

CLEVELAND INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
AUGUST 31, 2018



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

CLEVELAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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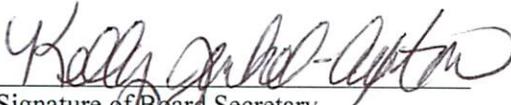
CERTIFICATE OF BOARD

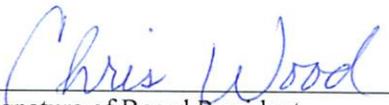
Cleveland Independent School District
Name of School District

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, 2018, at a meeting of the Board of Trustees of such school district on the 17th day of December, 2018.


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, 2018, 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, 2018, 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 and other post-employment benefits 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 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 combining statements of individual nonmajor funds and 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 combining statements of individual nonmajor funds, 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 combining statements, 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 November 9, 2018 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

November 9, 2018

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

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, 2018. 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 \$12,710,966 as a result of this year's current operations, to end at \$28,420,823. The ending net position balance includes a restatement decrease of \$24,288,813 to the September 1, 2017 balance related to the implementation of a new accounting standard.
- 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 increase of \$19,888,116, to end at \$70,324,840.
- The General Fund of the District reported a fund balance increase of \$2,311,202 for the year, to end at \$29,697,773.

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. The audit is required to be conducted 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. The District received an *Unmodified* opinion on its financial statements this year.

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, 2018

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 and retiree health insurance benefits.

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.

OVERVIEW OF THE FEDERAL AWARDS SECTION

Report on Internal Controls and Compliance

In accordance with *Government Auditing Standards*, the auditor is required to consider the internal controls the District has in place over financial reporting and whether any noncompliance with rules, laws, and regulations were noted during the audit. This report describes the scope of the testing of internal control and compliance, however, it does not provide an opinion on the effectiveness of internal control or on compliance.

Report on Compliance and Internal Control for Each Major Program

Because the District expended more than \$750,000 in federal grant awards, an additional independent auditor's report on compliance and internal control over the District's major federal grant programs was required. This report provides an opinion by the independent audit firm that the District complied, in all material respects, with the requirements applicable to the federal grants received and expended.

Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards (SEFA) provides a detailed listing of the federal grant awards received by the District during the year. This listing includes federal grant names, identification numbers, and amounts expended.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs provides an overall summary of auditor results, including identification of the type of opinion on the financial statements, whether any significant deficiencies or material weaknesses in internal controls were observed by the audit firm, and whether any material noncompliance was noted. This schedule also lists information related to the audit of the District's major federal programs and lists any audit findings reported by the audit firm for the year.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

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 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.

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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

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.

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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

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 decreased from \$39,998,670 to \$28,420,823. 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 \$9,711,142 at August 31, 2018. The overall decrease in net position from the prior year relates to the implementation of a new accounting standard which required a September 1, 2017 restatement decrease to net position of \$24,288,813.

Table I
CLEVELAND INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities 2018	Governmental Activities 2017	Change
Current & Other Assets	\$ 82,539,038	\$ 61,378,756	\$ 21,160,282
Capital Assets	87,392,751	64,753,165	22,639,586
Deferred Outflows	7,074,064	7,109,944	(35,880)
Total Assets and Deferred Outflows	177,005,853	133,241,865	43,763,988
Current Liabilities	7,974,489	5,991,942	1,982,547
Long-Term Liabilities	132,388,475	85,814,411	46,574,064
Deferred Inflows	8,222,066	1,436,842	6,785,224
Total Liabilities and Deferred Inflows	148,585,030	93,243,195	55,341,835
Net Position:			
Net Investment in Capital Assets	9,597,289	4,156,078	5,441,211
Restricted	9,112,392	24,492,894	(15,380,502)
Unrestricted	9,711,142	11,349,698	(1,638,556)
Total Net Position	\$ 28,420,823	\$ 39,998,670	\$ (11,577,847)

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

Table II
CLEVELAND INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities 2018	Governmental Activities 2017	Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 332,007	\$ 357,650	\$ (25,643)
Operating Grants & Contributions	2,919,487	5,671,913	(2,752,426)
General Revenues:			
Maintenance & Operations Taxes	13,246,247	11,625,062	1,621,185
Debt Service Taxes	4,710,787	3,698,545	1,012,242
State Aid - Formula Grants	32,419,116	26,183,383	6,235,733
Grants & Contributions not Restricted	1,170,756	2,400,902	(1,230,146)
Investment Earnings	470,843	229,747	241,096
Miscellaneous	954,414	446,659	507,755
Total Revenue	<u>56,223,657</u>	<u>50,613,861</u>	<u>5,609,796</u>
Expenses:			
Instruction	22,000,812	23,223,083	(1,222,271)
Instr. Resources & Media Services	504,764	283,437	221,327
Curriculum and Staff Development	466,384	573,869	(107,485)
Instructional Leadership	203,895	176,542	27,353
School Leadership	1,967,436	2,761,538	(794,102)
Guidance/Counseling Services	732,837	876,042	(143,205)
Health Services	238,208	322,586	(84,378)
Student Transportation	1,609,923	1,875,574	(265,651)
Food Services	2,870,927	2,555,520	315,407
Cocurricular/Extracurricular Activities	956,886	1,146,820	(189,934)
General Administration	1,663,587	1,891,273	(227,686)
Plant Maintenance and Operations	4,234,135	4,112,025	122,110
Security and Monitoring Services	499,820	594,855	(95,035)
Data Processing Services	666,239	486,664	179,575
Community Services	15,962	14,440	1,522
Debt Service	3,964,327	2,992,648	971,679
Payments to fiscal agents	503,731	590,880	(87,149)
Other Intergovernmental Charges	425,577	337,199	88,378
Total Expenses	<u>43,525,450</u>	<u>44,814,995</u>	<u>(1,289,545)</u>
Gain (Loss) on Sale of Assets	12,759	23,541	(10,782)
Change in Net Position	<u>12,710,966</u>	<u>5,822,407</u>	<u>6,888,559</u>
Net Position at 9/1/17 (restated) and 9/1/16	<u>15,709,857</u>	<u>34,176,263</u>	<u>(18,466,406)</u>
Net Position at 8/31/18 and 8/31/17	<u>\$ 28,420,823</u>	<u>\$ 39,998,670</u>	<u>\$ (11,577,847)</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

THE DISTRICT'S FUNDS

As the District completed this annual period, the General Fund reported a fund balance of \$29,697,773, which is \$2,311,202 more than last year's total of \$27,386,571. The increase in fund balance is mainly attributable to actual expenditures being lower than budgeted and to actual revenues being higher than expected related to student growth.

