

CLEVELAND INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
AUGUST 31, 2017



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

CLEVELAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Cleveland Independent School District
Name of School District

Liberty
County

146-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 18th day of December, 2017.



Signature of Board Secretary



Signature of Board President

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

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Cleveland Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cleveland Independent School District as of and for the year ended August 31, 2017, 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 from 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 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cleveland Independent School District as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund 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 section which precedes the basic financial statements and the pension related schedules following the notes to the financial statements 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cleveland Independent School District's basic financial statements. The Texas Education Agency required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Texas Education Agency required schedules and the schedule of expenditures of federal awards 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 Texas Education Agency required schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017 on our consideration of Cleveland Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland Independent School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light-colored background.

Singleton, Clark & Company, PC
Cedar Park, Texas

October 20, 2017

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Cleveland Independent School District (the "District") discuss and analyze the financial performance of the District for the fiscal year ended August 31, 2017. Please read this information in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position for governmental activities increased by \$5,822,407 as a result of this year's operations, to end at \$39,998,670.
- Total governmental funds of the District (the General Fund plus all Special Revenue Funds, the Capital Projects Funds and the Debt Service Fund) reported an overall fund balance decrease of \$13,792,501, to end at \$50,436,724.
- The General Fund of the District reported a fund balance increase of \$2,376,299 for the year, to end at \$27,386,571.

OVERVIEW OF THE FINANCIAL SECTION

The Financial Section is the most substantial part of this Annual Financial and Compliance Report. It consists of the independent auditor's report, management's discussion and analysis (this section), a set of basic financial statements with required note disclosures, and finally required supplementary information and other supporting statements and schedules as applicable.

Independent Auditor's Report

State law requires the District's financial statements to be audited by an independent certified public accountant each year. The primary purpose of the annual audit is for the auditor to express an opinion as to whether the financial statements of the District appear to be free from material misstatement. In addition, the auditor reports any deficiencies noted within the financial internal controls of the District and whether any noncompliance with rules, regulations, or grant agreements was observed.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the report is intended to introduce the financial statements and to provide discussion and analysis regarding the financial performance of the District during the year. The MD&A is written by management of the District and provides for a less formal presentation of the financial activities of the District than is found within the basic financial statements themselves.

Basic Financial Statements

The Basic Financial Statements consist of a series of financial statements and required note disclosures. These statements include government-wide financial statements which present the District in a consolidated and long-term manner using full-accrual accounting similar to that of a business enterprise, and fund financial statements which present a more detailed view of the District using a more short-term view and traditional modified-accrual governmental accounting. These financial statements are followed with detailed notes which provide narrative explanations and additional data for full disclosure of information.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Required Supplementary Information

The previously discussed Management's Discussion and Analysis section is considered to be required supplementary information, however, the governmental reporting framework requires that it be presented before the financial statements. When applicable, additional required supplementary information must follow the financial statements. Within this financial report, the District presents required schedules related to its participation in the Teacher Retirement System of Texas pension plan.

Individual Fund Statements and Schedules

This section includes schedules required by the Texas Education Agency to report tax collection information and budget to actual information for the District's debt service and child nutrition functions.

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 with the government-wide financial statements which immediately follow this section. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The primary purpose of these financial statements 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 the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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 tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by the State of Texas in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

The Statement of Net Position and the Statement of Activities report the District's net position and changes in net position. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health. 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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

In the Statement of Net Position and the Statement of Activities, school districts divide up their financial activities as follows:

- Governmental activities – School districts report basic services here, including the instruction of students, counseling, co-curricular activities, child nutrition services, transportation, maintenance, community services, and general administration. Property taxes, state block grants based on student attendance and demographics, and other state and federal grants finance most of these activities.
- Business-type activities – School districts may charge a fee to "customers" to help it cover all or most of the cost of services it provides for child care programs or other activities that closely model a business venture.

Our District reported governmental activities this year, however, we did not engage in business-type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements follow the government-wide statements and provide detailed information about the most significant funds of the District, not the District as a whole. Laws and regulations require the District to establish separate funds, such as for grants received from the state and federal government, money received from bond issues for capital projects, or for money raised specifically for debt service purposes, in order to clearly display financial accountability for use of these funds.

School districts use two different kinds of funds for operations, governmental funds and proprietary funds, which use different accounting approaches.

- A school district will use *governmental funds* to account for basic services. These use modified accrual 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.
- A school district will use *proprietary funds* to account for the activities for which it charges users (whether outside customers or other units of the district). Proprietary funds use the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, when a district utilizes enterprise funds, (one category of proprietary funds) these are the business-type activities reported in the government-wide statements but they contain more detail and additional information, such as cash flows. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for a district's other programs and activities, such as a district's self-insurance programs.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

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 that follow the governmental fund and proprietary fund financial statements. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is however responsible for applying sound financial internal controls over these funds and for ensuring that these resources are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$34,176,263 to \$39,998,670. 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 \$11,349,698 at August 31, 2017. The increase in governmental net position was primarily due to higher than expected revenues.

**Table I
CLEVELAND INDEPENDENT SCHOOL DISTRICT
NET POSITION**

	Governmental Activities 2017	Governmental Activities 2016	Change
Current & other assets	\$ 61,378,756	\$ 71,096,580	\$ (9,717,824)
Capital assets	64,753,165	42,099,349	22,653,816
Deferred outflows	7,109,944	5,611,671	1,498,273
Total assets and deferred outflows	<u>133,241,865</u>	<u>118,807,600</u>	<u>14,434,265</u>
Current liabilities	5,991,942	2,478,829	3,513,113
Long-term liabilities	85,814,411	81,621,066	4,193,345
Deferred inflows	1,436,842	531,442	905,400
Total liabilities and deferred inflows	<u>93,243,195</u>	<u>84,631,337</u>	<u>8,611,858</u>
Net Position:			
Net investment in capital assets	4,156,078	2,590,467	1,565,611
Restricted	24,492,894	6,982,167	17,510,727
Unrestricted	11,349,698	24,603,629	(13,253,931)
Total net position	<u>\$ 39,998,670</u>	<u>\$ 34,176,263</u>	<u>\$ 5,822,407</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Table II
CLEVELAND INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental		Change
	Activities 2017	Activities 2016	
Revenues:			
Program Revenues:			
Charges for services	\$ 357,650	\$ 640,194	\$ (282,544)
Operating grants & contributions	5,671,913	6,974,700	(1,302,787)
General Revenues:			
Maintenance & operations taxes	11,625,062	9,670,352	1,954,710
Debt service taxes	3,698,545	2,565,572	1,132,973
State aid - formula grants	26,183,383	24,674,595	1,508,788
Grants & contributions not restr.	2,400,902	-	2,400,902
Investment earnings	229,747	151,766	77,981
Miscellaneous	446,659	589,804	(143,145)
Total Revenue	<u>50,613,861</u>	<u>45,266,983</u>	<u>5,346,878</u>
Expenses:			
Instruction	23,223,083	22,686,206	536,877
Instr. resources & media services	283,437	-	283,437
Curriculum and staff development	573,869	-	573,869
Instructional leadership	176,542	-	176,542
School leadership	2,761,538	2,581,017	180,521
Guidance/counseling services	876,042	-	876,042
Health services	322,586	-	322,586
Student transportation	1,875,574	2,840,450	(964,876)
Food services	2,555,520	2,519,009	36,511
Cocurricular/extracurricular act.	1,146,820	971,397	175,423
General administration	1,891,273	1,495,925	395,348
Plant maintenance and operations	4,112,025	4,772,513	(660,488)
Security and monitoring services	594,855	-	594,855
Data processing services	486,664	-	486,664
Community services	14,440	8,191	6,249
Debt service	2,992,648	2,097,645	895,003
Capital outlay	-	41,410	(41,410)
Payments to fiscal agents	590,880	392,609	198,271
Other intergovernmental charges	337,199	299,612	37,587
Total Expenses	<u>44,814,995</u>	<u>40,705,984</u>	<u>4,109,011</u>
Gain (Loss) on sale of assets	23,541	-	23,541
Change in net position	<u>5,822,407</u>	<u>4,560,999</u>	<u>1,261,408</u>
Net position at 9/1/16 and 9/1/15	<u>34,176,263</u>	<u>29,615,264</u>	<u>4,560,999</u>
Net position at 8/31/17 and 8/31/16	<u>\$ 39,998,670</u>	<u>\$ 34,176,263</u>	<u>\$ 5,822,407</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

THE DISTRICT'S FUNDS

As the District completed this annual period, the General Fund reported a fund balance of \$27,386,571, which is \$2,376,299 more than last year's total of \$25,010,272. The increase in fund balance is mainly attributable to greater than expected state program revenues.

