872,450</u>
Total Bonds Payable	\$41,565,753	\$146,957	(\$1,526,352)	\$40,186,358	\$1,560,000
Other Liabilities -					
Accrued Interest	<u>86,090</u>	<u>83,955</u>	<u>(86,090)</u>	<u>83,955</u>	<u>83,955</u>
Governmental Activities Long-Term Liabilities	<u>\$41,651,843</u>	<u>\$230,912</u>	<u>(\$1,612,442)</u>	<u>\$40,270,313</u>	<u>\$1,643,955</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Deferred Charges for Refunding - Deferred Amount - 2006 Refunding Bonds	(\$343,119)	\$ 0	\$17,386	(\$325,733)	0
Deferred Amount - 2007 Refunding Bonds	(196,197)	0	19,849	(176,348)	0
Deferred Amount - 2010 Refunding Bonds	<u>(1,550,305)</u>	<u>0</u>	<u>207,088</u>	<u>(1,343,217)</u>	<u>0</u>
Total Deferred Charges for Refunding	<u>(\$2,089,621)</u>	<u>\$ 0</u>	<u>\$244,323</u>	<u>(\$1,845,298)</u>	<u>\$ 0</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>
2016	\$687,550	\$2,228,600	\$2,916,150
2017	723,079	2,215,071	2,938,150
2018	761,267	2,202,283	2,963,550
2019	810,510	2,176,640	2,987,150
2020	1,805,000	1,219,575	3,024,575
2021-2025	9,540,204	6,004,659	15,544,863
2026-2030	12,199,785	4,156,134	16,355,919
2031-2033	<u>8,870,000</u>	<u>531,547</u>	<u>9,401,547</u>
Total	<u>\$35,397,395</u>	<u>\$20,734,509</u>	<u>\$56,131,904</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, 2015.

#### **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>
2016	\$109,848
2017	109,848
2018	<u>64,078</u>
Total Minimum Rentals	<u>\$283,774</u>
Rental Expenditures for the Fiscal Year Ended August 31, 2015	<u>\$128,129</u>

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



## I. DEFINED BENEFIT PENSION PLAN

**Plan Description.** Cleveland Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$159,496,075,886
Less: Plan Fiduciary Net Position	<u>(132,779,243,085)</u>
Net Pension Liability	<u>\$26,716,832,801</u>
Net Position as percentage of Total Pension Liability	83.25%

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at the age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at the age of 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015 (using the state year end of August 31).

### Contribution Rates

	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Cleveland ISD 2014 Employer Contributions		\$ 312,798
Cleveland ISD 2014 Member Contributions		\$1,153,157
Cleveland ISD 2014 NECE On-Behalf Contributions		\$ 921,918

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriation Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during the fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**Actuarial Assumptions.** The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Years Market Value
Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%

*\*Includes Inflation of 3%*

The Actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

**Discount Rate.** The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Rate of Return*</u>
<b>Global Equity</b>			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha	<u>0%</u>	0.0%	<u>1.0%</u>
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

*\*The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate <u>(7.0%)</u>	Discount Rate <u>(8.0%)</u>	1% Increase in Discount Rate <u>(9.0%)</u>
Cleveland ISD's proportionate share of the net pension liability:	\$5,889,032	\$3,295,597	\$1,356,191

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2015, Cleveland Independent School District reported a liability of \$3,295,597 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Cleveland Independent School District. The amount recognized by Cleveland Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Cleveland Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$3,295,597
State's proportionate share that is associated with the District	<u>9,733,933</u>
Total	<u>\$13,029,530</u>

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 thru August 31, 2014.

As of August 31, 2014 the employer's proportion of the collective net pension liability was .000123378. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, Cleveland Independent School District recognized pension expense of \$899,884 and revenue of \$899,884 for support provided by the State.

At August 31, 2014, Cleveland Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$50,967	\$ -
Changes in actuarial assumptions	214,217	-
Difference between projected and actual investment earnings	-	1,007,269
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	864
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	-	-
Total	<u>\$265,184</u>	<u>\$1,008,133</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended August 31:</u>	<u>Pension Expense Amount</u>
2015	(\$207,226)
2016	(207,226)
2017	(207,226)
2018	(207,226)
2019	44,591
Thereafter	41,364

At August 31, 2015, the District reported Deferred Resource Outflows and Deferred Resource Inflows for the TRS pension plan as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts as of August 31, 2014 Measurement Date	\$265,184	\$1,008,133
Contributions made subsequent to the Measurement Date	598,057	0
2015 Amortization of Deferred Outflows and Inflows	<u>0</u>	<u>0</u>
Amounts Reported by District as of August 31, 2015	<u>\$863,241</u>	<u>\$1,008,133</u>

#### **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](http://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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015, 2014 and 2013:

<u>Contribution Rates</u>						
<u>Year</u>	<u>Active Member</u>		<u>State</u>		<u>School District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2015	.65%	\$125,188	1.0%	\$175,715	.55%	\$122,788
2014	.65%	\$117,116	1.0%	\$166,910	.55%	\$112,369
2013	.65%	\$106,282	0.5%	\$76,668	.55%	\$95,019

**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 \$56,279.

## **K. HEALTH CARE COVERAGE**

During the year ended August 31, 2015, the District participated in the TRS Active Care Health Insurance Plan administered by the State.

