

CLEVELAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

Cleveland Independent School District
Annual Financial Report
For the Year Ended August 31, 2016

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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, 2016 at a meeting of the Board of Trustees of such school district on the 17th day of January, 2017.

Kelly Jenkel-Axton
Signature of Board Secretary

Chris Wood
Signature of Board President

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

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FINANCIAL SECTION

WIGGINS & SMITH

Certified Public Accountants

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

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

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, 2016 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, 2016, 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.

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 54-56 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 the Uniform Guidance, 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 20, 2016, 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 20, 2016

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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, 2016. Please read it in conjunction with the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$4,560,999, or 15.4%, primarily as a result of this year's positive result of operations.
- Total cost of all of the District's programs was \$40,705,984 in fiscal 2016, which represents approximately a 14.2% increase from the prior year total program costs.
- The General Fund ended the year with a fund balance of \$25,010,272, an increase of \$3,433,419 from the prior year-end.
- The District had capital expenditures during the current year totaling \$3,254,486. These expenditures included the purchase of 7 buses, modular buildings for classrooms, other equipment, land, and commencement of renovation and construction of facilities authorized in the bond referendum of November 3, 2015.
- During the current 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. These bonds were issued in April 2016 (face current of \$30,715,000 with a premium of \$4,698,516). Additionally, the District issued refunding bonds in November, 2015, for \$7,370,000, with the proceeds used to refund \$8,010,000 of the District's Series 2006 bonds. The refunding will reduce total debt payments by \$1,338,018 over the next 16 years, producing an economic benefit of approximately \$1,073,075.

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 31) 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 28 and 29. 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 \$29,615,264 to \$34,176,263. 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 \$24,603,629 at August 31, 2016, an increase of \$3,109,044 from the prior year end.

Table I
Cleveland Independent School District

NET POSITION

	<u>Governmental Activities</u> <u>2016</u>	<u>2015</u>	<u>Increase</u> <u>(Decrease)</u>
Current and other assets	\$71,096,580	\$32,643,068	\$38,453,512
Capital assets, net	42,099,349	40,570,637	1,528,712
Deferred charges for refunding	1,864,725	1,845,298	19,427
Deferred outflows related to TRS	<u>3,746,946</u>	<u>863,241</u>	<u>2,883,705</u>
Total assets and deferred outflow of resources	<u>\$118,807,600</u>	<u>\$75,922,244</u>	<u>\$42,885,356</u>
Noncurrent liabilities	\$81,621,066	\$43,565,910	\$38,055,156
Other liabilities	2,478,829	1,732,937	745,892
Deferred inflows related to TRS	<u>531,442</u>	<u>1,008,133</u>	<u>(476,691)</u>
Total liabilities and deferred inflows	<u>\$84,631,337</u>	<u>\$46,306,980</u>	<u>\$38,324,357</u>
Net Position:			
Invested in capital assets, net of related debt	\$2,590,467	\$2,229,577	\$360,890
Restricted	6,982,167	5,891,102	1,091,065
Unrestricted	<u>24,603,629</u>	<u>21,494,585</u>	<u>3,109,044</u>
Total net position	<u>\$34,176,263</u>	<u>\$29,615,264</u>	<u>\$4,560,999</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 \$4,560,999.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

- (2) Significant increase in assets and liabilities resulting from the issuance of building bonds for \$35.7 million (including premium) and utilization of a small portion of those resources for construction projects.
- (3) Amounts recorded to reflect the District's proportional share of the Net Pension Liability of the Teacher Retirement System of Texas, including an increase in deferred outflows of \$2,883,705, a decrease in deferred inflows of \$476,691, and an increase in the Net Pension Liability of \$3,846,389, with the net effect being a reduction in net position of \$485,993.

Unrestricted net position includes \$8,800,000 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>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Revenues:			
Program Revenues:			
Charges for services	\$640,194	\$648,545	(\$8,351)
Operating grants and contributions	6,974,700	6,210,629	764,071
General Revenues:			
Maintenance and operations taxes	9,670,352	8,892,729	777,623
Debt service taxes	2,565,572	2,351,248	214,324
State aid – formula grants	24,674,595	21,988,875	2,685,720
Investment earnings	151,766	91,538	60,228
Miscellaneous and other	<u>589,804</u>	<u>501,898</u>	<u>87,906</u>
Total Revenues	<u>\$45,266,983</u>	<u>\$40,685,462</u>	<u>\$4,581,521</u>
Expenses:			
Instruction, curriculum and media services	\$22,686,206	\$19,610,526	\$3,075,680
Instructional and school leadership	2,581,017	2,291,296	289,721
Student support services	2,840,450	2,563,245	277,205
Child nutrition	2,519,009	2,123,640	395,369
Cocurricular activities	971,397	821,881	149,516
General administration	1,495,925	1,419,083	76,842
Plant maintenance, security and data processing	4,772,513	4,278,491	494,022
Community services	8,191	1,758	6,433
Debt services – interest and fees	2,097,645	1,757,147	340,498
Capital outlay	41,410	0	4,410
Payments related to shared service arrangements	392,609	499,361	(106,752)
Other intergovernmental charges-CAD	<u>299,612</u>	<u>269,617</u>	<u>29,995</u>
Total Expenses	<u>\$40,705,984</u>	<u>\$35,636,045</u>	<u>\$5,069,939</u>
Increase (decrease) in net position	\$4,560,999	\$5,049,417	(\$488,418)
Net position at beginning of year	29,615,264	28,299,774	1,315,490
Prior period adjustment – net pension liability	<u>0</u>	<u>(3,733,927)</u>	<u>3,733,927</u>
Net position at end of year	<u>\$34,176,263</u>	<u>\$29,615,264</u>	<u>\$4,560,999</u>

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

The District's total revenues increased approximately 11.3% from prior year revenues. The total cost of all programs and services increased by 11.4% from prior year costs.

The District's primary sources of revenues include local taxes (28%), state aid from formula grants (55%), 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 (56%).

The increase in total revenues includes the following factors:

- (1) Overall property tax revenues, increased \$991,947, or 8.8% from the prior year, primarily as a result of an increase in taxable value of 9.6%.
- (2) State aid from formula grants increased for the 2015-2016 school year by \$2,685,720 or 12.2%. 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 of \$411,126 in federal funding relative to the National School Lunch Program, increase in Title I program funding of \$163,095, and an increase in state on-behalf revenue for the year.