The District's Debt Service Fund reported a fund balance of \$5,638,353 which is \$237,584 more than last year's total of \$5,400,769. The Debt Service fund balance was more at August 31, 2017, as compared to the prior year end, due to greater than expected local revenue. The purpose of the Debt Service Fund is to provide for the payment of bond principal and interest payments as it becomes due.

The District's Capital Projects Funds reported a fund balance of \$16,211,332 which is \$16,750,146 less than last year's total of \$32,961,478. The Capital Projects fund balance was less at August 31, 2017, as compared to the prior year end, due to the construction of new facilities.

The District's other governmental funds reported a combined ending fund balance of \$1,200,468. This combined balance is \$343,762 more than the previous year.

Over the course of the year, the Board of Trustees generally revises the District's budget based on financial updates provided by management of the District. These amendments involve moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs, or to react to originally unforeseen circumstances, such as unanticipated new revenues or unavoidable new costs. None of the budget amendments made during the year were considered significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2017, the District had \$64,753,165 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

A summary of the ending balances of capital assets by major category for both 2017 and 2016 is a follows:

	Governmental Activities 2017	Governmental Activities 2016	Change
Land	\$ 2,546,269	\$ 1,019,259	\$ 1,527,010
Construction in Progress	21,368,686	2,082,313	19,286,373
Buildings	60,240,686	57,448,380	2,792,306
Furniture and Equipment	6,051,534	5,743,728	307,806
Total	<u>90,207,175</u>	<u>66,293,680</u>	<u>23,913,495</u>
Less Accumulated Depreciation	<u>(25,454,010)</u>	<u>(24,194,331)</u>	<u>(1,259,679)</u>
Capital assets, net of depreciation	<u>\$ 64,753,165</u>	<u>\$ 42,099,349</u>	<u>\$ 22,653,816</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Debt

At year end, the District had \$85,814,411 in bonds and other long-term debt outstanding versus \$81,477,071 last year. The increase is attributable to debt issuance during the fiscal year.

A summary of the ending balances of long-term debt by type for both 2017 and 2016 is as follows:

	Governmental Activities 2017	Governmental Activities 2016	Change
General Obligation Bonds	\$ 77,141,372	\$ 74,335,085	\$ 2,806,287
Net Pension Liability	8,673,039	7,141,986	1,531,053
Total	\$ 85,814,411	\$ 81,477,071	\$ 4,337,340

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 budget and tax rates. Those factors include property values, changes in enrollment, the economy, projections of future budget years, and legislative mandates. The District has adopted a General Fund budget of approximately \$46.4 million for the 2017-2018 fiscal year. This reflects an approximate increase of \$9.8 million in budgeted expenditures from fiscal year 2016-2017 to fiscal year 2017-2018.

For the 2017-2018 budget year, the District has held constant its maintenance and operations tax rate at \$1.04 per hundred of taxable value. The District has the capability to call a tax ratification election which could authorize up to \$1.17 cents for maintenance and operations. The District has no current plans to call a tax ratification election. The District adopted a debt service tax rate of \$.375 for the 2017-2018 budget year in order to fund required debt payments in the coming year. The combined tax rate of the District for the 2017-2018 budget year is \$1.415 per hundred of taxable value.

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, or by calling (281) 592-8717.

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BASIC FINANCIAL STATEMENTS

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

Data Control Codes	Primary Government 1 Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 49,134,245
1225 Property Taxes Receivable, net	5,019,171
1240 Due from Other Governments	7,189,106
1290 Other Receivables, net	29,468
1300 Inventories	6,766
Capital Assets:	
1510 Land	2,546,269
1520 Buildings and Improvements, net	38,597,691
1530 Furniture and Equipment, net	2,240,519
1580 Construction in Progress	21,368,686
1000 Total Assets	<u>126,131,921</u>
DEFERRED OUTFLOWS OF RESOURCES	
1700 Deferred Outflows-Bond Refundings	1,703,603
1705 Deferred Outflows-Pension	5,406,341
Total Deferred Outflows of Resources	<u>7,109,944</u>
LIABILITIES	
2110 Accounts Payable	4,029,814
2140 Interest Payable	106,958
2150 Payroll Deductions & Withholdings	80,232
2160 Accrued Wages Payable	1,722,731
2200 Accrued Expenses	35,892
2300 Unearned Revenue	16,315
Noncurrent Liabilities:	
2501 Bonds, Loans & Other Payable-Due Within One Year	1,935,000
2502 Bonds Payable - Due in More than One Year	68,937,141
2516 Unamortized Premium (Discount) on Bonds	6,269,231
2540 Net Pension Liability	8,673,039
2000 Total Liabilities	<u>91,806,353</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows-Pension	1,436,842
Total Deferred Inflows of Resources	<u>1,436,842</u>
NET POSITION	
3200 Net Investment in Capital Assets	4,156,078
Restricted for:	
3820 Federal & State Programs	1,200,468
3850 Debt Service	6,710,327
3860 Capital Projects	16,211,332
3890 Other Restricted	370,767
3900 Unrestricted	11,349,698
3000 Total Net Position	<u>\$ 39,998,670</u>