The District paid \$229.00-\$408.00 per month for employee only health coverage under this plan, and up to \$882.00 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 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 2015 and 2014 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>2015</u>				
Incurred Claims	\$29,412	\$140,513	\$122,753	\$47,172
Incurred but not Reported (Estimated)	<u>194,023</u>	<u>(21,690)</u>	<u>N/A</u>	<u>172,333</u>
Total	<u>\$223,435</u>	<u>\$118,823</u>	<u>\$122,753</u>	<u>\$219,505</u>
<u>2014</u>				
Incurred Claims	\$15,747	\$163,693	\$150,028	\$29,412
Incurred but not Reported (Estimated)	<u>179,268</u>	<u>14,755</u>	<u>N/A</u>	<u>194,023</u>
Total	<u>\$195,015</u>	<u>\$178,448</u>	<u>\$150,028</u>	<u>\$223,435</u>

## M. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Unearned State Revenue	\$ 0	\$9,351	\$9,351
Food Service Commodity Inventory	<u>0</u>	<u>11,266</u>	<u>11,266</u>
Total	<u>\$ 0</u>	<u>\$20,617</u>	<u>\$20,617</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, 2015, are summarized below:

<u>Fund</u>	<u>State Entitlements and Grants</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$2,920,951	\$2,679	\$2,923,630
Special Revenue	<u>357,600</u>	<u>990,497</u>	<u>1,348,097</u>
	<u>\$3,278,551</u>	<u>\$993,176</u>	<u>\$4,271,727</u>

Amounts due from the State in the General Fund includes \$670,866 of estimated funds earned in August 2015, for days of instruction in the 2015-2016 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	\$8,611,093	\$ 0	\$2,274,772	\$ 0	\$10,885,865
Penalties, Interest and Other					
Tax Related Income	460,863	0	104,565	0	565,428
Investment Income	71,471	2,652	16,668	747	91,538
Payments in Lieu of Taxes	187,340	0	0	0	187,340
Food Sales	0	350,429	0	0	350,429
Other	<u>185,772</u>	<u>3,925</u>	<u>0</u>	<u>19,622</u>	<u>209,319</u>
Total	<u>\$9,516,539</u>	<u>\$357,006</u>	<u>\$2,396,005</u>	<u>\$20,369</u>	<u>\$12,289,919</u>

## **P. LITIGATION AND CONTINGENCIES**

At August 31, 2015, 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 2014-2015 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 2015-16 fiscal year to be paid from the General Fund. It is anticipated that bonds authorized subsequent to the end of the current fiscal year, will be issued in the fiscal year 2016. Proceeds of approximately \$35 million will be used for facility expansion and improvements.

## **R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS**

The District participates in the Southeast Texas Cooperative, a shared service arrangement for special education. The Liberty Independent School District is the fiscal agent manager and is responsible for reporting all financial activities of the Cooperative. The member districts provide funds for the fiscal agent, with these expenditures being recorded to account 93-6492 in the general operating fund. Total payments from the Cleveland Independent School District to the cooperative in 2015 were \$499,361. The cooperative also receives funds directly from grantor agencies and accounts for activity relative to these projects using Model 2 in the SSA section of the TEA Resource Guide.

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 \$23,782.

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.

## **S. SUBSEQUENT EVENTS**

Subsequent to the end of the current fiscal year, the District authorized the issuance of School Building Bonds, which were approved by the voters November 3, 2015. The net funds from the bond issuance of \$35 million includes funds for the significant improvement, expansion, and repurposing of all elementary campuses and the middle school, and other district-wide improvements.



## **T. PRIOR PERIOD ADJUSTMENT**

During fiscal 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. Under GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment was \$3,733,927. The restated beginning net position was \$24,565,847. The effect of these two statements on the District's 2013 annual financial statements.