The increase in expenses is primarily the result of an overall increase in staff which produced an increase in payroll costs of approximately \$2.9 million. Other increases in expenses for the year included district-wide increases in maintenance and operating costs, increased interest and fees on debt, and increased expenses relative to the District's proportionate share of the TRS net pension liability.

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Individual Funds

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

As of August 31, 2016, the District's governmental funds reported combined ending fund balances of \$64,229,225, including \$32,961,478 in the Capital Projects Fund, which is restricted for capital acquisition and construction. The remaining fund balances include \$5,400,769 which is externally restricted for debt service, and \$856,706 which is restricted for use in the food service program.

The General Fund is the main operating fund of the District. At the end of the current fiscal year, the total fund balance of the General Fund was \$25,010,272, including \$497,127 which is considered restricted for technology and \$6,800,000 which has been assigned to future construction or improvements, and \$2,000,000 assigned to future contingencies. The remaining fund balance in the General Fund of \$15,713,145 is unassigned.

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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year ended August 31, 2016, 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 and to increase the capital outlay budget. 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 up 6.7% during the year, with expenditure appropriations being increased by approximately 1.7% from the original budget to the final amended budget.

As indicated on the Budgetary Comparison Schedule – General Fund on page 54, the overall budget variance for the year was positive, and there were no negative variances for any of the expenditure functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2016, the District had \$66,293,680 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 \$3,254,486 above the prior year totals.

This year's major additions included:

Land	\$19,813
Special Education Bus	92,160
6 – 77 Passenger Buses	539,850
Ford Explores SUV – Police Equipped	35,470
Modular Buildings	440,726
Other equipment	44,154
Construction in Progress	<u>2,082,313</u>
Net additions	<u>\$3,254,486</u>

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

Debt

As discussed in the Financial Highlights, the District issued School Building Bonds, Series 2016, and Tax Refunding Bonds, Series 2015 in the current year.

Following is a summary of the outstanding long-term liabilities at August 31, 2016. More detailed information regarding these outstanding obligations is presented in Note III.F to the financial statements.

Analysis of Long-Term Liabilities

	Governmental Activities <u>August 31, 2016</u>
Unlimited Tax Refunding Bonds – Series 2006	\$364,989
Unlimited Tax Refunding Bonds – Series 2007	5,690,000
Unlimited Tax Refunding Bonds – Series 2010	20,644,856
Unlimited Tax Refunding Bonds – Series 2015	7,225,000
Unlimited Tax School Building Bonds – Series 2016	30,715,000
Premiums and Accumulated Accretion	9,695,240
Accrued Interest	<u>144,595</u>
Total Long-Term Liabilities	<u>\$74,479,680</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2017 budget and tax rates. Following are some items considered:

- Student enrollment for 2016-2017 is projected to increase approximately 5-8%.
- 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 \$0.34/\$100 valuation for 2016-2017.
- Preliminary estimates of State foundation program entitlements for the General Fund for the 2016-2017 school year indicate that the District should receive approximately \$23.5 million, a decrease of approximately 5.4% from the 2015-2016 actual State foundation revenue.

After considering all factors, an operating budget for the General Fund of \$36,643,460 was adopted, a 13.3% increase from the fiscal 2016 actual expenditures. The budget increase includes significant increases in payroll costs as a result of restructuring of the local step structure, an increase in starting salaries, and an anticipated increase in the overall number of personnel of approximately 70. 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, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 62,720,557
1220 Property Taxes Receivable (Delinquent)	4,877,605
1230 Allowance for Uncollectible Taxes	(487,760)
1240 Due from Other Governments	3,904,405
1290 Other Receivables, net	76,543
1300 Inventories	5,230
Capital Assets:	
1510 Land	1,019,259
1520 Buildings, Net	37,224,484
1530 Furniture and Equipment, Net	1,773,293
1580 Construction in Progress	2,082,313
1000 Total Assets	113,195,929
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,864,725
1705 Deferred Outflow Related to TRS	3,746,946
1700 Total Deferred Outflows of Resources	5,611,671
LIABILITIES	
2110 Accounts Payable	632,907
2150 Payroll Deductions & Withholdings	226,702
2160 Accrued Wages Payable	1,590,063
2300 Unearned Revenue	28,557
Noncurrent Liabilities	
2501 Due Within One Year	1,714,595
2502 Due in More Than One Year	72,765,085
2540 Net Pension Liability (District's Share)	7,141,986
2000 Total Liabilities	84,099,895
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	531,442
2600 Total Deferred Inflows of Resources	531,442
NET POSITION	
3200 Net Investment in Capital Assets	2,590,467
3820 Restricted for Federal and State Programs	856,706
3850 Restricted for Debt Service	6,125,461
3900 Unrestricted	24,603,629
3000 Total Net Position	\$ 34,176,263