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, 2017

Data Control Codes	1 Expenses	Program Revenues		Net (Expense) Rev. & Changes in Net Position
		3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 23,223,083	\$ -	\$ 3,749,002	\$ (19,474,081)
12 Instructional Resources & Media Services	283,437	-	-	(283,437)
13 Curriculum & Staff Development	573,869	-	457,648	(116,221)
21 Instructional Leadership	176,542	-	-	(176,542)
23 School Leadership	2,761,538	-	-	(2,761,538)
31 Guidance/Counseling/Evaluation Services	876,042	-	-	(876,042)
33 Health Services	322,586	-	-	(322,586)
34 Student Transportation	1,875,574	-	-	(1,875,574)
35 Food Services	2,555,520	311,997	-	(2,243,523)
36 Extracurricular Activities	1,146,820	36,590	-	(1,110,230)
41 General Administration	1,891,273	9,063	-	(1,882,210)
51 Plant Maintenance and Operations	4,112,025	-	386,042	(3,725,983)
52 Security and Monitoring Services	594,855	-	1,888	(592,967)
53 Data Processing Services	486,664	-	-	(486,664)
61 Community Services	14,440	-	26,643	12,203
72 Interest on Long-Term Debt	2,762,911	-	1,050,690	(1,712,221)
73 Bond Issuance Cost & Fees	229,737	-	-	(229,737)
93 Payments to Fiscal Agent/Member Dist. of SSA	590,880	-	-	(590,880)
99 Other Intergovernmental Charges	337,199	-	-	(337,199)
TG Total Governmental Activities:	<u>44,814,995</u>	<u>357,650</u>	<u>5,671,913</u>	<u>(38,785,432)</u>
TP TOTAL PRIMARY GOVERNMENT:	<u>\$ 44,814,995</u>	<u>\$ 357,650</u>	<u>\$ 5,671,913</u>	<u>(38,785,432)</u>
General Revenues:				
Taxes:				
MT Property Taxes, Levied for General Purposes				11,625,062
DT Property Taxes, Levied for Debt Service				3,698,545
SF State Aid - Formula Grants				26,183,383
GC Grants and Contributions, not Restricted				2,400,902
IE Investment Earnings				229,747
MI Miscellaneous Local and Intermediate Revenue				446,659
Total General Revenues				<u>44,584,298</u>
S1 Sale of Property				23,541
TR Total General Revenues and Special Item				<u>44,607,839</u>
CN Change in Net Position				5,822,407
NB Net Position -- Beginning				34,176,263
NE Net Position -- Ending				<u>\$ 39,998,670</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data	10	50	60		98
Control	General	Debt	Capital	Other	Total
Codes	Fund	Service Fund	Projects Funds	Funds	Governmental Funds
ASSETS					
1110 Cash and Cash Equivalents	\$ 23,047,380	\$ 5,631,762	\$ 19,559,660	\$ 762,516	\$ 49,001,318
1220 Property Taxes - Delinquent	4,385,775	1,191,082	-	-	5,576,857
1230 Allowance for Uncollectible Taxes (Credit)	(438,578)	(119,108)	-	-	(557,686)
1240 Due from Other Governments	6,646,887	-	-	542,219	7,189,106
1260 Due from Other Funds	423,694	-	-	1,579	425,273
1290 Other Receivables	22,877	6,591	-	-	29,468
1310 Inventories	-	-	-	6,766	6,766
1000A Total Assets	<u>\$ 34,088,035</u>	<u>\$ 6,710,327</u>	<u>\$ 19,559,660</u>	<u>\$ 1,313,080</u>	<u>\$ 61,671,102</u>
LIABILITIES					
2110 Accounts Payable	\$ 302,752	\$ -	\$ 3,348,328	\$ 70,924	\$ 3,722,004
2150 Payroll Ded. and Withholdings Payable	80,232	-	-	-	80,232
2160 Accrued Wages Payable	1,697,385	-	-	25,346	1,722,731
2170 Due to Other Funds	638,033	-	-	-	638,033
2200 Accrued Expenditures	35,865	-	-	27	35,892
2300 Unearned Revenues	-	-	-	16,315	16,315
2000 Total Liabilities	<u>2,754,267</u>	<u>-</u>	<u>3,348,328</u>	<u>112,612</u>	<u>6,215,207</u>
DEFERRED INFLOWS OF RESOURCES					
2600 Deferred Inflows-Unavailable Revenues	3,947,197	1,071,974	-	-	5,019,171
Total Deferred Inflows of Resources	<u>3,947,197</u>	<u>1,071,974</u>	<u>-</u>	<u>-</u>	<u>5,019,171</u>
FUND BALANCES					
Restricted for:					
3450 Federal or State Funds Restricted	-	-	-	1,200,468	1,200,468
3470 Capital Acq. and Contractual Oblig.	-	-	16,211,332	-	16,211,332
3480 Retirement of Long-Term Debt	-	5,638,353	-	-	5,638,353
3490 Other Restricted Fund Balance	370,767	-	-	-	370,767
Assigned for:					
3550 Construction	6,800,000	-	-	-	6,800,000
3590 Other Assigned Fund Balance	2,000,000	-	-	-	2,000,000
3600 Unassigned Fund Balance	18,215,804	-	-	-	18,215,804
3000 Total Fund Balances	<u>27,386,571</u>	<u>5,638,353</u>	<u>16,211,332</u>	<u>1,200,468</u>	<u>50,436,724</u>
4000 Total Liab., Def. Inflows, and Fund Balances	<u>\$ 34,088,035</u>	<u>\$ 6,710,327</u>	<u>\$ 19,559,660</u>	<u>\$ 1,313,080</u>	<u>\$ 61,671,102</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2017

		1
Total Fund Balances - Governmental Funds		\$ 50,436,724
<p>1 Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 90,207,175	
Less accumulated depreciation	<u>(25,454,010)</u>	64,753,165
<p>2 Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds payable, including unamortized premiums	(77,141,372)	
Net pension liability	<u>(8,673,039)</u>	(85,814,411)
<p>3 Accrued interest on long-term debt related to governmental fund activities is not due and payable in the current period and, therefore, not reported in the governmental funds.</p>		
		(106,958)
<p>4 Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions	5,406,341	
Deferred inflows of resources related to pensions	<u>(1,436,842)</u>	3,969,499
<p>5 Property taxes are recognized as revenue in the governmental funds when collected, but recognized on the Statement of Activities in the year levied. Therefore, property taxes receivable, net of allowance for uncollectible accounts, is added to the Statement of Net Position for governmental activities.</p>		
		5,019,171
<p>6 Deferred amounts from bond refundings, net of amortization, are not reported in the governmental funds.</p>		
		1,703,603
<p>7 The District uses an Internal Service Fund to charge the costs of certain activities, such as the provision of workers compensation insurance, to other individual funds. Even though the Internal Service Fund is a proprietary fund, the assets and liabilities of this fund are added to the Statement of Net Position for governmental activities.</p>		
		37,877
19 Net Position of Governmental Activities		<u>\$ 39,998,670</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, 2017

Data	10	50	60	98	
Control	General	Debt	Capital	Other	Total
Codes	Fund	Service Fund	Projects Funds	Funds	Funds
REVENUES					
5700 Local and Intermediate Sources	\$11,472,058	\$ 3,549,770	\$ 98,224	\$ 346,164	\$15,466,216
5800 State Program Revenues	27,671,508	1,050,690	-	366,968	29,089,166
5900 Federal Program Revenues	1,214,010	-	-	4,302,484	5,516,494
5020 Total Revenues	<u>40,357,576</u>	<u>4,600,460</u>	<u>98,224</u>	<u>5,015,616</u>	<u>50,071,876</u>
EXPENDITURES					
0011 Instruction	20,189,352	-	-	1,818,429	22,007,781
0012 Instructional Resources & Media Services	270,604	-	-	-	270,604
0013 Curriculum & Inst. Staff Development	323,508	-	-	221,979	545,487
0021 Instructional Leadership	165,945	-	-	-	165,945
0023 School Leadership	2,616,473	-	-	-	2,616,473
0031 Guidance, Counseling & Eval. Services	830,960	-	-	-	830,960
0033 Health Services	307,498	-	-	-	307,498
0034 Student (Pupil) Transportation	2,416,457	-	-	-	2,416,457
0035 Food Services	-	-	-	2,430,360	2,430,360
0036 Cocurricular/Extracurricular Activities	1,082,484	-	-	-	1,082,484
0041 General Administration	1,584,857	-	-	-	1,584,857
0051 Plant Maintenance and Operations	3,720,387	-	-	187,247	3,907,634
0052 Security and Monitoring Services	605,620	-	-	916	606,536
0053 Data Processing Services	474,361	-	-	-	474,361
0061 Community Services	884	-	-	12,923	13,807
0071 Debt Service - Principal	-	708,079	-	-	708,079
0072 Debt Service - Interest	-	3,653,447	-	-	3,653,447
0073 Debt Service - Bond Issuance Costs	-	118,790	110,947	-	229,737
0081 Facilities Acquisition and Construction	2,528,051	-	21,148,370	-	23,676,421
0093 Payments to Fiscal Agent of SSA	564,966	-	-	-	564,966
0099 Other Intergovernmental Charges	322,411	-	-	-	322,411
6030 Total Expenditures	<u>38,004,818</u>	<u>4,480,316</u>	<u>21,259,317</u>	<u>4,671,854</u>	<u>68,416,305</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,352,758</u>	<u>120,144</u>	<u>(21,161,093)</u>	<u>343,762</u>	<u>(18,344,429)</u>
OTHER FINANCING SOURCES (USES)					
7911 Capital-Related Debt Issued	-	4,975,000	4,015,000	-	8,990,000
7912 Sale of Property	23,541	-	-	-	23,541
7916 Premium or Discount on Issuance of Bonds	-	227,700	395,947	-	623,647
8949 Other (Uses)	-	(5,085,260)	-	-	(5,085,260)
7080 Total Other Financing Sources (Uses)	<u>23,541</u>	<u>117,440</u>	<u>4,410,947</u>	<u>-</u>	<u>4,551,928</u>
1200 Net Change in Fund Balance	<u>2,376,299</u>	<u>237,584</u>	<u>(16,750,146)</u>	<u>343,762</u>	<u>(13,792,501)</u>
0100 Fund Balance - Beginning	<u>25,010,272</u>	<u>5,400,769</u>	<u>32,961,478</u>	<u>856,706</u>	<u>64,229,225</u>
3000 Fund Balance - Ending	<u>\$27,386,571</u>	<u>\$ 5,638,353</u>	<u>\$16,211,332</u>	<u>\$ 1,200,468</u>	<u>\$50,436,724</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2017