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### ***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, 2015

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	\$ 8,414,350	\$ 9,498,361	\$ 9,516,539	\$ 18,178
5800	State Program Revenues	22,065,824	19,853,927	22,113,506	2,259,579
5900	Federal Program Revenues	262,600	678,616	698,067	19,451
5020	Total Revenues	30,742,774	30,030,904	32,328,112	2,297,208
EXPENDITURES:					
Current:					
0011	Instruction	16,704,226	16,302,227	15,882,560	419,667
0012	Instructional Resources and Media Services	417,719	340,376	279,512	60,864
0013	Curriculum and Instructional Staff Development	550,224	343,937	272,302	71,635
0021	Instructional Leadership	125,253	161,435	131,852	29,583
0023	School Leadership	2,171,540	2,204,950	2,135,505	69,445
0031	Guidance, Counseling and Evaluation Services	772,443	715,814	678,687	37,127
0032	Social Work Services	15,955	24,000	17,643	6,357
0033	Health Services	506,043	303,212	267,077	36,135
0034	Student (Pupil) Transportation	2,412,699	1,927,557	1,666,085	261,472
0036	Extracurricular Activities	961,476	887,395	788,979	98,416
0041	General Administration	1,500,142	1,500,142	1,397,255	102,887
0051	Facilities Maintenance and Operations	3,817,561	3,384,145	3,179,768	204,377
0052	Security and Monitoring Services	437,718	512,223	442,313	69,910
0053	Data Processing Services	489,600	502,106	425,671	76,435
0061	Community Services	1,300	1,300	255	1,045
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of	488,183	515,000	499,361	15,639
0099	Other Intergovernmental Charges	350,000	270,000	269,617	383
6030	Total Expenditures	31,722,082	29,895,819	28,334,442	1,561,377
1100	Excess (Deficiency) of Revenues Over Expenditures	(979,308)	135,085	3,993,670	3,858,585
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	300	-	-	-
1200	Net Change in Fund Balances	(979,008)	135,085	3,993,670	3,858,585
0100	Fund Balance - September 1 (Beginning)	17,583,183	17,583,183	17,583,183	-
3000	Fund Balance - August 31 (Ending)	\$ 16,604,175	\$ 17,718,268	\$ 21,576,853	\$ 3,858,585

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT G-6

	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0123378%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 3,295,597
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	9,733,933
Total	<u>\$ 13,029,530</u>
District's Covered-Employee Payroll	\$ 18,017,998
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its covered-Employee Payroll	18.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2015

EXHIBIT G-7

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	<u>2015</u>
Contractually Required Contribution	\$ 598,057
Contribution in Relation to the Contractually Required Contribution	(598,057)
	<u>\$ -0-</u>
Contribution Deficiency (Excess)	<u><u>\$ -0-</u></u>
District's Covered-Employee Payroll	\$ 19,259,052
Contributions as a Percentage of Covered-Employee Payroll	3.11%

Note: GASB 68, Paragraph 81,2,b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2015

*Changes of benefit terms.*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes of assumptions.*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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***OTHER SUPPLEMENTARY INFORMATION -  
REQUIRED TEA SCHEDULES***

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2015

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2006 and prior years	Various	Various	\$ Various
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	1.040000	0.27500	710,410,722
2013	1.040000	0.27500	714,875,011
2014	1.040000	0.27500	757,768,745
2015 (School year under audit)	1.040000	0.27500	850,307,008
100 TOTALS			

(10) Beginning Balance 9/1/2014	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2015
\$ 593,718	\$ -	\$ 19,561	\$ 3,815	\$ 2,994	\$ 573,336
158,574	-	9,081	1,906	(452)	147,135
196,982	-	11,732	3,101	(317)	181,832
266,172	-	23,359	6,177	(178)	236,458
346,003	-	40,161	10,618	2,657	297,881
386,224	-	50,504	13,351	13,002	335,371
472,307	-	65,770	17,389	11,637	400,785
644,920	-	162,895	43,066	15,376	454,335
1,061,191	-	347,005	91,745	16,517	638,958
-	11,181,537	7,881,025	2,083,604	40,995	1,257,903
<u>\$ 4,126,091</u>	<u>\$ 11,181,537</u>	<u>\$ 8,611,093</u>	<u>\$ 2,274,772</u>	<u>\$ 102,231</u>	<u>\$ 4,523,994</u>

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, 2015

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	\$ 343,700	\$ 355,429	\$ 356,732	\$ 1,303
5800	State Program Revenues	32,965	17,573	39,176	21,603
5900	Federal Program Revenues	1,623,140	1,808,184	1,808,108	(76)
5020	Total Revenues	1,999,805	2,181,186	2,204,016	22,830
EXPENDITURES:					
0035	Food Services	2,063,534	2,007,575	2,007,545	30
0051	Facilities Maintenance and Operations	172,246	172,246	169,700	2,546
6030	Total Expenditures	2,235,780	2,179,821	2,177,245	2,576
1200	Net Change in Fund Balances	(235,975)	1,365	26,771	25,406
0100	Fund Balance - September 1 (Beginning)	658,330	658,330	658,330	-
3000	Fund Balance - August 31 (Ending)	\$ 422,355	\$ 659,695	\$ 685,101	\$ 25,406