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, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 21,932,919	\$ 235,858	\$ 3,613,427	\$ (18,083,634)
12 Instructional Resources and Media Services	298,386	-	28,634	(269,752)
13 Curriculum and Staff Development	454,901	-	245,810	(209,091)
21 Instructional Leadership	139,006	-	8,332	(130,674)
23 School Leadership	2,442,011	-	172,676	(2,269,335)
31 Guidance, Counseling and Evaluation Services	837,019	-	116,551	(720,468)
33 Health Services	334,372	-	82,520	(251,852)
34 Student (Pupil) Transportation	1,669,059	-	106,492	(1,562,567)
35 Food Services	2,519,009	350,307	2,108,528	(60,174)
36 Extracurricular Activities	971,397	44,931	37,905	(888,561)
41 General Administration	1,495,925	-	88,971	(1,406,954)
51 Facilities Maintenance and Operations	3,652,270	9,098	307,115	(3,336,057)
52 Security and Monitoring Services	522,750	-	32,066	(490,684)
53 Data Processing Services	597,493	-	18,580	(578,913)
61 Community Services	8,191	-	7,093	(1,098)
72 Debt Service - Interest on Long Term Debt	1,525,496	-	-	(1,525,496)
73 Debt Service - Bond Issuance Cost and Fees	572,149	-	-	(572,149)
81 Capital Outlay	41,410	-	-	(41,410)
93 Payments related to Shared Services Arrangements	392,609	-	-	(392,609)
99 Other Intergovernmental Charges	299,612	-	-	(299,612)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 40,705,984</u>	<u>\$ 640,194</u>	<u>\$ 6,974,700</u>	<u>(33,091,090)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			9,670,352
DT	Property Taxes, Levied for Debt Service			2,565,572
GC	Grants and Contributions not Restricted			24,674,595
IE	Investment Earnings			151,766
MI	Miscellaneous Local and Intermediate Revenue			589,804
TR	Total General Revenues			<u>37,652,089</u>
CN	Change in Net Position			4,560,999
NB	Net Position - Beginning			<u>29,615,264</u>
NE	Net Position--Ending			<u>\$ 34,176,263</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 23,473,258	\$ 5,378,872	\$ 33,172,743
1220 Property Taxes - Delinquent	3,905,064	972,541	-
1230 Allowance for Uncollectible Taxes (Credit)	(390,506)	(97,254)	-
1240 Receivables from Other Governments	3,507,040	-	-
1260 Due from Other Funds	-	-	-
1290 Other Receivables	60,646	15,897	-
1300 Inventories	-	-	-
1000 Total Assets	<u>\$ 30,555,502</u>	<u>\$ 6,270,056</u>	<u>\$ 33,172,743</u>
LIABILITIES			
2110 Accounts Payable	\$ 120,339	\$ -	\$ 211,265
2150 Payroll Deductions and Withholdings Payable	226,702	-	-
2160 Accrued Wages Payable	1,535,529	-	-
2170 Due to Other Funds	263,102	-	-
2300 Unearned Revenues	-	-	-
2000 Total Liabilities	<u>2,145,672</u>	<u>-</u>	<u>211,265</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	3,399,558	869,287	-
2600 Total Deferred Inflows of Resources	<u>3,399,558</u>	<u>869,287</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	32,961,478
3480 Retirement of Long-Term Debt	-	5,400,769	-
3490 Other Restricted Fund Balance	497,127	-	-
Assigned Fund Balance:			
3550 Construction	6,800,000	-	-
3590 Other Assigned Fund Balance	2,000,000	-	-
3600 Unassigned Fund Balance	15,713,145	-	-
3000 Total Fund Balances	<u>25,010,272</u>	<u>5,400,769</u>	<u>32,961,478</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 30,555,502</u>	<u>\$ 6,270,056</u>	<u>\$ 33,172,743</u>

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

		Total	
Other		Governmental	
Funds		Funds	
\$	635,298	\$	62,660,171
	-		4,877,605
	-		(487,760)
	397,365		3,904,405
	342		342
	-		76,543
	5,230		5,230
<u>\$</u>	<u>1,038,235</u>	<u>\$</u>	<u>71,036,536</u>
\$	98,438	\$	430,042
	-		226,702
	54,534		1,590,063
	-		263,102
	28,557		28,557
	<u>181,529</u>		<u>2,538,466</u>
	-		4,268,845
	-		4,268,845
	856,706		856,706
	-		32,961,478
	-		5,400,769
	-		497,127
	-		6,800,000
	-		2,000,000
	-		15,713,145
	<u>856,706</u>		<u>64,229,225</u>
<u>\$</u>	<u>1,038,235</u>	<u>\$</u>	<u>71,036,536</u>

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$ 64,229,225
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.	120,281
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	42,099,349
3 Property taxes receivable which are not available to pay for current period expenditures are deferred in the governmental fund balance sheets.	4,268,845
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 \$7,141,986, a Deferred Resource Inflow related to TRS in the amount of \$531,442, and a Deferred Resource Outflow related to TRS in the amount of \$3,746,946. These amounts are not reported in the fund financial statements.	(3,926,482)
5 Payables for unmatured bond principal are not reported in the governmental funds.	(64,639,845)
6 Accrued and accreted interest on long-term debt is not reported in the governmental funds.	(3,920,137)
7 Premiums and discounts on bonds, net of amortization, are not reported in the governmental funds.	(5,919,698)
8 Deferred amounts from bond refundings, net of amortization, are not reported in the governmental funds.	1,864,725
19 Net Position of Governmental Activities	<u><u>\$ 34,176,263</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 10,346,905	\$ 2,637,067	\$ 43,791
5800 State Program Revenues	24,818,820	1,175,632	-
5900 Federal Program Revenues	610,098	-	-
5020 Total Revenues	35,775,823	3,812,699	43,791
EXPENDITURES:			
Current:			
0011 Instruction	18,207,987	-	-
0012 Instructional Resources and Media Services	281,044	-	-
0013 Curriculum and Instructional Staff Development	215,088	-	-
0021 Instructional Leadership	133,904	-	-
0023 School Leadership	2,317,903	-	-
0031 Guidance, Counseling and Evaluation Services	768,422	-	-
0033 Health Services	303,720	-	-
0034 Student (Pupil) Transportation	2,103,828	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	922,193	-	-
0041 General Administration	1,429,198	-	-
0051 Facilities Maintenance and Operations	3,391,367	-	-
0052 Security and Monitoring Services	530,165	-	-
0053 Data Processing Services	542,317	-	-
0061 Community Services	1,098	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	832,550	-
0072 Interest on Long Term Debt	-	2,075,223	-
0073 Bond Issuance Cost and Fees	-	158,633	413,516
Capital Outlay:			
0081 Facilities Acquisition and Construction	501,949	-	2,082,313
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	392,609	-	-
0099 Other Intergovernmental Charges	299,612	-	-
6030 Total Expenditures	32,342,404	3,066,406	2,495,829
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	3,433,419	746,293	(2,452,038)
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued (Regular Bonds)	-	7,370,000	30,715,000
7916 Premium or Discount on Issuance of Bonds	-	968,014	4,698,516
8949 Other (Uses)	-	(8,179,313)	-
7080 Total Other Financing Sources (Uses)	-	158,701	35,413,516
1200 Net Change in Fund Balances	3,433,419	904,994	32,961,478
0100 Fund Balance - September 1 (Beginning)	21,576,853	4,495,775	-
3000 Fund Balance - August 31 (Ending)	\$ 25,010,272	\$ 5,400,769	\$ 32,961,478