The District's Debt Service Fund reported a fund balance of \$6,389,455 which is \$751,102 more than last year's total of \$5,638,353. The purpose of the Debt Service Fund is to provide for the payment of bond principal and interest payments as they become due.

The District's Capital Projects Funds reported a fund balance of \$32,825,860 which is \$16,614,528 more than last year's total of \$16,211,332. The Capital Projects fund balance was more at August 31, 2018, as compared to the prior year end, due to the issuance of bonds during the year.

The District's other governmental funds reported combined ending fund balances of \$1,411,752. This combined balance is \$211,284 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. Budget amendments to function line items 11, 34 and 81 were considered significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2018, the District had \$87,392,751, 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 2018 and 2017 is as follows:

	Governmental Activities 2018	Governmental Activities 2017	Change
Land	\$ 3,135,909	\$ 2,546,269	\$ 589,640
Construction in Progress	41,652,364	21,368,686	20,283,678
Buildings	61,620,677	60,240,686	1,379,991
Furniture and Equipment	8,111,425	6,051,534	2,059,891
Total	<u>114,520,375</u>	<u>90,207,175</u>	<u>24,313,200</u>
Less Accumulated Depreciation	<u>(27,127,624)</u>	<u>(25,454,010)</u>	<u>(1,673,614)</u>
Capital Assets, Net of Depreciation	<u>\$ 87,392,751</u>	<u>\$ 64,753,165</u>	<u>\$ 22,639,586</u>

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

Debt

At year-end, the District had \$110,621,322 in bonds and other long-term debt outstanding versus \$77,141,372 last year. The increase is attributable to the issuance of debt during the year.

A summary of the ending balances of long-term debt by type for both 2018 and 2017 is as follows:

	Governmental Activities 2018	Governmental Activities 2017	Change
General Oblig. & Refunding Bonds	\$ 110,621,322	\$ 77,141,372	\$ 33,479,950
Total	<u>\$ 110,621,322</u>	<u>\$ 77,141,372</u>	<u>\$ 33,479,950</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2018-2019 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 \$55.8 million for the 2018-2019 fiscal year. This reflects an approximate increase of \$9.5 million in budgeted expenditures from fiscal year 2017-2018 to fiscal year 2018-2019.

For the 2018-2019 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 2018-2019 budget year in order to fund required debt payments in the coming year. The combined tax rate of the District for the 2018-2019 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 Street, 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, 2018

Data Control Codes	Primary Government 1 Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 70,675,327
1225 Property Taxes Receivable, net	4,322,087
1240 Due from Other Governments	7,516,746
1290 Other Receivables, net	14,201
1300 Inventories	10,677
Capital Assets:	
1510 Land	3,135,909
1520 Buildings and Improvements, net	38,495,934
1530 Furniture and Equipment, net	4,108,544
1580 Construction in Progress	41,652,364
1000 Total Assets	169,931,789
DEFERRED OUTFLOWS OF RESOURCES	
1700 Deferred Outflows-Bond Refundings	1,542,481
1705 Deferred Outflows-Pension	5,296,456
1706 Deferred Outflows-OPEB	235,127
Total Deferred Outflows of Resources	7,074,064
LIABILITIES	
2110 Accounts Payable	5,088,832
2140 Interest Payable	171,642
2150 Payroll Deductions & Withholdings	63,987
2160 Accrued Wages Payable	2,576,450
2200 Accrued Expenses	54,457
2300 Unearned Revenue	19,121
Noncurrent Liabilities:	
2501 Bonds, Loans & Other Payable-Due Within One Year	1,750,000
2502 Bonds Payable - Due in More than One Year	98,187,830
2516 Unamortized Premium (Discount) on Bonds	10,683,492
2540 Net Pension Liability	7,915,487
2545 Other Post-Employment Benefits Liability	13,851,666
2000 Total Liabilities	140,362,964
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows-Pension	2,427,888
2606 Deferred Inflows-OPEB	5,794,178
Total Deferred Inflows of Resources	8,222,066
NET POSITION	
3200 Net Investment in Capital Assets	9,597,289
Restricted for:	
3820 Federal & State Programs	1,401,075
3850 Debt Service	7,340,550
3890 Other Restricted	370,767
3900 Unrestricted	9,711,142
3000 Total Net Position	\$ 28,420,823