Total Net Change in Fund Balances – Governmental Funds		\$ (13,792,501)
1	Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.	
	Expenditures for capitalized assets	\$ 24,334,224
	Less current year depreciation	<u>(1,841,530)</u>
		22,492,694
2	Repayment of principal on bonds, notes, and capital leases is an expenditure in the governmental funds, but this expenditure is removed from the Statement of Activities and the repayments instead reduce long-term liabilities on the Statement of Net Position.	6,660,000
3	Issuance of long-term debt increases current financial resources to governmental funds, but this increase is not shown on the Statement of Activities and instead increases long-term liabilities on the Statement of Net Position.	(9,613,647)
4	Accumulated accretion on bonds issued by governmental activities is recognized only when paid in the governmental funds, but is treated as interest expense on the Statement of Activities as it accretes.	(126,754)
5	Since long-term debt is not recorded in governmental funds, amortization of related issuance premiums and discounts is also not recorded.	274,114
6	The change in accrued interest due on long-term debt issued for governmental activities does not affect current financial resources and therefore is not reported in the governmental funds.	37,637
7	Property taxes are recognized as revenue in the governmental funds when collected but recognized on the Statement of Activities in the year levied. Therefore the uncollected amount of the current year levy is added to current year property tax revenue on the Statement of Activities.	750,326
8	Governmental funds report pension contributions as expenditures. However, pension contributions are reported as deferred outflows of resources on the Statement of Net Position if made after the net pension liability measurement date. In addition, the change in the net pension liability, adjusted for changes in deferred pension items, is reported as pension expense in the Statement of Activities.	(777,058)
9	The District uses an Internal Service Fund to charge the costs of certain activities, such as the provision of workers compensation insurance, to other individual funds. Even though the Internal Service Fund is a proprietary fund, this fund is consolidated with the governmental activities column on the Statement of Activities.	(82,404)
19 Change in Net Position of Governmental Activities		\$ <u>5,822,407</u>

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

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance With Final Budget	
	Original	Final	(GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 10,432,700	\$ 11,531,471	\$ 11,472,058	\$ (59,413)
5800	State Program Revenues	23,462,568	26,358,628	27,671,508	1,312,880
5900	Federal Program Revenues	523,000	1,208,564	1,214,010	5,446
5020	Total Revenues	34,418,268	39,098,663	40,357,576	1,258,913
EXPENDITURES					
Current:					
0011	Instruction	20,760,380	20,533,433	20,189,352	344,081
0012	Instructional Resources & Media Services	296,029	281,195	270,604	10,591
0013	Curriculum and Staff Development	359,560	339,047	323,508	15,539
0021	Instructional Leadership	138,397	171,174	165,945	5,229
0023	School Leadership	2,447,157	2,638,812	2,616,473	22,339
0031	Guidance/Counseling/Evaluation Services	796,573	846,035	830,960	15,075
0033	Health Services	383,833	323,212	307,498	15,714
0034	Student Transportation	2,327,151	2,618,056	2,416,457	201,599
0036	Extracurricular Activities	1,182,556	1,143,881	1,082,484	61,397
0041	General Administration	1,548,310	1,624,163	1,584,857	39,306
0051	Facilities Maintenance & Operations	4,351,477	4,109,592	3,720,387	389,205
0052	Security and Monitoring Services	522,096	654,401	605,620	48,781
0053	Data Processing Services	618,014	541,963	474,361	67,602
0061	Community Services	2,800	1,884	884	1,000
Capital Outlay:					
0081	Facilities Acquisition & Construction	55,127	3,485,556	2,528,051	957,505
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Dist. of SSA	504,000	568,000	564,966	3,034
0099	Other Intergovernmental Charges	350,000	350,000	322,411	27,589
6030	Total Expenditures	36,643,460	40,230,404	38,004,818	2,225,586
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,225,192)	(1,131,741)	2,352,758	3,484,499
OTHER FINANCING SOURCES (USES)					
7912	Sale of Property	3,000	23,541	23,541	-
7080	Total Other Financing Sources (Uses)	3,000	23,541	23,541	-
1200	Net Change in Fund Balances	(2,222,192)	(1,108,200)	2,376,299	3,484,499
0100	Fund Balance-September 1 (Beginning)	25,010,272	25,010,272	25,010,272	-
3000	Fund Balance-August 31 (Ending)	\$ 22,788,080	\$ 23,902,072	\$ 27,386,571	\$ 3,484,499

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, 2017

Data Control Codes	Governmental Activities Internal Service Fund
ASSETS	
1110 Cash and Cash Equivalents	\$ 132,927
1260 Due from Other Funds	212,760
1000 Total Assets	<u>345,687</u>
LIABILITIES	
Current Liabilities:	
2110 Accounts Payable	307,810
2000 Total Liabilities	<u>307,810</u>
NET POSITION	
3900 Unrestricted Net Position	37,877
3000 Total Net Position	<u><u>\$ 37,877</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 NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Governmental Activities Internal Service Fund
OPERATING REVENUES	
5700 Local and Intermediate Sources	\$ 140,800
5020 Total Operating Revenues	<u>140,800</u>
OPERATING EXPENSES	
6400 Operating Costs	223,525
6030 Total Operating Expenses	<u>223,525</u>
Operating Income (Loss)	(82,725)
7955 Earnings - Temporary Investments	<u>321</u>
1300 Change in Net Position	(82,404)
0100 Total Net Position - Beginning	<u>120,281</u>
3300 Total Net Position - Ending	<u><u>\$ 37,877</u></u>

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

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Governmental Activities Internal Service Fund
<u>Cash Flows from Operating Activities</u>	
Cash Received from User Charges	\$ 190,800
Cash Payments for Operating Activities	(118,580)
Net Cash provided by (Used for) Operating Activities	72,220
<u>Cash Flows from Investing Activities</u>	
Dividends/Interest Received	321
Net Cash provided by (Used for) Investing Activities	321
Net Increase (Decrease) in Cash and Cash Equivalents	72,541
Cash and Cash Equivalents at Beginning of the Year	60,386
Cash and Cash Equivalents at the End of the Year:	\$ 132,927
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>	
Operating Income (Loss):	\$ (82,725)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (Decrease) in Accounts Receivable	50,000
Increase (Decrease) in Accounts Payable	104,945
Net Cash Provided by (Used for) Operating Activities	\$ 72,220

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

Data Control Codes	Private Purpose Trust Fund	Agency Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 2,035	\$ 90,579
1000 Total Assets	<u>2,035</u>	<u>90,579</u>
LIABILITIES		
Current Liabilities:		
2180 Due to Other Governments	-	23,159
2190 Due to Student Groups	-	67,420
2000 Total Liabilities	<u>-</u>	<u>\$ 90,579</u>
NET POSITION		
3800 Held in Trust	<u>2,035</u>	
3000 Total Net Position	<u>\$ 2,035</u>	

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Private Purpose Trust Fund
ADDITIONS	
5700 Local and Intermediate Sources	\$ 2,011
5020 Total Revenues	<u>2,011</u>
DEDUCTIONS	
6200 Scholarships Distributed	2,500
6030 Total Expenses	<u>2,500</u>
1200 Change in Net Position	(489)
0100 Net Position - Beginning	<u>2,524</u>
3000 Net Position - Ending	<u><u>\$ 2,035</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
FOR THE YEAR ENDED AUGUST 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

This report includes those activities, organizations and functions related to Cleveland Independent School District (the "District"), which are controlled by or dependent upon the District's governing body, the Board of Trustees (the "Board"). The Board, a seven-member group, is the level of government having governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), since Board members are elected by the public and have decision making authority. Furthermore, there are no legally separate organizations, known as "component units", included within the reporting entity.