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

		Total	
Other		Governmental	
Funds		Funds	
\$	353,201	\$	13,380,964
	161,966		26,156,418
	4,295,868		4,905,966
	4,811,035		44,443,348
	1,904,627		20,112,614
	8,794		289,838
	233,033		448,121
	-		133,904
	-		2,317,903
	-		768,422
	22,000		325,720
	-		2,103,828
	2,275,748		2,275,748
	-		922,193
	-		1,429,198
	187,226		3,578,593
	909		531,074
	-		542,317
	7,093		8,191
	-		832,550
	-		2,075,223
	-		572,149
	-		2,584,262
	-		392,609
	-		299,612
	4,639,430		42,544,069
	171,605		1,899,279
	-		38,085,000
	-		5,666,530
	-		(8,179,313)
	-		35,572,217
	171,605		37,471,496
	685,101		26,757,729
\$	856,706	\$	64,229,225

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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 37,471,496
The net income (loss) of the internal service fund is reported with governmental activities, but is not included in the governmental funds.	(81,527)
Current year capital outlays are expenditures in the fund financial statements, but increase capital assets in the government-wide financial statements.	3,254,486
Depreciation of capital assets is included in the statement of activities but not in the fund statements.	(1,725,774)
Proceeds from the issuance of building bonds and refunding bonds in the current year, net of amounts paid to refund prior year issues, are recorded as financing sources and uses in the fund financial statements, but capitalized in the government wide statements.	(35,572,217)
Repayment of long term debt principal is an expenditure in the fund financial statements but reduces the liability in the statement of net position.	832,550
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 is this amount.	318,251
The implementation of GASB 68 required the following: (1) Contributions made after the measurement date of 8/31/2015 of \$725,127 were de-expended; (2) Contributions made before the measurement date and during the previous fiscal year were expended in the current year for \$598,057; (3) The District's proportionate share of the aggregate TRS pension expense was expended for \$613,063. The net result was a decrease in net position of \$485,993.	(485,993)
Interest is accrued on long term debt for the statement of activities. The increase in accrued interest from the beginning of the year to the end of the year is this amount.	(60,640)
Accretion on capital appreciation bonds is reflected in the statement of activities but not in the fund statements.	(135,879)
Bond premiums/discounts, and deferred amounts from bond refundings are amortized in the statement of activities but not in the fund statements.	(126,204)
Repayment of accumulated accretion on capital appreciation bonds paid off in fiscal 2016 is an expenditure in the fund statements but reduces the liability in the statement of net position.	872,450
Change in Net Position of Governmental Activities	<u><u>\$ 4,560,999</u></u>

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, 2016

	Governmental Activities -
	Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 60,386
Due from Other Funds	<u>262,760</u>
Total Assets	<u>323,146</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>202,865</u>
Total Liabilities	<u>202,865</u>
NET POSITION	
Restricted for Other Purposes	<u>120,281</u>
Total Net Position	<u><u>\$ 120,281</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, 2016

	Governmental Activities -
	Internal Service Fund
OPERATING EXPENSES:	
Insurance and Bonds	\$ 81,945
Total Operating Expenses	81,945
Operating Income (Loss)	(81,945)
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	418
Total Nonoperating Revenues (Expenses)	418
Change in Net Position	(81,527)
Total Net Position - September 1 (Beginning)	201,808
Total Net Position - August 31 (Ending)	\$ 120,281

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, 2016

	Governmental Activities
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments – Other Funds	\$ 0
Cash Payments for Insurance Claims	<u>(98,585)</u>
Net Cash Used for Operating Activities	(98,585)
<u>Cash Flows from Investing Activities:</u>	
Interest and dividends on Investments	<u>418</u>
Net Decrease in Cash and Cash Equivalents	(98,167)
Cash and Cash Equivalents at Beginning of Year	<u>158,553</u>
Cash and Cash Equivalents at End of Year	<u>\$ 60,386</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss)	\$ (81,945)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (Decrease) in Accounts Payable	<u>(16,640)</u>
Net Cash Used for Operating Activities	<u>\$ (98,585)</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	<u>\$ 60,386</u>

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, 2016

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 2,524	\$ 98,924
Total Assets	<u>2,524</u>	<u>\$ 98,924</u>
LIABILITIES		
Due to Other Governments	-	\$ 23,159
Due to Student Groups	-	75,765
Total Liabilities	<u>-</u>	<u>\$ 98,924</u>
NET POSITION		
Restricted for Scholarships	<u>2,524</u>	
Total Net Position	<u>\$ 2,524</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, 2016

	Private Purpose Trust Fund
ADDITIONS:	
Contributions for Scholarships	\$ 3,623
Total Additions	<u>3,623</u>
DEDUCTIONS:	
Scholarships Distributed	<u>2,000</u>
Total Deductions	<u>2,000</u>
Change in Net Position	1,623
 Total Net Position - September 1 (Beginning)	 <u>901</u>
 Total Net Position - August 31 (Ending)	 <u><u>\$ 2,524</u></u>

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

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CLEVELAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

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. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency’s ***Financial Accountability System Resource Guide*** (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (“Board”) 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 the 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 and there are no component units included within the District’s 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 tuition paid by students not residing in the district, school lunch charges, etc. 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 or due from other funds on the Governmental Funds Balance Sheet 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 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 Net Position.

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:

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

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

Capital Projects Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects 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 Agriculture 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 cost 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, 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. **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 position and statement of activities.

6. **Deferred Outflows and Inflows of Resources** – In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

For the year ended August 31, 2016, the District has items that qualify for reporting as deferred outflows of resources and deferred inflows of resources. The District reports the deferred outflows and inflows related to the TRS net pension liability only on the government-wide Statement of Net Position. Those items are detailed on Note III-I. Additionally, on the government-wide Statement of Net Position, the District reports deferred charges for refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. On the governmental funds balance sheet, the unavailable property tax revenue is reported as deferred inflow of resources. This revenue is recognized in the period in which the revenue becomes available.

7. **Net Position** –Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The classifications used in the government-wide financial statements are as follows:

- *Net investment in capital assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- *Restricted net position* – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted net position* – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available

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

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

The District’s Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Authority to assign fund balance has been delegated by the Trustees to the Superintendent. Assigned fund balance can be established through adoption or amendment of the budget 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.

9. Net Position Flow Assumption – Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. **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.
12. **Implementation of New Accounting Pronouncements** – As of August 31, 2016, the Cleveland Independent School District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining fair value measurement for reporting purposes for certain investments and disclosures related to all fair value measurement.
13. **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.
14. **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 included as Required Supplementary Information and appears in Exhibit G-1, and the Debt Service Fund and Food Service Fund Budget reports are included as Exhibits J-4 and J-5 in Other Supplementary Information.