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, 2018

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	\$ 22,000,812	\$ -	\$ 2,290,943	\$ (19,709,869)
12 Instructional Resources & Media Services	504,764	-	(49,803)	(554,567)
13 Curriculum & Staff Development	466,384	-	418,699	(47,685)
21 Instructional Leadership	203,895	-	(41,809)	(245,704)
23 School Leadership	1,967,436	-	(440,678)	(2,408,114)
31 Guidance/Counseling/Evaluation Services	732,837	-	(168,416)	(901,253)
33 Health Services	238,208	-	(61,818)	(300,026)
34 Student Transportation	1,609,923	-	(266,340)	(1,876,263)
35 Food Services	2,870,927	281,060	(167,533)	(2,757,400)
36 Extracurricular Activities	956,886	42,487	(96,496)	(1,010,895)
41 General Administration	1,663,587	8,460	(217,787)	(1,872,914)
51 Plant Maintenance and Operations	4,234,135	-	21,903	(4,212,232)
52 Security and Monitoring Services	499,820	-	(103,724)	(603,544)
53 Data Processing Services	666,239	-	(69,260)	(735,499)
61 Community Services	15,962	-	26,616	10,654
72 Interest on Long-Term Debt	3,527,395	-	1,844,990	(1,682,405)
73 Bond Issuance Cost & Fees	436,932	-	-	(436,932)
93 Payments to Fiscal Agent/Member Dist. of SSA	503,731	-	-	(503,731)
99 Other Intergovernmental Charges	425,577	-	-	(425,577)
TP TOTAL PRIMARY GOVERNMENT:	\$ 43,525,450	\$ 332,007	\$ 2,919,487	(40,273,956)
General Revenues:				
Taxes:				
MT	Property Taxes, Levied for General Purposes			13,246,247
DT	Property Taxes, Levied for Debt Service			4,710,787
SF	State Aid - Formula Grants			32,419,116
GC	Grants and Contributions, not Restricted			1,170,756
IE	Investment Earnings			470,843
MI	Miscellaneous Local and Intermediate Revenue			954,414
	Total General Revenues			<u>52,972,163</u>
S1	Sale of Assets			12,759
TR	Total General Revenues and Special Item			<u>52,984,922</u>
CN	Change in Net Position			12,710,966
NB	Net Position -- Beginning (as restated)			15,709,857
NE	Net Position -- Ending			<u>\$ 28,420,823</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Funds	98 Other Funds	98 Total Governmental Funds
ASSETS					
1110 Cash and Cash Equivalents	\$ 26,634,678	\$ 6,386,017	\$ 36,827,913	\$ 611,319	\$ 70,459,927
1220 Property Taxes - Delinquent	3,745,546	1,056,772	-	-	4,802,318
1230 Allowance for Uncollectible Taxes (Credit)	(374,554)	(105,677)	-	-	(480,231)
1240 Due from Other Governments	6,301,029	-	-	1,215,717	7,516,746
1260 Due from Other Funds	350,128	-	-	-	350,128
1290 Other Receivables	10,619	3,582	-	-	14,201
1310 Inventories	-	-	-	10,677	10,677
1000A Total Assets	<u>\$ 36,667,446</u>	<u>\$ 7,340,694</u>	<u>\$ 36,827,913</u>	<u>\$ 1,837,713</u>	<u>\$ 82,673,766</u>
LIABILITIES					
2110 Accounts Payable	\$ 502,460	\$ -	\$ 4,002,053	\$ 345,281	\$ 4,849,794
2150 Payroll Ded. and Withholdings Payable	63,987	-	-	-	63,987
2160 Accrued Wages Payable	2,516,129	-	-	60,321	2,576,450
2170 Due to Other Funds	462,888	144	-	-	463,032
2200 Accrued Expenditures	53,219	-	-	1,238	54,457
2300 Unearned Revenues	-	-	-	19,121	19,121
2000 Total Liabilities	<u>3,598,683</u>	<u>144</u>	<u>4,002,053</u>	<u>425,961</u>	<u>8,026,841</u>
DEFERRED INFLOWS OF RESOURCES					
2600 Deferred Inflows-Unavailable Revenues	3,370,990	951,095	-	-	4,322,085
Total Deferred Inflows of Resources	<u>3,370,990</u>	<u>951,095</u>	<u>-</u>	<u>-</u>	<u>4,322,085</u>
FUND BALANCES					
Nonspendable:					
3410 Inventories	-	-	-	10,677	10,677
Restricted for:					
3450 Federal or State Funds Restricted	-	-	-	1,401,075	1,401,075
3470 Capital Acq. and Contractual Obligations	-	-	32,825,860	-	32,825,860
3480 Retirement of Long-Term Debt	-	6,389,455	-	-	6,389,455
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	20,527,006	-	-	-	20,527,006
3000 Total Fund Balances	<u>29,697,773</u>	<u>6,389,455</u>	<u>32,825,860</u>	<u>1,411,752</u>	<u>70,324,840</u>
4000 Total Liabilities, Def. Inflows, and Fund Balances	<u>\$ 36,667,446</u>	<u>\$ 7,340,694</u>	<u>\$ 36,827,913</u>	<u>\$ 1,837,713</u>	<u>\$ 82,673,766</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, 2018