The accounting policies of the District comply with the rules prescribed by the Texas Education Agency (TEA) in its Financial Accountability System Resource Guide (FASRG). These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. Currently however, the District has no business-type activities.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Agency funds have no measurement focus. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include state and federal program revenues and property taxes. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources within the fund governmental fund financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Major Funds and Fund Types

The District reports the following major governmental funds:

The General Fund includes financial resources that are not required to be reported separately in another fund. It is a budgeted fund, and any unrestricted fund balances are considered to be resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The Capital Projects Funds are used to account for the construction, improvement and renovation of school buildings in the District along with the acquisition of land and equipment. These funds are budgeted on a project basis rather than annually.

Additionally, the District reports the following fund types:

Special revenue funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds.

Internal service funds are proprietary funds used to account for activities such as workers' compensation self-insurance, self-funded health insurance, and employee health savings accounts. The District utilizes an Internal Service Fund to account for its participation in a workers' compensation shared risk pool.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Private purpose trust funds are fiduciary funds used to account for donations for which the donors have stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District utilizes this fund type to account for money collected and held for the purpose of awarding scholarships to selected students.

Agency funds are fiduciary funds used to account for resources held for others in a custodial capacity. The District utilizes this fund type to account for funds held on behalf of student clubs and organizations.

Budgetary Information

Budgets are prepared annually for the General Fund, the Debt Service Fund, and the Child Nutrition Fund on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by the end of August and is adopted by the Board at a public meeting after public notice of the meeting has been given no earlier than the 30th day or later than the 10th day before the public hearing. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was monitored by the administration throughout the year and amendments were brought to the Board as needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Investments - The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code (Public Funds Investment Act). The types of investments allowed under the Public Funds Investment Act are detailed in Note 2 - Deposits and Investments. The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policies. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. For the year and as of year end, the District did not have any balances classified as investments.

Inventories - Inventories are generally not recorded in the General Fund or Child Nutrition Fund due to amounts of expendable supplies held or purchased food not being deemed material. When inventories are recorded, they are charged to expenditures when consumed. Amounts recorded are offset by a fund balance classification titled "nonspendable" which indicates that the inventory does not represent "available expendable resources."

Capital Assets - Capital assets, which include land, buildings and improvements, construction in progress, furniture and equipment, and vehicles are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000 and a useful life of greater than one year. Such assets are recorded at historical cost, if purchased, or estimated fair value at the date of donation, if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight-line method over the following estimated useful lives: buildings and improvements - fifteen to thirty years, furniture and equipment - three to twenty years, and vehicles - five to ten years.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are charged to expenditures when consumed. When prepaid items are recorded, they are charged to expenditures when the value represented by the prepaid item has been used. Amounts recorded are offset by a fund balance classification titled “nonspendable” which indicates that the prepaid item amount does not represent “available expendable resources.”

Ad Valorem Property Taxes - Delinquent taxes, when received, are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon 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.

Accumulated Sick Leave Liability - The State of Texas (the “State”) has created a minimum sick leave program consisting of five days of sick leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district’s local Board is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum.

Pensions - 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 benefit terms. Investments are reported at fair value.

Deferred Outflows and Deferred Inflows of Resources - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent a consumption of the District’s net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District’s acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Fund Balance/Deficit - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Statement of Cash Flows - For purposes of the statement of cash flows when Proprietary Funds are used, cash and cash equivalents include demand deposits.

Fair Value Measurements - The District adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations

Data Control Codes

The Data Control Codes shown on the financial statements refer to the account code structure prescribed by the FASRG. TEA requires school districts to display these codes in their financial statements to ensure accuracy in building a state-wide data base for policy development and funding plans.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

2. DEPOSITS AND INVESTMENTS

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy for operating and agency funds, in order of priority, are safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. The primary objective of the District's investment strategy for Debt Service and Capital Projects Funds is sufficient investment liquidity to meet related obligations.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy:

- Obligations of, or guaranteed by, governmental entities
- Certificates of deposit and share certificates
- Fully collateralized repurchase agreements
- Securities lending program
- Banker's acceptances
- Commercial paper
- No-load money market mutual funds and no-load mutual funds
- Guaranteed investment contracts as an investment vehicle for bond proceeds
- Public funds investment pools

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities 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 dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Therefore, the District is not exposed to custodial credit risk.

Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At August 31, 2017, the carrying amount of the District's cash and deposits was \$49,226,859 and the bank balance was \$49,946,792. The District's deposits with financial institutions at August 31, 2017 and during the year ended August 31, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and TEA maintains copies of all safekeeping receipts in the name of the District.

The District maintains a cash pool consisting of demand deposits. The combined pool is available for use by most Special Revenue Funds. If a fund overdraws its share of the pool, the overdraft is reported as an interfund payable in that fund. The offsetting interfund receivable is reported in the General Fund.

The following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a) Name of depository bank: Prosperity Bank
- b) The amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$79,680,645.
- c) The largest cash, savings and time deposit combined account balance amounted to \$69,629,388 and occurred during the month of January 2017.
- d) Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of 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 financial 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 District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At August 31, 2017, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the District's investment policy requires that maturities will not exceed the weighted average maturity of 180 days for any internally created pool fund group and one year from the time of purchase for any other individual investment. The Board may specifically authorize a longer maturity for a given investment, within legal limits. The District considers the holdings in the local governmental investment pools to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value. At August 31, 2017, the District had no investments.

3. PROPERTY TAXES

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Liberty Central Appraisal District, Montgomery Central Appraisal District and San Jacinto Central Appraisal District (the "Appraisal Districts") are responsible for the recording and appraisal of all property in the District. Under the Code, the school board sets the tax rates on property and the Liberty County Tax Assessor/Collector provides tax collection services. The Appraisal Districts are required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 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 1 of each year, a tax lien attaches to property to secure the payment of all taxes and penalties and interest that are ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period, including those property taxes expected to be collected during a 60-day period after the end of the District's fiscal year. The assessed value at January 1, 2016, upon which the October 2016 levy was based was \$1,071,937,872.

The District levied taxes based on a combined tax rate of \$1.38 per \$100 of assessed valuation for local maintenance (general governmental services) and Debt Service.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

4. DUE FROM/TO OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the state through the School Foundation and Per Capita Programs. Grants and entitlements are recorded as revenue when earned, therefore at year end amounts earned but not yet received in cash may be recorded as due from the grantor government. Amounts already received in cash but not yet earned are recorded as due to the grantor government.

A summary of amounts recorded as Due From/Due To Other Governments in the basic financial statements as of August 31, 2017 are summarized below:

Due From Other Governments:	General Fund	Non-Major Governmental Funds	Total
Governmental Activities:			
Foundation & Per Capita entitlements	\$ 6,641,441	\$ -	\$ 6,641,441
State grants	-	89,481	89,481
Federal grants	5,446	452,738	458,184
Total - Governmental Activities	\$ 6,646,887	\$ 542,219	\$ 7,189,106

5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of operations, the individual funds of the District may engage in temporary borrowings of money between one another to meet liquidity needs. These interfund receivables and payables are recorded on the balance sheet of the loaning fund as “Due from Other Funds” and on the balance sheet of the borrowing fund as “Due to Other Funds”. Amounts are repaid when funds are available in the borrowing fund.

Individual funds may also make payments between one another which are intended to be permanent and therefore not repaid. These transactions are recorded on the statement of revenues, expenditures, and changes in fund balance as “Transfers Out” for the paying fund and “Transfers In” for the receiving fund.