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

1. Prior to the end of its fiscal period, the District prepares a budget for the next succeeding fiscal period. 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 budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2016 <u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Fund	\$856,706
Nonappropriated Budget Funds	<u>0</u>
All Special Revenue Funds	<u>\$856,706</u>

5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year end, 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 Net Position or deficit Fund Balance of Individual Funds –
The District had no funds at August 31, 2016, with a deficit fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

A summary of the District's cash and short term interest bearing deposits at August 31, 2016 is shown below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Governmental Funds:			
General Fund	\$23,473,258	\$ 0	\$23,473,258
Debt Service Fund	5,378,872	0	5,378,872
Capital Projects Fund	33,172,743	0	33,172,743
Non-major Governmental Fund	635,298	0	635,298
Internal Service Fund	<u>60,386</u>	<u>0</u>	<u>60,386</u>
Total Governmental Funds	<u>\$62,720,557</u>	<u>\$ 0</u>	<u>\$62,720,557</u>
Fiduciary Funds	<u>\$101,448</u>	<u>\$ 0</u>	<u>\$101,448</u>
Total Cash and Investments	<u>\$62,822,005</u>	<u>\$ 0</u>	<u>\$62,822,005</u>

The District had no other investments at year end

Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities that comply with state law and these securities are held for safekeeping and trust with the District's and depository bank's agent bank. The pledged securities are approved by the TEA and shall be in an amount sufficient to protect

District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2016, the carrying amount of the District's deposits (cash accounts) was \$62,822,005 and the bank balance was \$64,278,423. The District's cash deposits at August 31, 2016 were entirely covered by FDIC insurance or pledged collateral held by the District's agent bank in the District's name.

Investments

The Public Funds Investment Act (Act) 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. That 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, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) 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 funds, (5) securities lending programs, (6) repurchase agreements, (7) commercial paper, (8) mutual funds, (9) investment pools, and (10) guaranteed investment contracts.

As of August 31, 2016 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.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific deposit and investment risks at year end and, if so, the reporting of certain related disclosures:

Credit Risk – State law and the District's investment policy limit investments in all categories to top ratings issued by nationally recognized statistical rating organizations. The credit quality ratings for the District's investments were in compliance with the Act. At year end, the district was not exposed to credit risk.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not the District's name. At year end, the District was not exposed to custodial credit risk.

Concentration of Credit Risk – The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer. At year end, the District was not exposed to concentrations of credit risk.

Interest Rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. At year end, the District was not significantly exposed to interest rate risk.

Fair Value Measurements

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles as set forth by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value

measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Cleveland Independent School District had no investments at year end which were subject to the recurring fair value measurement requirements.

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, (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 \$1.04 for maintenance and operations, and \$0.275 for debt service, for a total rate of \$1.315 per \$100 valuation. Total net assessed value for the current year was \$932,700,302.

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 BALANCES AND TRANSFERS

1. Due To and From Other Funds –

Interfund balances at August 31, 2016 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	0	342
Special Revenue Fund:		
General Fund	342	0
Internal Service Fund:		
General Fund	<u>262,760</u>	<u>0</u>
TOTAL	<u>\$263,102</u>	<u>\$263,102</u>

All interfund balances result from normal operating activity, and are expected to be repaid within one year.

2. Transfers To and From Other Funds –

There were no interfund transfers in the current year.

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the period ended June 30, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$999,446	\$19,813	\$ 0	\$1,019,259
Construction in Progress	<u>0</u>	<u>2,082,313</u>	<u>0</u>	<u>2,082,313</u>
Total Capital Assets not being Depreciated	<u>\$999,446</u>	<u>\$2,102,126</u>	<u>\$ 0</u>	<u>\$3,101,572</u>
Capital Assets being Depreciated:				
Buildings and Improvements	\$57,007,654	\$440,726	\$ 0	\$57,448,380
Furniture and Equipment	<u>5,032,094</u>	<u>711,634</u>	<u>0</u>	<u>5,743,728</u>
Total Capital Assets being Depreciated	<u>\$62,039,748</u>	<u>\$1,152,360</u>	<u>\$ 0</u>	<u>\$63,192,108</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(\$18,852,645)	(\$1,371,251)	\$ 0	(\$20,223,896)
Furniture and Equipment	<u>(3,615,912)</u>	<u>(354,523)</u>	<u>0</u>	<u>(3,970,435)</u>
Total Accumulated Depreciation	<u>(\$22,468,557)</u>	<u>(\$1,725,774)</u>	<u>\$ 0</u>	<u>(\$24,194,331)</u>
Capital Assets being Depreciated - Net	<u>\$39,571,191</u>	<u>(\$573,414)</u>	<u>\$ 0</u>	<u>\$38,997,777</u>
Governmental Activity Capital Assets - Net	<u>\$40,570,637</u>	<u>\$1,528,712</u>	<u>\$ 0</u>	<u>\$42,099,349</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$1,119,987
School Leadership	41,109
Guidance, Counseling and Evaluation Services	41,109
Student (Pupil) Transportation	155,918
Food Services	194,099
Cocurricular/Extracurricular Activities	38,570
General Administration	27,406
Plant Maintenance and Operations	22,582
Security and Monitoring	14,183
Data Processing services	<u>70,811</u>
Total Depreciation Expense	<u>\$1,725,774</u>

F. 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.

In November, 2015, the District issued Unlimited Tax Refunding Bonds, Series 2015, in the amount of \$7,370,000. The net proceeds of the issue, \$8,179,313 (after payment of issuance costs of \$158,702), was used to refund \$8,010,000 of the District's Unlimited Tax Refunding Bonds, Series 2006. The current refunding will reduce the District's total debt payments over the next 16 years by \$1,338,018, which results in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,073,075. The cumulative difference between the reacquisition price and the net carrying amount of the old debt of \$550,746 is reported in the accompanying government wide statement of net position as a deferred amount, and will be charged to operations through the year 2031.

In April, 2016, the District issued \$30,715,000 of Unlimited Tax School Building Bonds, Series 2016, to provide funding to construct, equip and renovate school buildings in the District. These bonds were authorized in an election on November 3, 2015.