		1
Total Fund Balances - Governmental Funds		\$ 70,324,840
<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	\$ 114,520,375	
Less accumulated depreciation	<u>(27,127,624)</u>	87,392,751
<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	(110,621,322)	
Net pension liability	(7,915,487)	
Net OPEB liability	<u>(13,851,666)</u>	(132,388,475)
<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>		
		(171,642)
<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	5,296,456	
Deferred inflows of resources related to pensions	(2,427,888)	
Deferred outflows of resources related to OPEB	235,127	
Deferred inflows of resources related to OPEB	<u>(5,794,178)</u>	(2,690,483)
<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>		
		4,322,085
<p>6 Deferred amounts from bond refundings, net of amortization, are not reported in the governmental funds.</p>		
		1,542,481
<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>		
		89,266
19 Net Position of Governmental Activities		<u><u>\$ 28,420,823</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Funds	98 Other Funds	Total Governmental Funds
REVENUES					
5700 Local and Intermediate Sources	\$ 14,780,676	\$ 4,864,683	\$ 178,196	\$ 332,312	\$ 20,155,867
5800 State Program Revenues	34,243,324	1,844,990	-	850,900	36,939,214
5900 Federal Program Revenues	1,169,055	-	-	5,663,243	6,832,298
5020 Total Revenues	<u>50,193,055</u>	<u>6,709,673</u>	<u>178,196</u>	<u>6,846,455</u>	<u>63,927,379</u>
EXPENDITURES					
0011 Instruction	25,068,526	-	302,903	2,973,263	28,344,692
0012 Instructional Resources & Media Services	348,496	-	246,283	-	594,779
0013 Curriculum & Instructional Staff Development	268,713	-	-	235,645	504,358
0021 Instructional Leadership	287,422	-	-	-	287,422
0023 School Leadership	2,760,097	-	94,321	-	2,854,418
0031 Guidance, Counseling & Evaluation Services	1,051,608	-	16,999	-	1,068,607
0033 Health Services	360,620	-	3,380	-	364,000
0034 Student (Pupil) Transportation	3,563,803	-	-	-	3,563,803
0035 Food Services	-	-	-	3,234,219	3,234,219
0036 Cocurricular/Extracurricular Activities	1,601,707	-	-	-	1,601,707
0041 General Administration	1,880,175	-	-	-	1,880,175
0051 Plant Maintenance and Operations	4,571,247	-	-	177,052	4,748,299
0052 Security and Monitoring Services	747,593	-	-	970	748,563
0053 Data Processing Services	747,703	-	45,011	-	792,714
0061 Community Services	1,362	-	-	14,022	15,384
0071 Debt Service - Principal	-	1,331,267	-	-	1,331,267
0072 Debt Service - Interest	-	4,625,504	-	-	4,625,504
0073 Debt Service - Bond Issuance/Costs	-	1,800	435,132	-	436,932
0081 Facilities Acquisition and Construction	3,739,882	-	18,554,771	-	22,294,653
0093 Payments to Fiscal Agent	485,491	-	-	-	485,491
0099 Other Intergovernmental Charges	410,167	-	-	-	410,167
6030 Total Expenditures	<u>47,894,612</u>	<u>5,958,571</u>	<u>19,698,800</u>	<u>6,635,171</u>	<u>80,187,154</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,298,443</u>	<u>751,102</u>	<u>(19,520,604)</u>	<u>211,284</u>	<u>(16,259,775)</u>
OTHER FINANCING SOURCES (USES)					
7911 Capital-Related Debt Issued	-	-	31,200,000	-	31,200,000
7912 Sale of Property	12,759	-	-	-	12,759
7916 Premium or Discount on Issuance of Bonds	-	-	4,935,132	-	4,935,132
7080 Total Other Financing Sources (Uses)	<u>12,759</u>	<u>-</u>	<u>36,135,132</u>	<u>-</u>	<u>36,147,891</u>
1200 Net Change in Fund Balance	2,311,202	751,102	16,614,528	211,284	19,888,116
0100 Fund Balance - Beginning	27,386,571	5,638,353	16,211,332	1,200,468	50,436,724
3000 Fund Balance - Ending	<u>\$ 29,697,773</u>	<u>\$ 6,389,455</u>	<u>\$ 32,825,860</u>	<u>\$ 1,411,752</u>	<u>\$ 70,324,840</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, 2018

	Total Net Change in Fund Balances – Governmental Funds	\$ 19,888,116
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	\$ 24,574,428
	Less current year depreciation	(1,934,842)
	Less current year deferred outflow amortization	(161,122)
		22,478,464
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.	2,235,000
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.	(36,135,132)
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.	(100,689)
5	Since long-term debt is not recorded in governmental funds, amortization of related issuance premiums and discounts is also not recorded.	520,871
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.	(64,684)
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.	(697,086)
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.	(343,379)
9	Governmental funds report OPEB contributions as expenditures. However, OPEB 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 OPEB liability, adjusted for changes in deferred OPEB items, is reported as OPEB expense in the Statement of Activities.	4,878,096
10	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.	51,389
	19 Change in Net Position of Governmental Activities	\$ 12,710,966

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, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	Amounts (GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 12,166,200	\$ 14,688,443	\$ 14,780,676	\$ 92,233
5800	State Program Revenues	30,662,795	33,810,000	34,243,324	433,324
5900	Federal Program Revenues	866,000	1,170,000	1,169,055	(945)
5020	Total Revenues	43,694,995	49,668,443	50,193,055	524,612
EXPENDITURES					
Current:					
0011	Instruction	27,334,652	26,195,000	25,068,526	1,126,474
0012	Instructional Resources & Media Services	337,826	370,000	348,496	21,504
0013	Curriculum and Staff Development	319,746	291,000	268,713	22,287
0021	Instructional Leadership	286,916	297,000	287,422	9,578
0023	School Leadership	2,784,046	2,795,000	2,760,097	34,903
0031	Guidance/Counseling/Evaluation Services	933,644	1,071,500	1,051,608	19,892
0033	Health Services	347,008	374,550	360,620	13,930
0034	Student Transportation	3,130,284	3,844,248	3,563,803	280,445
0036	Extracurricular Activities	1,388,363	1,650,200	1,601,707	48,493
0041	General Administration	1,864,790	1,926,750	1,880,175	46,575
0051	Facilities Maintenance & Operations	4,689,246	4,885,301	4,571,247	314,054
0052	Security and Monitoring Services	603,827	785,560	747,593	37,967
0053	Data Processing Services	942,426	774,790	747,703	27,087
0061	Community Services	2,800	2,500	1,362	1,138
Capital Outlay:					
0081	Facilities Acquisition & Construction	427,927	4,119,770	3,739,882	379,888
Intergovernmental:					
0093	Payments to Fiscal Agent	547,000	505,000	485,491	19,509
0099	Other Intergovernmental Charges	436,000	436,000	410,167	25,833
6030	Total Expenditures	46,376,501	50,324,169	47,894,612	2,429,557
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,681,506)	(655,726)	2,298,443	2,954,169
OTHER FINANCING SOURCES (USES)					
7912	Sale of Property	3,000	12,759	12,759	-
7080	Total Other Financing Sources (Uses)	3,000	12,759	12,759	-
1200	Net Change in Fund Balances	(2,678,506)	(642,967)	2,311,202	2,954,169
0100	Fund Balance-September 1 (Beginning)	27,386,571	27,386,571	27,386,571	-
3000	Fund Balance-August 31 (Ending)	\$ 24,708,065	\$ 26,743,604	\$ 29,697,773	\$ 2,954,169