The composition of interfund balances as of August 31, 2017 was as follows:

Receivable Fund	Payable Fund	Amount
General Fund	General Fund	\$ 423,694
Total General Fund		423,694
Special Revenue Funds	General Fund	1,579
Total Special Revenue Funds		1,579
Internal Service Fund	General Fund	212,760
Total Internal Service Fund		212,760
Grand Total		\$ 638,033

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

6. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2017 was as follows:

	Beginning Balance 9/1/16	Additions	Retirements	Ending Balance 8/31/17
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,019,259	\$ 1,527,010	\$ -	\$ 2,546,269
Construction in progress	2,082,313	19,286,373	-	21,368,686
Total capital assets, not being depreciated	3,101,572	20,813,383	-	23,914,955
Capital assets, being depreciated:				
Buildings and improvements	57,448,380	2,812,306	(20,000)	60,240,686
Furniture and equipment	5,743,728	869,657	(561,851)	6,051,534
Total capital assets, being depreciated	63,192,108	3,681,963	(581,851)	66,292,220
Less accumulated depreciation for:				
Buildings and improvements	(20,223,896)	(1,439,099)	20,000	(21,642,995)
Furniture and equipment	(3,970,435)	(402,431)	561,851	(3,811,015)
Total accumulated depreciation	(24,194,331)	(1,841,530)	581,851	(25,454,010)
Governmental Activities Capital Assets, Net	\$ 42,099,349	\$ 22,653,816	\$ -	\$ 64,753,165

Depreciation expense was charged to the functions of the District as follows:

Function	Depreciation Allocation
Instruction	\$ 1,009,450
Instructional Resources & Media	12,412
Curriculum & Staff Development	25,020
Instructional Leadership	7,612
School Leadership	120,012
Guidance/Counseling/Evaluation Services	38,114
Health Services	14,104
Student Transportation	110,838
Food Services	111,475
Cocurricular/Extracurricular Activities	49,651
General Administration	72,694
Plant Maintenance and Operations	179,235
Security and Monitoring Services	27,820
Data Processing Services	21,758
Community Services	633
Payments related to SSAs	25,914
Other Intergovernmental Charges	14,788
Totals	\$ 1,841,530

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

7. BONDS, NOTES, AND OTHER LONG-TERM LIABILITIES

Governmental activities long-term debt obligations at August 31, 2017 consisted of the following:

General Long-Term Debt Description	Outstanding at August 31, 2017
\$9,324,989 Unlimited Tax Refunding Bond, Series 2006; due in two remaining installments of \$190,204 and \$174,785 in 2025 and 2026, respectively; interest at 4.0% to 4.375%.	\$ 364,989
\$20,875,812 Unlimited Tax Refunding Bond, Series 2010; due in remaining annual installments ranging from \$510 to \$2,975,000 through 2033; interest at 3.0% to 4.0%.	20,641,777
\$7,370,000 Unlimited Tax Refunding Bond, Series 2015; due in remaining installments ranging from \$60,000 to \$1,370,000 through 2031; interest at 2.0% to 4.0%.	7,170,000
\$30,715,000 Unlimited Tax Building Bond, Series 2016; due in remaining installments ranging from \$50,000 to \$3,085,000 through 2046; interest at 3.0% to 5.0%.	30,715,000
\$4,975,000 Unlimited Tax Refunding Bond, Series 2017; due in remaining annual installments ranging from \$390,000 to \$850,000 through 2024; interest at 2.0% to 3.0%.	4,950,000
\$4,015,000 Unlimited Tax Building Bond, Series 2017; due in remaining annual installments ranging from \$155,000 to \$285,000 through 2037; interest at 2.0% to 4.0%.	4,015,000
Capital Appreciation Bonds, Series 2006 and Series 2010.	3,015,375
Total General Obligation and Refunding Bonds	<u>\$ 70,872,141</u>

The following is a summary of changes in long-term liabilities for the year ended August 31, 2017:

Type	Outstanding 9/1/16	Additions	Deletions	Current Accretion	Outstanding 8/31/17	Due in One Year
Bonds Payable:						
General Oblig. & Refunding Bonds	\$68,415,387	\$ 8,990,000	\$(6,660,000)	\$ 126,754	\$70,872,141	\$1,935,000
Premium on Issuance of Bonds	5,919,698	623,647	(274,114)	-	6,269,231	-
Total Bonds	<u>74,335,085</u>	<u>9,613,647</u>	<u>(6,934,114)</u>	<u>126,754</u>	<u>77,141,372</u>	<u>1,935,000</u>
Other Long-Term Liabilities:						
Net Pension Liability	7,141,986	1,531,053	-	-	8,673,039	-
Total Other Long-Term Debt	<u>7,141,986</u>	<u>1,531,053</u>	<u>-</u>	<u>-</u>	<u>8,673,039</u>	<u>-</u>
Total Governmental Activities	<u>\$81,477,071</u>	<u>\$11,144,700</u>	<u>\$(6,934,114)</u>	<u>\$ 126,754</u>	<u>\$85,814,411</u>	<u>\$1,935,000</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness would exceed \$0.50 per \$100 of assessed valuation of taxable property within the District.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

During the year, the District issued \$4,015,000 of Unlimited Tax School Building Bonds, Series 2017, to provide funding to construct, equip and/or renovate buildings in the District. Additionally, during the year the District issued \$4,975,000 of Unlimited Tax Refunding Bonds, Series 2017. The proceeds from this issue were used to refund approximately \$5 million of Series 2007 bonds. The refunding was undertaken to obtain a more favorable average interest rate and as a result reduce future debt service payments. The resulting decrease in total future debt service payments is \$320,662 representing a net present value savings of \$292,455.

Annual principal installments for outstanding bonds vary each year. The debt service requirements to maturity for general obligation bonds as of August 31, 2017 are as follows:

Year Ended August 31,	General Obligations			Total Requirements
	Principal	Accumulated Accretion	Interest	
2018	\$ 1,031,267	\$ 903,733	\$ 3,754,533	\$ 5,689,533
2019	840,510	909,490	3,743,465	5,493,465
2020	2,000,000	-	2,791,975	4,791,975
2021	2,040,000	-	2,731,675	4,771,675
2022	2,115,000	-	2,669,350	4,784,350
2023-2027	10,349,990	1,202,152	14,245,374	25,797,516
2028-2032	14,950,000	-	9,946,688	24,896,688
2033-2037	11,605,000	-	7,046,975	18,651,975
2038-2042	11,460,000	-	4,355,750	15,815,750
2043-2046	11,465,000	-	1,182,375	12,647,375
Totals	\$ 67,856,766	\$ 3,015,375	\$ 52,468,160	\$ 123,340,301

The District had no capital leases outstanding during the year. However, the District has the following annual obligations related to copier and portable building operating leases as of year end:

Year Ending August 31,	Amount
2018	\$ 207,438
2019	161,499
2020	161,499
2021	161,499
2022	148,041
Total Minimum Rentals	\$ 839,976
Rental Expenditures for the fiscal year ended August 31, 2017	\$ 208,047

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

8. DEFINED BENEFIT PENSION PLAN

Plan Description

Cleveland Independent School District participates in a cost-sharing multiple-employer defined benefit pension plan 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 education 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, Texas, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2016.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	(134,008,637,473)
Net Pension Liability	<u>\$ 37,788,513,014</u>
Net Position as a Percentage of Total Pension Liability	78.00%

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 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 age 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 the date of employment, or if the member was grandfathered under a previous rule. There are no automatic post-employment benefit changes; including automatic cost-of-living-adjustments (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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

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 years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

<u>Contribution Rates</u>	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
 <u>Contribution Amounts</u>		
Employer Contribution	\$ 725,127	\$ 760,469
Member Contributions	1,550,198	1,847,174
State On-Behalf Contributions	1,352,998	1,416,210

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Public school employers 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 sources, a privately sponsored source, from non-educational and general, or local funds

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- 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
- When a school district does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
Municipal Bond Rate*	N/A*
Last year ending August 31 in the 2016 to 2115	
Projection period (100 years)	2115
Inflation	2.50%
Salary Increases	3.50% to 9.50% including inflation
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

*If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions have been selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the four-year period ending August 31, 2014 and were adopted in September 2015.