Changes in long-term liabilities for the year ended August 31, 2016, 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 Refunding Bonds, Series 2006, 4.00-4.375%	\$8,464,989	\$ 0	(\$8,100,000)	\$364,989	\$ 0
Unlimited Tax Refunding Bonds, Series 2007, 4.00%	6,280,000	0	(590,000)	5,690,000	625,000
Unlimited Tax Refunding Bonds, Series 2010, 3.00-4.00%	20,652,406	0	(7,550)	20,644,856	3,079
Unlimited Tax Refunding Bonds, Series 2015, 2.00-4.00%	0	7,370,000	(145,000)	7,225,000	55,000
Unlimited Tax School Building Bonds, Series 2016, 3.00-5.00%	0	30,715,000	0	30,715,000	0
Issuance Premiums	332,550	5,666,530	(79,382)	5,919,698	0
Issuance Discounts	(55,700)	0	55,700	0	0
Accretion on Capital Appreciation Bonds	<u>4,512,113</u>	<u>135,879</u>	<u>(872,450)</u>	<u>3,775,542</u>	<u>886,921</u>
Total Bonds Payable	\$40,186,358	\$43,887,409	(\$9,738,682)	\$74,335,085	\$1,570,000
Other Liabilities -					
Accrued Interest	<u>83,955</u>	<u>144,595</u>	<u>(83,955)</u>	<u>144,595</u>	<u>144,595</u>
Governmental Activities Long-Term Liabilities	<u>\$40,270,313</u>	<u>\$44,032,004</u>	<u>(\$9,822,637)</u>	<u>\$74,479,680</u>	<u>\$1,714,595</u>
Deferred Charges for Refunding -					
Deferred Amount - 2006 Refunding Bonds	(\$325,733)	\$ 0	\$325,733	\$ 0	\$ 0
Deferred Amount - 2007 Refunding Bonds	(176,348)	0	20,005	(156,343)	0
Deferred Amount - 2010 Refunding Bonds	(1,343,217)	0	182,111	(1,161,106)	0
Deferred Amount - 2015 Refunding Bonds	<u>0</u>	<u>(550,746)</u>	<u>3,470</u>	<u>(547,276)</u>	<u>0</u>
Total Deferred Charges for Refunding	<u>(\$1,845,298)</u>	<u>(\$550,746)</u>	<u>\$531,319</u>	<u>(\$1,864,725)</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>
2017	\$683,079	\$3,683,546	\$4,366,625
2018	771,267	3,672,758	4,444,025
2019	840,510	3,648,140	4,488,650
2020	1,855,000	2,691,550	4,546,550
2021	1,895,000	2,627,875	4,522,875
2022-2026	9,089,989	14,027,824	23,117,813
2027-2031	13,455,000	10,121,500	23,576,500
2032-2036	11,155,000	7,403,075	18,558,075
2037-2041	10,905,000	4,914,875	15,819,875
2042-2046	<u>13,990,000</u>	<u>1,818,750</u>	<u>15,808,750</u>
Total	<u>\$64,639,845</u>	<u>\$54,609,893</u>	<u>\$119,249,738</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, 2016.

G. COMMITMENTS UNDER LEASES

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

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$121,128
2018	75,358
2019	11,280
2020	11,280
2021	<u>9,400</u>
Total Minimum Rentals	<u>\$228,446</u>
Rental Expenditures for the fiscal year ended August 31, 2016	<u>\$143,938</u>

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

I. DEFINED BENEFIT PENSION PLAN

Plan Description. The 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 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

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 83rd 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 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act established the employer contribution rates for fiscal years 2016 and 2017 (using the state year end of August 31) as follows:

Contribution Rates

	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Cleveland ISD 2016 Employer Contributions		\$ 725,127
Cleveland ISD 2016 Member Contributions		\$1,550,198
Cleveland ISD 2015 NECE On-Behalf Contributions		\$ 963,373

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). The State's on-behalf contribution is recorded as revenues and expenditures/expenses in the financial statements.

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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The Actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

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, 2015 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>
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Rate of Return*</u>
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	<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 2015 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
Cleveland ISD's proportionate share of the net pension liability:	\$11,190,147	\$7,141,986	\$3,770,121

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2016, Cleveland Independent School District reported a liability of \$7,141,986 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the 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 the District were as follows:

District's proportionate share of the collective net pension liability	\$7,141,986
State's proportionate share that is associated with the District	<u>11,497,247</u>
Total	<u>\$18,639,233</u>

The net pension liability was measured as of August 31, 2015 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, 2014 thru August 31, 2015.

As of August 31, 2015 the employer's proportion of the collective net pension liability was 0.0202044%, which was an increase of 0.0078666% from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

For the measurement period August 31, 2015, Cleveland Independent School district recognized pension expense of \$1,638,173 and revenue of \$1,638,173 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2015, the 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:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$42,388	\$274,473
Changes in actuarial assumptions	178,157	254,795
Difference between projected and actual investment earnings	1,003,460	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	<u>1,797,814</u>	<u>2,174</u>
Total as of August 31, 2015 measurement date	\$3,021,819	\$531,442
Contributions paid to TRS subsequent to the measurement date	<u>725,127</u>	<u>0</u>
Total as of fiscal year-end	<u>\$3,746,946</u>	<u>\$531,442</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>
2017	\$447,062
2018	447,062
2019	447,061
2020	698,879
2021	256,507
Thereafter	193,806

Changes in Net Pension Liability

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Net Pension Liability	<u>\$3,295,597</u>	<u>\$4,444,649</u>	<u>\$598,260</u>	<u>\$7,141,986</u>

I. 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, or 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. The statutory contribution rates and amounts are shown in the table below for fiscal years 2016, 2015 and 2014:

Contribution Rates

<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>
2016	.65%	\$139,941	1.0%	\$215,138	.55%	\$118,326
2015	.65%	\$125,188	1.0%	\$192,597	.55%	\$105,928
2014	.65%	\$117,116	1.0%	\$180,178	.55%	\$99,098

For the years ended August 31, 2016, 2015, and 2014, the District paid the state contributions for salaries paid by federal grant funds, which amounted to \$16,059, \$16,882, and \$13,268, respectively. The remaining portion of the state contributions listed above of \$199,079, \$175,715, and \$166,910 represent the amounts received by TRS-Care on behalf of the District. These amounts are recorded as revenues and expenditures in the District's financial statements.

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 Cleveland ISD for the fiscal years ended August 31, 2016, 2015, and 2014 were \$81,985, \$78,233, and \$47,946.

J. HEALTH CARE COVERAGE

During the year ended August 31, 2016, 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.