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, 2018

Data Control Codes	Governmental Activities Internal Service Fund
ASSETS	
1110 Cash and Cash Equivalents	\$ 215,400
1260 Due from Other Funds	112,904
1000 Total Assets	<u>328,304</u>
LIABILITIES	
Current Liabilities:	
2110 Accounts Payable	239,038
2000 Total Liabilities	<u>239,038</u>
NET POSITION	
3900 Unrestricted Net Position	89,266
3000 Total Net Position	<u>\$ 89,266</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, 2018

Data Control Codes	Governmental Activities Internal Service Fund
OPERATING REVENUES	
5700 Local and Intermediate Sources	\$ 255,192
5020 Total Revenues	<u>255,192</u>
OPERATING EXPENSES	
6400 Other Operating Costs	204,128
6030 Total Expenses	<u>204,128</u>
Operating Income	51,064
7955 Earnings on Deposits	325
1300 Change in Net Position	<u>51,389</u>
0100 Total Net Position - Beginning	37,877
3300 Total Net Position - Ending	<u><u>\$ 89,266</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, 2018

Data Control Codes	Governmental Activities Internal Service Fund
<u>Cash Flows from Operating Activities</u>	
Cash Received from User Charges	\$ 355,048
Cash Payments to Suppliers	(272,900)
Net Cash Provided by (Used for) Operating Activities	<u>82,148</u>
<u>Cash Flows from Investing Activities</u>	
Interest Received	325
Net Cash provided by (Used for) Investing Activities	<u>325</u>
Net Increase in Cash and Cash Equivalents	82,473
Cash and Cash Equivalents at Beginning of the Year	132,927
Cash and Cash Equivalents at the End of the Year:	<u>\$ 215,400</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>	
Operating Income:	\$ 51,064
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Accounts Receivable	99,856
Decrease in Accounts Payable	(68,772)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 82,148</u>

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, 2018

Data Control Codes	Private Purpose Trust	
	Fund	Agency Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 1,545	\$ 65,951
1000 Total Assets	<u>1,545</u>	<u>65,951</u>
LIABILITIES		
Current Liabilities:		
2190 Due to Student Groups	-	65,951
2000 Total Liabilities	<u>\$ -</u>	<u>\$ 65,951</u>
NET POSITION		
3800 Held in Trust	<u>1,545</u>	
3000 Total Net Position	<u>\$ 1,545</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, 2018

Data Control Codes	Private Purpose Trust Fund
ADDITIONS	
5700 Local and Intermediate Sources	\$ 1,010
5020 Total Revenues	<u>1,010</u>
DEDUCTIONS	
6200 Scholarships Distributed	1,500
6030 Total Expenses	<u>1,500</u>
1200 Change in Net Position	(490)
0100 Net Position - Beginning	<u>2,035</u>
3000 Net Position - Ending	<u><u>\$ 1,545</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, 2018

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, 2018

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. Delinquent property taxes at year end are reported as deferred inflows of resources within the 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.

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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
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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. Temporary investments throughout the year consisted of investments in external investment pools, which are recognized at amortized cost, and money market accounts.

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.

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."

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

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.

Other Post-Employment Benefits - The fiduciary net position of the Teacher Retirement System of Texas TRS Care Plan (TRS-Care) 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 OPEB Liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

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, 2018

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 by selling 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, 2018

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 programs
- 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, 2018, the carrying amount of the District's deposits was \$70,742,823 and the bank balance was \$71,744,122. The District's deposits with financial institutions at August 31, 2018 and during the year ended August 31, 2018 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 the District 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 \$96,463,642.
- c) The largest cash, savings and time deposit combined account balance amounted to \$83,558,290 and occurred during the month of January 2018.
- 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, 2018

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. At August 31, 2018, investments were included in local governmental investment pools with ratings from Standard & Poor's in compliance with the District's investment policy.

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, 2018, 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.

As of August 31, 2018 the District did not have any balances classified as 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, 2017, upon which the October 2017 levy was based was \$1,191,258,516. The District levied taxes based on a combined tax rate of \$1.4150 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, 2018

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, 2018 are summarized below:

Due From Other Governments:	General Fund	Non-Major Governmental Funds	Total
Governmental Activities:			
State Grants	\$ 6,301,029	\$ 190,753	\$ 6,491,782
Federal Grants	-	1,024,964	1,024,964
Total - Governmental Activities	\$ 6,301,029	\$ 1,215,717	\$ 7,516,746

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, 2018 was as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Payroll Clearing Fund	\$ 350,128
Total General Fund		350,128
Internal Service Fund	General Fund	112,760
	Debt Service Fund	144
Total Internal Service Fund		112,904
Grand Total		\$ 463,032

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

6. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2018 was as follows:

	Beginning Balance 9/1/17		Additions	Retirements	Ending Balance 8/31/18
Governmental Activities:					
Capital Assets, not Being Depreciated:					
Land	\$ 2,546,269	\$ 589,640	\$ -	\$ 3,135,909	
Construction in Progress	21,368,686	20,283,678	-	41,652,364	
Total Capital Assets, not Being Depreciated	<u>23,914,955</u>	<u>20,873,318</u>	<u>-</u>	<u>44,788,273</u>	
Capital Assets, Being Depreciated:					
Buildings and Improvements	60,240,686	1,379,991	-	61,620,677	
Furniture and Equipment	6,051,534	2,321,119	(261,228)	8,111,425	
Total Capital Assets, Being Depreciated	<u>66,292,220</u>	<u>3,701,110</u>	<u>(261,228)</u>	<u>69,732,102</u>	
Less Accumulated Depreciation for:					
Buildings and Improvements	(21,642,995)	(1,481,748)	-	(23,124,743)	
Furniture and Equipment	(3,811,015)	(453,094)	261,228	(4,002,881)	
Total Accumulated Depreciation	<u>(25,454,010)</u>	<u>(1,934,842)</u>	<u>261,228</u>	<u>(27,127,624)</u>	
Governmental Activities Capital Assets, Net	<u>\$ 64,753,165</u>	<u>\$ 22,639,586</u>	<u>\$ -</u>	<u>\$ 87,392,751</u>	