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, 2015

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	\$ 1,985,876	\$ 2,392,592	\$ 2,396,005	\$ 3,413
5800	State Program Revenues	1,196,264	1,077,743	1,077,743	-
5020	Total Revenues	3,182,140	3,470,335	3,473,748	3,413
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	663,390	663,390	663,390	-
0072	Interest on Long Term Debt	2,229,170	2,229,170	2,229,170	-
0073	Bond Issuance Cost and Fees	3,000	3,000	1,794	1,206
6030	Total Expenditures	2,895,560	2,895,560	2,894,354	1,206
1200	Net Change in Fund Balances	286,580	574,775	579,394	4,619
0100	Fund Balance - September 1 (Beginning)	3,916,381	3,916,381	3,916,381	-
3000	Fund Balance - August 31 (Ending)	\$ 4,202,961	\$ 4,491,156	\$ 4,495,775	\$ 4,619

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***REPORTS ON COMPLIANCE, INTERNAL CONTROL, AND FEDERAL AWARDS***

# WIGGINS & SMITH

*Certified Public Accountants*

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

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

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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

Members of the Board:

We have audited, in accordance with the 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, the 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 as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2015.

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

In planning and performing our audit of the financial statements, we considered the Cleveland Independent School District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wiggins & Smith*

WIGGINS & SMITH

*Certified Public Accountants*

*December 7, 2015*

# WIGGINS & SMITH

*Certified Public Accountants*

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

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## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133**

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

Members of the Board:

### **Report on Compliance for Each Major Federal Program**

We have audited Cleveland Independent School District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2015. 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.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion for each of the Cleveland Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Cleveland Independent School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Cleveland Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

## Report on Internal Control Over Compliance

The administration of Cleveland Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Wiggins & Smith*  
WIGGINS & SMITH  
Certified Public Accountants

December 7, 2015

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2015

**I. Summary of the Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

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: Unmodified

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:

CFDA Numbers

Name of Federal Program or Cluster

84.010a

ESEA, Title I, Part A - Improving Basic Programs and  
School Improvement Programs (cluster)

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, 2015

(Prepared by the District's Administration)

No response required.

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2015

(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, 2015

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF DEFENSE</b>			
<u>Direct Programs</u>			
R.O.T.C	12.000	146901	\$ 48,548
Total Direct Programs			\$ 48,548
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			\$ 48,548
 <b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through San Jacinto &amp; Montgomery Counties</u>			
Impact Aid - P.L. 81.874	84.041	146901	\$ 4,933
Total Passed Through San Jacinto & Montgomery Counties			\$ 4,933
<u>Passed Through Southeast Texas Cooperative</u>			
*IDEA - Part B, Formula	84.027A	156600011469066600	\$ 172,195
*IDEA - Part B, High Cost	84.027A	156600011469066680	45,049
Total CFDA Number 84.027A			217,244
Total Special Education Cluster (IDEA)			217,244
Total Passed Through Southeast Texas Cooperative			\$ 217,244
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101146901	\$ 1,159,922
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	14610112146901102	45,032
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	15610112146901102	141,016
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	15610112146901041	15,975
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	15610112146901001	17,000
Total CFDA Number 84.010A			1,378,945
Total Title I, Part A Cluster			1,378,945
Career and Technical - Basic Grant	84.048A	15420006146901	55,790
Title III, Part A - English Language Acquisition	84.365A	15671001146901	69,779
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15694501146901	233,497
Summer School LEP	84.369A	69551404	4,400
Total Passed Through State Department of Education			\$ 1,742,411
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			\$ 1,964,588
 <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	146901	\$ 21,771
Total Passed Through Texas Dept of Human Services			\$ 21,771
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			\$ 21,771

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2015

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401501	\$ 420,259
*National School Lunch Program - Cash Assistance	10.555	71301501	1,260,989
*National School Lunch Prog. - Non-Cash Assistance	10.555	146004A	126,860
Total CFDA Number 10.555			<u>1,387,849</u>
*Summer Feeding Program - Cash Assistance	10.559	146901	16,686
Total Child Nutrition Cluster			<u>1,824,794</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,824,794</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>\$ 1,824,794</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u><u>\$ 3,859,701</u></u>

\*Clustered Programs



CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2015

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	\$ 3,859,701
Amount Reported in the General Fund as part of the School Health and Related Services – Not Included in the Schedule of Federal Awards	<u>622,815</u>
Total Federal Revenues per Exhibit C-3	<u>\$ 4,482,516</u>