K. 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 2016 and 2015 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>2016</u>				
Incurred Claims	\$47,172	\$132,466	\$99,622	\$80,016
Incurred but not Reported (Estimated)	<u>172,333</u>	<u>(49,484)</u>	<u>N/A</u>	<u>122,849</u>
Total	<u>\$219,505</u>	<u>\$82,982</u>	<u>\$99,622</u>	<u>\$202,865</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>

L. 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	\$23,327	\$23,327
Food Service Commodity Inventory	<u>0</u>	<u>5,230</u>	<u>5,230</u>
Total	<u>\$ 0</u>	<u>\$28,557</u>	<u>\$28,557</u>

M. 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, 2016, are summarized below:

<u>Fund</u>	<u>State Entitlements and Grants</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$3,501,723	\$5,317	\$3,507,040
Special Revenue	<u>450</u>	<u>396,915</u>	<u>397,365</u>
	<u>\$3,502,173</u>	<u>\$402,232</u>	<u>\$3,904,405</u>

Amounts due from the State in the General Fund includes \$946,320 of estimated funds earned in August 2016, for days of instruction in the 2016-2017 school year.

N. 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>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$9,419,085	\$ 0	\$2,498,587	\$ 0	\$ 0	\$11,917,672
Penalties, Interest and Other Related Income	501,827	0	118,964	0	0	620,791
Investment Income	85,147	2,894	19,516	418	43,791	151,766
Payments in Lieu of Taxes	182,157	0	0	0	0	182,157
Food Sales	0	350,307	0	0	0	350,307
Other	<u>158,689</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>158,689</u>
Total	<u>\$10,346,905</u>	<u>\$353,201</u>	<u>\$2,637,067</u>	<u>\$418</u>	<u>\$43,791</u>	<u>\$13,381,382</u>

O. LITIGATION AND CONTINGENCIES

At August 31, 2016, 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 2015-2016 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.

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District will continue construction projects to be paid from bond funds issued in the current fiscal year. These projects are expected to be completed in the 2017 and 2018 fiscal years.

P. INSTRUCTIONAL MATERIALS ALLOTMENT

The instructional materials allotment (IMA) is a program for the purchase of instructional materials, technology equipment, and technology related services. Under IMA, instructional material purchases must be made through TEA's online requisition system, and includes cash reimbursements to the District for approved purchases made directly by the District as well as textbooks or other instructional materials provided to the District by the state. During fiscal 2016, the District recorded total instructional materials purchased from IMA of \$115,045, including \$35,662 of materials purchased by the state and provided to the District. The total IMA purchases are recorded as revenues and expenditures/expenses in the financial statements.

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 2016 were \$392,609. 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 does not account for revenues or expenditures in this program 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.

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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, 2016

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	\$ 8,913,096	\$ 10,324,220	\$ 10,346,905	\$ 22,685
5800	State Program Revenues	21,513,339	22,141,575	24,818,820	2,677,245
5900	Federal Program Revenues	547,900	633,761	610,098	(23,663)
5020	Total Revenues	30,974,335	33,099,556	35,775,823	2,676,267
EXPENDITURES:					
Current:					
0011	Instruction	18,701,920	18,701,920	18,207,987	493,933
0012	Instructional Resources and Media Services	301,489	301,489	281,044	20,445
0013	Curriculum and Instructional Staff Development	287,652	250,000	215,088	34,912
0021	Instructional Leadership	132,502	138,875	133,904	4,971
0023	School Leadership	2,296,418	2,347,936	2,317,903	30,033
0031	Guidance, Counseling and Evaluation Services	737,383	793,722	768,422	25,300
0033	Health Services	344,984	334,290	303,720	30,570
0034	Student (Pupil) Transportation	1,798,884	2,238,760	2,103,828	134,932
0036	Extracurricular Activities	1,005,026	976,221	922,193	54,028
0041	General Administration	1,496,727	1,496,727	1,429,198	67,529
0051	Facilities Maintenance and Operations	4,185,120	3,716,764	3,391,367	325,397
0052	Security and Monitoring Services	454,958	568,747	530,165	38,582
0053	Data Processing Services	513,820	574,000	542,317	31,683
0061	Community Services	2,100	2,100	1,098	1,002
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	548,000	501,949	46,051
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	509,579	412,610	392,609	20,001
0099	Other Intergovernmental Charges	369,000	305,000	299,612	5,388
6030	Total Expenditures	33,137,562	33,707,161	32,342,404	1,364,757
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,163,227)	(607,605)	3,433,419	4,041,024
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	3,300	3,300	-	(3,300)
1200	Net Change in Fund Balances	(2,159,927)	(604,305)	3,433,419	4,037,724
0100	Fund Balance - September 1 (Beginning)	21,576,853	21,576,853	21,576,853	-
3000	Fund Balance - August 31 (Ending)	\$ 19,416,926	\$ 20,972,548	\$ 25,010,272	\$ 4,037,724

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, 2016

EXHIBIT G-2

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0202044%	0.0123378%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 7,141,986	\$ 3,295,597
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	11,497,247	9,733,933
Total	<u>\$ 18,639,233</u>	<u>\$ 13,029,530</u>
District's Covered-Employee Payroll	\$ 19,259,051	\$ 18,017,998
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	37.08%	18.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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 2016

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 725,127	\$ 598,057
Contribution in Relation to the Contractually Required Contribution	(725,127)	(598,057)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 21,500,869	\$ 19,259,052
Contributions as a Percentage of Covered-Employee Payroll	3.37%	3.11%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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, 2016

Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balance

The official budget was prepared for adoption for the General Fund. The budget was prepared in accordance with accounting practices generally accepted in the United States of America

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law. All budget appropriations lapse at year end.

Notes to Schedule of the District's Proportionate Share of the Net Pension Liability

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 – The following are changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recent published RP-2014 mortality table for active employee. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.