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

Function	Depreciation Allocation
Instruction	\$ 1,064,928
Instructional Resources & Media	22,346
Curriculum & Staff Development	18,949
Instructional Leadership	10,799
School Leadership	107,242
Guidance/Counseling/Evaluation Services	40,148
Health Services	13,676
Student Transportation	133,894
Food Services	121,512
Cocurricular/Extracurricular Activities	60,177
General Administration	70,639
Plant Maintenance and Operations	178,397
Security and Monitoring Services	28,124
Data Processing Services	29,783
Community Services	578
Payments Related to SSAs	18,240
Other Intergovernmental Charges	15,410
Totals	<u>\$ 1,934,842</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

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

Governmental activities long-term debt obligations at August 31, 2018 consisted of the following:

General Long-Term Debt Description	Outstanding at August 31, 2018
\$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%.	20,640,510
\$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%.	7,110,000
\$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%.	30,665,000
\$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%.	3,765,000
\$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%.	4,280,000
\$31,200,000 Unlimited Tax Building Bond, Series 2018; due in remaining annual installments ranging from \$15,000 to \$5,465,000 through 2047; interest at 2.0% to 4.0%.	30,900,000
Capital Appreciation Bonds, Series 2006 and Series 2010.	2,212,331
Total General Long-Term Debt	\$ 99,937,830

The following is a summary of changes in long-term liabilities for the year ended August 31, 2018:

Type	Outstanding 9/1/17	Additions	Deletions	Current Accretion	Outstanding 8/31/18	Due in One Year
Bonds Payable:						
General Oblig. & Refunding Bonds	\$ 70,872,141	\$ 31,200,000	\$(2,235,000)	\$ 100,689	\$ 99,937,830	\$1,750,000
Premium on Issuance of Bonds	6,269,231	4,935,132	(520,871)	-	10,683,492	-
Total Bonds	77,141,372	36,135,132	(2,755,871)	100,689	110,621,322	1,750,000
Total Governmental Activities	\$ 77,141,372	\$ 36,135,132	\$(2,755,871)	\$ 100,689	\$ 110,621,322	\$1,750,000

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, 2018

Annual principal installments for outstanding bonds vary each year. The debt service requirements to maturity for general obligation bonds as of August 31, 2018 are as follows:

Year Ended August 31,	General Obligations			Total Requirements
	Principal	Accumulated Accretion	Interest	
2019	\$ 840,510	\$ 909,490	\$ 5,244,915	\$ 6,994,915
2020	2,000,000	-	4,293,425	6,293,425
2021	2,040,000	-	4,233,125	6,273,125
2022	2,215,000	-	4,169,800	6,384,800
2023	2,225,000	-	4,102,350	6,327,350
2024-2028	11,079,989	1,302,841	21,348,749	33,731,579
2029-2033	17,230,000	-	16,723,088	33,953,088
2034-2038	15,545,000	-	13,087,250	28,632,250
2039-2043	18,615,000	-	8,902,375	27,517,375
2044-2047	25,935,000	-	2,690,625	28,625,625
Totals	<u>\$ 97,725,499</u>	<u>\$ 2,212,331</u>	<u>\$ 84,795,702</u>	<u>\$ 184,733,532</u>

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

Year Ending August 31,	Amount
2019	\$ 161,499
2020	161,499
2021	161,499
2022	<u>148,041</u>
Total Minimum Rentals	\$ 632,538
Rental Expenditures for the fiscal year ended August 31, 2018	\$ 207,575

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2018

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 <https://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698; or by calling (512) 542-6592. The Notes to the Financial Statements in the 2017 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2017:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 179,336,535,000
Less: Plan Fiduciary Net Position	<u>(147,361,922,000)</u>
Net Pension Liability	<u>\$ 31,974,613,000</u>
 Net Position as a Percentage of Total Pension Liability	 82.17%

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, 2018

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. The 85th Texas Legislature left contribution rates unchanged for fiscal years 2018 and 2019.

<u>Contribution Rates</u>	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
 <u>Contribution Amounts</u>		
Employer Contribution	\$ 760,469	\$ 985,371
Member Contributions	1,874,174	2,259,873
State On-Behalf Contributions	1,416,210	1,740,220

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, 2018

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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
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%
Inflation	2.50%
Salary Increases, Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

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.

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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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, 2017 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 2017 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:	\$ 13,343,947	\$ 7,915,487	\$ 3,395,413

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

At August 31, 2018, Cleveland Independent School District reported a liability of \$7,915,487 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:

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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District's Proportionate Share of the Collective Net Pension Liability	\$	7,915,487
State's Proportionate Share that is Associated with the District		11,157,968
Total	\$	19,073,455

The net pension liability last was measured as of August 31, 2017 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, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was .0247555359% which was an increase of .0018040359% from its proportion measured as of the previous measurement date of August 31, 2016.

Changes Since the Prior Actuarial Valuation

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, 2018, Cleveland Independent School District recognized pension expense of \$343,379 and revenue of \$851,085 for support provided by the State.

At August 31, 2018, 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	\$ 115,807	\$ 426,872
Changes in Actuarial Assumptions	360,563	206,414
Difference Between Projected and Actual Investment Earnings	1,217,310	1,794,173
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	2,617,405	429
Contributions Paid to TRS Subsequent to the Measurement Date	985,371	-
Total	\$ 5,296,456	\$ 2,427,888

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:

Fiscal Year Ended August 31,	Pension Expense Amount
2019	\$ 326,071
2020	831,337
2021	287,243
2022	137,663
2023	238,535
Thereafter	62,348

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

9. EMPLOYEE HEALTH CARE COVERAGE

During the year ended August 31, 2018, employees of the District were covered by the state-wide health insurance plan, TRS Active Care. The District contributed between \$256 and \$869 per month per employee to the Plan (of which the State provided \$75 per month per employee) and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. TRS manages TRS Active Care. The Plan is administered by Aetna while Caremark was assigned the prescription drug plan.