The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The Post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

Discount Rate

A single discount rate of 8.0 % was used to measure the total pension liability. There was no change in the discount rate since the previous fiscal year. This single discount rate was based on the expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this single discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2013 legislative session.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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 with no cross-over point to a municipal bond rate.

The long-term expected rate of return on pension plan investments is 8.0%. 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, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
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%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	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>

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less or 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate 8.0%	1% Increase in Discount Rate (9.0%)
District's Proportionate Share of the Net Pension Liability:	\$ 13,422,943	\$ 8,673,039	\$ 4,644,161

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, Cleveland Independent School District reported a liability of \$8,673,039 for its proportionate share of the TRS net pension liability. This liability reflects a reduction for State pension support provided to Cleveland Independent School District. The amount recognized by Cleveland Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Cleveland Independent School District were as follows:

District's Proportionate Share of the Collective Net Pension Liability	\$	8,673,039
State's Proportionate Share that is Associated with the District		12,662,136
Total		\$ 21,335,175

The net pension liability last was measured as of August 31, 2016 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, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .0229515% which was an increase of .0027471% from its proportion measured as of the previous measurement date of August 31, 2015.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period. In addition, there were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2017, Cleveland Independent School District recognized pension expense of \$777,058 and revenue of \$1,066,748 for support provided by the State.

At August 31, 2017, Cleveland Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 135,992	\$ 258,972
Changes in Actuarial Assumptions	264,339	240,405
Difference Between Projected and Actual Investment Earnings	1,671,307	936,891
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	2,574,234	574
Contributions Paid to TRS Subsequent to the Measurement Date	760,469	-
Total	\$ 5,406,341	\$ 1,436,842

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

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:

Year Ended 8/31:	Pension Expense Amount
2017	\$ 559,763
2018	559,763
2019	1,028,209
2020	523,766
2021	382,942
Thereafter	154,585

9. EMPLOYEE HEALTH CARE COVERAGE

During the year ended August 31, 2017, employees of the District were covered by the state-wide health insurance plan, TRS Active Care. The District contributed between \$239 and \$869 per month per employee to the Plan, and employees, at their option, authorized payroll withholdings to pay additional contributions or premiums for employee and/or dependents. TRS manages TRS Active Care. The Plan is administered by Aetna while Caremark was assigned the prescription drug plan.

10. RETIREE HEALTH CARE PLAN

Plan Description

The 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 TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code (TIC), 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. 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 website at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. TIC, 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 TIC, 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 State of Texas and active public school employee contribution rates were 1.0% and 0.65% of the public school payroll, respectively, with school districts contributing a percentage of payrolls set at 0.55% for fiscal years 2016 and 2017.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

Medicare Part-D Subsidies

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 Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants.

A summary of the subsidy payments received by TRS-Care on behalf of the District for the last two fiscal years is as follows:

Fiscal Year	Medicare Part-D State On-Behalf Payments
2017	\$ 110,528
2016	81,985

11. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, the Board, or an official or body that has been delegated authority by the Board, may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

A detail of the fund balance amounts within each category is included on the governmental funds balance sheet.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated authority to the Superintendent to assign fund balance for a specific purpose. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

12. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Type	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major			Trust Funds	Total
				Governmental Funds	Proprietary Funds			
Property Taxes	\$11,057,082	\$ 3,516,199	\$ -	\$ -	\$ -	\$ -	\$ -	\$14,573,281
Investment Income	93,301	33,571	98,224	4,330	321		11	229,758
Rent	9,063	-	-	-	-	-	-	9,063
Gifts	19,565	-	-	1,435	-	-	2,000	23,000
Insurance Recovery	503	-	-	-	-	-	-	503
Food Sales	-	-	-	311,997	-	-	-	311,997
Athletics	36,590	-	-	-	-	-	-	36,590
Enterprising Revenues	3,347	-	-	-	-	-	-	3,347
Misc. Local Revenue	252,607	-	-	28,402	140,800	-	-	421,809
Total	\$11,472,058	\$ 3,549,770	\$ 98,224	\$ 346,164	\$ 141,121	\$ 2,011		\$15,609,348

13. UNEARNED REVENUE

Unearned revenue at August 31, 2017 consisted of the following amounts:

Fund	State Grants	Federal Grants	Total
Non-Major Governmental Funds	\$ 9,549	\$ 6,766	\$ 16,315
Total	\$ 9,549	\$ 6,766	\$ 16,315

14. RISK MANAGEMENT

The District’s risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, workers’ compensation, and other miscellaneous bonds. During the year ended August 31, 2017, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

15. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federal financial assistance programs. Although the District’s grant programs have been audited in accordance with the provisions of *Government Auditing Standards* and when applicable, the Uniform Guidance, for the year ended August 31, 2017, these programs are subject to financial and compliance audits performed by the specific grantors. These audits, if performed, could result in amounts of expenditures being disallowed by the granting agencies and subject to repayment. The District however expects that such amounts, if any, would be immaterial.

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

16. SELF-INSURANCE FUND

The District participates in a workers' compensation plan through a Fixed Cost/Loss Fund Program administered by Claims Administrative Services, Inc (CAS). The District's ultimate liability is the ending liability in its loss fund. CAS has excess insurance for the pool and the current self-insured retention is \$1 million.

A reconciliation of the estimated claim liability is as follows:

Year Ended August 31,	Beginning Liability	Estimated Current Year Claims	Claim Payments	Ending Liability
2015	\$ 223,435	\$ 118,823	\$ 122,753	\$ 219,505
2016	219,505	82,982	99,622	202,865
2017	202,865	218,450	113,505	307,810

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REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
 TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED AUGUST 31, 2017

	2015	2016	2017
District's Proportion of the Net Pension Liability	0.0123378%	0.0202044%	0.0229515%
District's Proportionate Share of the Net Pension Liability	\$ 3,295,597	\$ 7,141,986	\$ 8,673,039
State's Proportionate Share of the District Net Pension Liability	9,733,933	11,497,247	12,662,136
Total	<u>\$ 13,029,530</u>	<u>\$ 18,639,233</u>	<u>\$ 21,335,175</u>
District's Covered-Employee Payroll	\$ 19,259,052	\$ 21,501,503	\$ 23,989,275
District's Proportionate Share of the Net Pension Liability as a percentage of its covered-employee payroll	17.11%	33.22%	36.15%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	83.25%	78.43%	78.00%

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS –
 TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED AUGUST 31, 2017

	2015	2016	2017
Contractually Required Contribution	\$ 598,057	\$ 725,127	\$ 760,469
Contribution in Relation to the Contractually Required Contribution	(598,057)	(725,127)	(760,469)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 19,259,052	\$ 21,501,503	\$ 23,989,275
Contributions as a Percentage of Covered-Employee Payroll	3.11%	3.37%	3.17%

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2017

Changes of Benefit Terms

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

Changes of Assumptions

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

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**INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31,		1	2	3
		Tax Rates		Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2008	and prior years	Various	Various	Various
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		1.040000	0.275000	932,700,302
2017	(School year under audit)	1.040000	0.340000	1,071,937,872
TOTALS				

	10	20	31	32	40	50
	Beginning	Current	Maintenance	Debt Service	Entire	Ending
	Balance	Year's	Collections	Collections	Year's	Balance
	9/1/16	Total Levy			Adjustments	8/31/17
\$	818,321	\$ -	\$ 30,415	\$ 8,042	\$ (34,092)	\$ 745,772
	222,165	-	8,064	2,132	(2,990)	208,979
	272,561	-	17,640	4,664	(5,802)	244,455
	315,558	-	32,761	8,663	(5,233)	268,901
	372,889	-	36,527	9,659	(4,788)	321,915
	399,874	-	49,225	13,016	(7,858)	329,775
	531,419	-	72,211	19,094	(7,254)	432,860
	711,300	-	118,445	31,320	(19,308)	542,227
	1,233,518	-	340,939	90,152	(101,594)	700,833
	-	14,792,743	9,761,286	3,191,190	(59,127)	1,781,140
\$	<u>4,877,605</u>	\$ <u>14,792,743</u>	\$ <u>10,467,513</u>	\$ <u>3,377,932</u>	\$ <u>(248,046)</u>	\$ <u>5,576,857</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, 2017