12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changes to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

OTHER SUPPLEMENTARY INFORMATION

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040000	0.275000	600,597,725
2009	1.040000	0.275000	643,319,240
2010	1.040000	0.275000	672,590,570
2011	1.040000	0.275000	714,082,966
2012	1.040000	0.275000	710,410,722
2013	1.040000	0.275000	714,875,011
2014	1.040000	0.275000	757,768,745
2015	1.040000	0.275000	850,307,008
2016 (School year under audit)	1.040000	0.275000	932,700,302
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 720,471	\$ -	\$ 25,338	\$ 14,246	\$ (35,529)	\$ 645,358
181,832	-	6,427	1,699	(743)	172,963
236,458	-	10,895	2,880	(518)	222,165
297,881	-	20,106	5,315	101	272,561
335,371	-	28,152	7,443	15,782	315,558
400,785	-	37,613	9,944	19,661	372,889
454,335	-	57,929	15,316	18,784	399,874
638,958	-	116,213	30,725	39,399	531,419
1,257,903	-	463,567	122,559	39,523	711,300
-	12,265,009	8,652,847	2,288,460	(90,184)	1,233,518
<u>\$ 4,523,994</u>	<u>\$ 12,265,009</u>	<u>\$ 9,419,087</u>	<u>\$ 2,498,587</u>	<u>\$ 6,276</u>	<u>\$ 4,877,605</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, 2016

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	\$ 273,230	\$ 344,270	\$ 353,118	\$ 8,848
5800 State Program Revenues	52,928	45,459	45,459	-
5900 Federal Program Revenues	1,640,500	2,181,280	2,222,990	41,710
5020 Total Revenues	1,966,658	2,571,009	2,621,567	50,558
EXPENDITURES:				
0035 Food Services	2,134,669	2,291,751	2,262,736	29,015
0051 Facilities Maintenance and Operations	187,226	187,226	187,226	-
6030 Total Expenditures	2,321,895	2,478,977	2,449,962	29,015
1200 Net Change in Fund Balances	(355,237)	92,032	171,605	79,573
0100 Fund Balance - September 1 (Beginning)	685,101	685,101	685,101	-
3000 Fund Balance - August 31 (Ending)	\$ 329,864	\$ 777,133	\$ 856,706	\$ 79,573

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, 2016

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		\$ 2,155,018	\$ 2,619,625	\$ 2,637,067	\$ 17,442
5800	State Program Revenues		933,440	1,175,632	1,175,632	-
5020	Total Revenues		3,088,458	3,795,257	3,812,699	17,442
EXPENDITURES:						
Debt Service:						
0071	Principal on Long Term Debt		687,550	687,550	832,550	(145,000)
0072	Interest on Long Term Debt		2,228,600	2,228,600	2,075,223	153,377
0073	Bond Issuance Cost and Fees		5,000	163,702	158,633	5,069
6030	Total Expenditures		2,921,150	3,079,852	3,066,406	13,446
1100	Excess of Revenues Over Expenditures		167,308	715,405	746,293	30,888
OTHER FINANCING SOURCES (USES):						
7911	Capital Related Debt Issued (Regular Bonds)		-	7,370,000	7,370,000	-
7916	Premium or Discount on Issuance of Bonds		-	968,015	968,014	(1)
8949	Other (Uses)		-	(8,179,313)	(8,179,313)	-
7080	Total Other Financing Sources (Uses)		-	158,702	158,701	(1)
1200	Net Change in Fund Balances		167,308	874,107	904,994	30,887
0100	Fund Balance - September 1 (Beginning)		4,495,775	4,495,775	4,495,775	-
3000	Fund Balance - August 31 (Ending)		\$ 4,663,083	\$ 5,369,882	\$ 5,400,769	\$ 30,887

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COMPLIANCE AND INTERNAL CONTROL, AND FEDERAL AWARDS SECTION

WIGGINS & SMITH

Certified Public Accountants

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

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

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, 2016, 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 20, 2016.

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 the Dayton 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 20, 2016

WIGGINS & SMITH

Certified Public Accountants

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

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

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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 the Cleveland Independent School District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. 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 federal statutes, regulations, contracts, and the terms and conditions of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Cleveland Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2016.

Report on Internal Control Over Compliance

The administration of the 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

December 20, 2016

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

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 Uniform Guidance requirements? _____ Yes _____X___ No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	National School Breakfast and Lunch Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

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, 2016

(Prepared by the District's Administration)

No response required.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

(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, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
R.O.T.C	12.000	146901	\$ 50,984
Total Direct Programs			\$ 50,984
TOTAL U.S. DEPARTMENT OF DEFENSE			\$ 50,984
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through San Jacinto & Montgomery Counties</u>			
Impact Aid - P.L. 81.874	84.041	146901	\$ 12,174
Total Passed Through San Jacinto & Montgomery Counties			\$ 12,174
<u>Passed Through Southeast Texas Cooperative</u>			
IDEA - Part B, Formula	84.027A	166600011469066600	\$ 162,370
Total Passed Through Southeast Texas Cooperative			\$ 162,370
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101146901	\$ 1,326,309
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	15610112146901102	11,173
*ESEA, Title I, 1003(A)-Priority and Focus School	84.010A	16610112146901000	204,557
Total CFDA Number 84.010A			1,542,039
Total Title I, Part A Cluster			
Career and Technical - Basic Grant	84.048A	16420006146901	58,116
Title III, Part A - English Language Acquisition	84.365A	16671001146901	105,208
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501146901	164,664
Summer School LEP	84.369A	69551602	5,552
Total Passed Through State Department of Education			\$ 1,875,579
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 2,050,123
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 29,296
Total Passed Through Texas Dept of Human Services			\$ 29,296
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 29,296
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 495,808
*National School Lunch Program - Cash Assistance	10.555	71301601	1,484,587
*National School Lunch Prog. - Non-Cash Assistance	10.555	146004A	165,588
Total CFDA Number 10.555			1,650,175
*Summer Feeding Program - Cash Assistance	10.559	146901	23,009
Total Child Nutrition Cluster			2,168,992
National School Lunch Prog.-Equipment Assistance	10.579	146901	66,927
Total Passed Through the State Department of Agriculture			\$ 2,235,919
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 2,235,919
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,366,322

*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AUGUST 31, 2016

Note 1 – Basis of Accounting

The District accounts for all awards under federal programs in the General and certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resources Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these 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 liability is incurred, if measurable, except for 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 unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2 – Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal award programs per Exhibit K-1 and expenditures reported on Exhibit C-3.

Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$4,366,322
Medicaid SHARS Federal Revenue Accounted for in the General Fund, not included on the Schedule of Federal Awards	<u>539,644</u>
Federal Program Revenues (Exhibit C-3)	<u>\$4,905,966</u>

SCHOOLS FIRST QUESTIONNAIRE

Cleveland Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	3775542
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	7141986
SF13	Pension Expense (6147) at fiscal year-end.	485993