10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN

Plan Description

Cleveland Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed information about TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling TRS at (512) 542-6592.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates			
Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82
<i>* or surviving spouse</i>			

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not greater than 0.75 percent of the salary of each active employee of the public school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act.

The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by Employers	1.00%	1.25%
Employer Contributions	\$ 151,445	\$ 232,960
Member Contributions	155,933	190,763
NECE On-Behalf Contributions	110,528	75,080

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
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TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

Actuarial Assumptions

The Total OPEB Liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad Hoc Post-Employment Benefit Changes	None

Other Information:

There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

Discount Rate

A single discount rate of 3.42% was used to measure the Total OPEB Liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the Total OPEB Liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Rate of Return
As of August 31, 2017

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Commodities	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100.0%</u>		<u>8.7%</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2018

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less or 1% greater than the discount rate that was used 3.42% in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate 2.42%	Current Discount Rate 3.42%	1% Increase in Discount Rate 4.42%
District's proportionate share of the Net OPEB Liability	\$ 16,348,405	\$ 13,851,666	\$ 11,844,851

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, Cleveland Independent School District reported a liability of \$13,851,666 for its proportionate share of TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to Cleveland Independent School District. The amount recognized by the Cleveland Independent School District as its proportionate share of the Net OPEB Liability, the related State support, and the total portion of the Net OPEB Liability that was associated with the Cleveland Independent School District were as follows:

District's proportionate share of the collective Net OPEB Liability	\$ 13,851,666
State's proportionate share that is associated with the District	<u>18,624,069</u>
Total	<u><u>\$ 32,475,735</u></u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was .0318529802% which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the Total OPEB Liability. This change significantly lowered the OPEB liability.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2018

3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the Total OPEB Liability.

In addition, in this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

For the year ended August 31, 2018, Cleveland Independent School District recognized OPEB expense of (\$4,878,096) and revenue of (\$6,232,109) for support provided by the State.

At August 31, 2018, Cleveland Independent School District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 289,164
Changes in Actuarial Assumptions	-	5,505,014
Difference between Projected and Actual Investment Earnings	2,104	-
Change in Proportion and Difference between the Employer's Contributions and the Proportionate Share of Contributions	63	-
Contributions Paid to TRS Subsequent to the Measurement Date	232,960	-
Total	\$ 235,127	\$ 5,794,178

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to OPEB (not including the deferred contribution paid subsequent to the measurement date) will be recognized in OPEB expense as follows:

Measurement Year Ended August 31,	OPEB Expense Amount
2018	\$ (764,262)
2019	(764,262)
2020	(764,262)
2021	(764,262)
2022	(764,788)
Thereafter	(1,970,175)

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, 2018

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 Governmental Funds	Proprietary Funds	Trust Funds	Total
Property Taxes	\$ 13,822,453	\$ 4,831,665	\$ -	\$ -	\$ -	\$ -	\$ 18,654,118
Investment Income	254,580	33,018	178,196	5,050	325	10	471,179
Rent	8,460	-	-	-	-	-	8,460
Gifts	388,806	-	-	2,526	-	1,000	392,332
Insurance Recovery	5,740	-	-	-	-	-	5,740
Food Sales	-	-	-	281,060	-	-	281,060
Athletics	40,203	-	-	-	-	-	40,203
Enterprising Revenues	2,284	-	-	-	-	-	2,284
Miscellaneous Local Revenue	258,150	-	-	43,676	255,192	-	557,018
Total	\$ 14,780,676	\$ 4,864,683	\$ 178,196	\$ 332,312	\$ 255,517	\$ 1,010	\$ 20,412,394

13. UNEARNED REVENUE

Unearned revenue at August 31, 2018 consisted of the following amounts:

Fund	State Grants	Federal Grants	Total
Non-Major Governmental Funds	\$ 8,444	\$ 10,677	\$ 19,121
Total	\$ 8,444	\$ 10,677	\$ 19,121

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, 2018, 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, 2018, 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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

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
2016	\$ 219,505	\$ 82,982	\$ 99,622	\$ 202,865
2017	202,865	218,450	113,505	307,810
2018	307,810	205,145	273,917	239,038

17. RESTATEMENT OF NET POSITION

During the year, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* (GASB 75). The primary objective of GASB 75 is to improve the accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits, or OPEB).

In the year of implementation, GASB 75 requires a retroactive restatement of prior periods to reflect the effect on net position as if the standard had been in effect in prior years. As such, the effect on beginning net position as shown within these financial statements is as follows:

Net Position as previously stated at August 31, 2017	\$ 39,998,670
Effect of implementation of GASB 75	(24,288,813)
Net Position as restated at August 31, 2017	<u>\$ 15,709,857</u>

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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, 2018

	Measurement Year			
	2014	2015	2016	2017
District's Proportion of the Net Pension Liability	0.0123378000%	0.0202044000%	0.0229515000%	0.0247555359%
District's Proportionate Share of the Net Pension Liability	\$ 3,295,597	\$ 7,141,986	\$ 8,673,039	\$ 7,915,487
State's Proportionate Share of the District Net Pension Liability	9,733,933	11,497,247	12,662,136	11,157,968
Total Pension Liability	<u>\$ 13,029,530</u>	<u>\$ 18,639,233</u>	<u>\$ 21,335,175</u>	<u>\$ 19,073,455</u>
District's Covered-Employee Payroll	\$ 18,017,998	\$ 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	18.3%	37.1%	40.3%	33.0%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	83.25%	78.43%	78.00%	82.17%

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS –
 TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year			
	2015	2016	2017	2018
Contractually Required Contribution	\$ 598,057	\$ 725,127	\$ 760,469	\$ 985,371
Contribution in Relation to the Contractually Required Contribution	<u>(598,057)</u>	<u>(725,127)</u>	<u>(760,469)</u>	<u>(985,371)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 19,259,052	\$ 21,501,503	\$ 23,989,275	\$ 29,348,914
Contributions as a Percentage of Covered- Employee Payroll	3.1%	3.4%	3.2%	3.4%