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	Amounts (GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 294,600	\$ 340,098	\$ 346,015	\$ 5,917
5800	State Program Revenues	56,843	62,171	62,171	-
5900	Federal Program Revenues	1,800,000	2,536,664	2,537,197	533
5020	Total Revenues	<u>2,151,443</u>	<u>2,938,933</u>	<u>2,945,383</u>	<u>6,450</u>
EXPENDITURES					
0035	Food Services	2,208,450	2,500,349	2,414,374	85,975
0051	Facilities Maintenance & Operations	218,558	207,211	187,247	19,964
6030	Total Expenditures	<u>2,427,008</u>	<u>2,707,560</u>	<u>2,601,621</u>	<u>105,939</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(275,565)</u>	<u>231,373</u>	<u>343,762</u>	<u>112,389</u>
1200	Net Change in Fund Balances	(275,565)	231,373	343,762	112,389
0100	Fund Balance-September 1 (Beginning)	856,706	856,706	856,706	-
3000	Fund Balance-August 31 (Ending)	<u>\$ 581,141</u>	<u>\$ 1,088,079</u>	<u>\$ 1,200,468</u>	<u>\$ 112,389</u>

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, 2017

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	Amounts (GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 3,289,124	\$ 3,536,540	\$ 3,549,770	\$ 13,230
5800	State Program Revenues	879,816	1,050,690	1,050,690	-
5020	Total Revenues	4,168,940	4,587,230	4,600,460	13,230
EXPENDITURES					
Debt Service:					
0071	Principal on Long Term Debt	683,080	708,079	708,079	-
0072	Interest on Long Term Debt	3,683,546	3,654,797	3,653,447	1,350
0073	Bond Issuance Cost and Fees	5,000	122,441	118,790	3,651
6030	Total Expenditures	4,371,626	4,485,317	4,480,316	5,001
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(202,686)	101,913	120,144	8,229
OTHER FINANCING SOURCES (USES)					
7911	Capital-Related Debt Issued	-	4,975,000	4,975,000	-
7916	Prem. or Disc. on Issuance of Bonds	-	227,700	227,700	-
8949	Other (Uses)	-	(5,085,260)	(5,085,260)	-
7080	Total Other Finance Sources (Uses)	-	117,440	117,440	-
1200	Net Change in Fund Balances	(202,686)	219,353	237,584	8,229
0100	Fund Balance-September 1 (Beginning)	5,400,769	5,400,769	5,400,769	-
3000	Fund Balance-August 31 (Ending)	\$ 5,198,083	\$ 5,620,122	\$ 5,638,353	\$ 18,231

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		1 Responses
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 as applicable?	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 capital appreciation bonds included in the government-wide financial statements at fiscal year-end.	\$ 3,015,375
SF11	Net Pension Assets (1920) at fiscal year-end	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end	\$ 8,673,039
SF13	Pension Expense (6147) at fiscal year-end	

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FEDERAL AWARDS SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Cleveland Independent School District

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, each major fund, and the aggregate remaining fund information of Cleveland Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Cleveland Independent School District's basic financial statements, and have issued our report thereon dated October 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cleveland Independent School District's internal control over financial reporting (internal control) to determine the audit 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 Cleveland Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cleveland Independent School 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

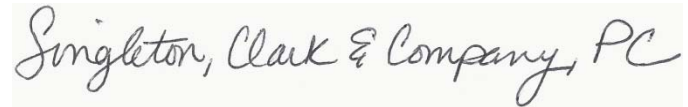
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cleveland Independent School District's financial statements are free from 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*.

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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Singleton, Clark & Company, PC". The signature is written in a cursive style and is set against a light beige rectangular background.

Singleton, Clark & Company, PC
Cedar Park, Texas

October 20, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL
FOR EACH MAJOR PROGRAM AS REQUIRED BY UNIFORM GUIDANCE AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Trustees of
Cleveland Independent School District

Report on Compliance for Each Major Federal Program

We have audited Cleveland Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cleveland Independent School District's major federal programs for the year ended August 31, 2017. Cleveland Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 Cleveland Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cleveland Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cleveland Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of Cleveland Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cleveland Independent School 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 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 Cleveland Independent School District's internal control over compliance.

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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.

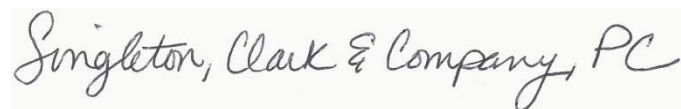
A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected 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.

Report on Schedule of Expenditures of Federal Awards Required by *Uniform Guidance*

We have audited the financial statements of Cleveland Independent School District as of and for the year ended August 31, 2017, and have issued our report thereon dated October 20, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Singleton, Clark & Company, PC
Cedar Park, Texas

October 20, 2017

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	1 Federal CFDA Number	2a Pass-Through Entity Identifying Number	3 Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Texas Education Agency</u>			
ESEA-Title I, Part A	84.010A	1661000000000	\$ 1,249,780
Career and Technical-Basic Grant	84.048A	1742000000000	53,963
Title II, Part A, Improving Teacher Quality	84.367A	1669500000000	152,690
Title III, Part A, Language	84.365A	1767100000000	141,437
Title VI, Part A, LEP		69551602	5,500
Total Passed Through Texas Education Agency			1,603,370
<u>Passed Through the Southeast Texas Cooperative</u>			
IDEA-Part B, Formula	84.027A	166600011469066000	146,080
Total Passed Through Southeast Texas Cooperative			146,080
TOTAL U.S. DEPARTMENT OF EDUCATION			1,749,450
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through Texas Education Agency</u>			
School Breakfast Program*	10.553	71401701	611,471
National School Lunch Program - Cash Assistance*	10.555	71301601	1,728,105
Total Passed Through Texas Education Agency			2,339,576
<u>Passed Through the Texas Department of Agriculture</u>			
Non-Cash Assistance - Food Distribution Program*	10.555	17-146901	197,621
Summer Feeding Program - Cash Assistance*	10.559	17-146901	15,837
Total Passed Through Texas Department of Agriculture			213,458
TOTAL DEPARTMENT OF AGRICULTURE			2,553,034
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
Reserve Officers' Training Corps	12.000	17-146901	59,200
Total Direct Programs			59,200
TOTAL U.S. DEPARTMENT OF DEFENSE			59,200
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Health and Human Services Commission:</u>			
Medical Assistance Program	93.778	17-146901	19,294
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,380,978
School Health and Related Services (SHARS) Revenue - <i>Not considered Federal Financial Assistance</i>			\$ 1,135,516
TOTAL FEDERAL REVENUE PER THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE			\$ 5,516,494

* Clustered programs as defined in OMB Compliance Supplement 2017

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal awards expenditures of Cleveland Independent School District (the “District”) under programs of the federal government for the year ended August 31, 2017. The information in the accompanying Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, change in net position, or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program, School Breakfast Program and the Food Distribution Program. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Expenditures for the National School Lunch Program, School Breakfast Program and the Food Distribution Program are shown on the accompanying schedule of expenditures of federal awards in an amount equal to the related revenue, but are not specifically attributable to this revenue source. Expenditures are reported in this manner due to the Child Nutrition Fund being a fund that combines local, state, and federal revenues, and spends those resources together to support the overall operations of the Child Nutrition Program.

Relationship to Basic Financial Statements - Expenditures of federal awards are reported in the District’s basic financial statements in the special revenue funds.

Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

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

ESEA, Title I, Part A – Improving Basic Programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with the federal Uniform Guidance? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010A	ESEA, Title I, Part A – Improving Basic Programs

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

Auditee qualified as low-risk auditee? Yes No

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended August 31, 2017 and 2016.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with federal Uniform Guidance:

No findings or questioned costs required to be reported in accordance with federal Uniform Guidance for the years ended August 31, 2017 and 2016.