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY –
 TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PLAN
 FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year
District's Proportion of the Net Liability for Other Post Employment Benefits	0.0318529802%
District's Proportionate Share of the Net Post Employment Benefit Liability	\$ 13,851,666
State's Proportionate Share of the Net Post Employment Benefit Liability Assoc. with the District	18,624,069
Total Other Post Employment Benefits Liability	\$ 32,475,735
District's Covered Payroll	\$ 23,989,275
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	58%
Plan Fiduciary Net Position as a Percentage of the Total Net OPEB Liability	0%

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS –
 TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PLAN
 FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year	
	2017	2018
Contractually Required Contribution	\$ 151,445	\$ 232,960
Contribution in Relation to the Contractually Required Contribution	(151,445)	(232,960)
Contribution Deficiency (Excess)	\$ -	\$ -
District's Covered Payroll	\$ 23,989,275	\$ 29,348,914
Contributions as a Percentage of Covered Payroll	0.6%	0.8%

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

Teacher Retirement System Pension Plan

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.

Texas Public School Retired Employees Group Insurance Plan

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

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the Total OPEB Liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the Total OPEB Liability.

In addition, in this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

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**INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31,		1	2	3
		Tax Rates		Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2009	and prior years	Various	Various	Various
2010		1.04000	0.27500	\$ 672,590,570
2011		1.04000	0.27500	714,082,966
2012		1.04000	0.27500	710,410,722
2013		1.04000	0.27500	714,875,011
2014		1.04000	0.27500	757,768,745
2015		1.04000	0.27500	850,307,008
2016		1.04000	0.27500	932,700,302
2017		1.04000	0.34000	1,071,937,872
2018	(School year under audit)	1.04000	0.37500	1,191,258,516
TOTALS				

10	20	31	32	40	50
Beginning Balance 9/1/17	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/18
\$ 954,751	\$ -	\$ 81,147	\$ 21,457	\$ (21,734)	\$ 830,413
244,455	-	31,653	8,370	(131)	204,301
268,901	-	40,736	10,771	(120)	217,274
321,915	-	42,101	11,132	3,530	272,212
329,775	-	66,403	17,558	14,540	260,354
432,860	-	109,556	28,969	15,618	309,953
542,227	-	121,455	32,116	(427)	388,229
700,833	-	163,179	43,148	(37,883)	456,623
1,781,140	-	748,310	244,640	(62,447)	725,743
-	16,856,308	11,521,885	4,154,527	(42,680)	1,137,216
<u>\$ 5,576,857</u>	<u>\$ 16,856,308</u>	<u>\$ 12,926,425</u>	<u>\$ 4,572,688</u>	<u>\$ (131,734)</u>	<u>\$ 4,802,318</u>

CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – CHILD NUTRITION FUND
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	Amounts (GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 334,500	\$ 325,796	\$ 332,178	\$ 6,382
5800	State Program Revenues	72,600	75,000	74,564	(436)
5900	Federal Program Revenues	2,195,000	3,167,945	3,198,844	30,899
5020	Total Revenues	<u>2,602,100</u>	<u>3,568,741</u>	<u>3,605,586</u>	<u>36,845</u>
EXPENDITURES					
0035	Food Services	2,596,060	3,226,873	3,217,250	9,623
0051	Facilities Maint. & Operations	218,558	218,558	177,052	41,506
6030	Total Expenditures	<u>2,814,618</u>	<u>3,445,431</u>	<u>3,394,302</u>	<u>51,129</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(212,518)</u>	<u>123,310</u>	<u>211,284</u>	<u>87,974</u>
1200	Net Change in Fund Balances	(212,518)	123,310	211,284	87,974
0100	Fund Balance-September 1 (Beginning)	1,200,468	1,200,468	1,200,468	-
3000	Fund Balance-August 31 (Ending)	<u>\$ 987,950</u>	<u>\$ 1,323,778</u>	<u>\$ 1,411,752</u>	<u>\$ 87,974</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, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	Amounts (GAAP BASIS)		
REVENUES					
5700	Local & Intermediate Sources	\$ 4,113,000	\$ 4,835,694	\$ 4,864,683	\$ 28,989
5800	State Program Revenues	1,329,714	1,844,990	1,844,990	-
5020	Total Revenues	<u>5,442,714</u>	<u>6,680,684</u>	<u>6,709,673</u>	<u>28,989</u>
EXPENDITURES					
Debt Service:					
0071	Principal on Long Term Debt	1,031,267	1,331,267	1,331,267	-
0072	Interest on Long Term Debt	3,754,533	4,625,505	4,625,504	1
0073	Bond Issuance Cost and Fees	5,000	4,799	1,800	2,999
6030	Total Expenditures	<u>4,790,800</u>	<u>5,961,571</u>	<u>5,958,571</u>	<u>3,000</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>651,914</u>	<u>719,113</u>	<u>751,102</u>	<u>31,989</u>
1200	Net Change in Fund Balances	<u>651,914</u>	<u>719,113</u>	<u>751,102</u>	<u>31,989</u>
0100	Fund Balance-September 1 (Beginning)	5,638,353	5,638,353	5,638,353	-
3000	Fund Balance-August 31 (Ending)	<u>\$ 6,290,267</u>	<u>\$ 6,357,466</u>	<u>\$ 6,389,455</u>	<u>\$ 31,989</u>

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 FOR THE YEAR ENDED AUGUST 31, 2018

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.	\$ 2,212,331
SF11	Net Pension Assets (1920) at fiscal year-end	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end	\$ 7,915,487
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, 2018, 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 November 9, 2018.

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.

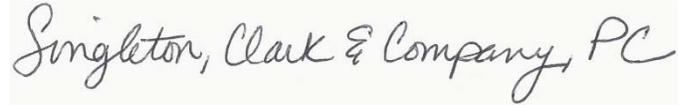
Compliance and Other Matters

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 is 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

November 9, 2018

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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, 2018. 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, 2018.

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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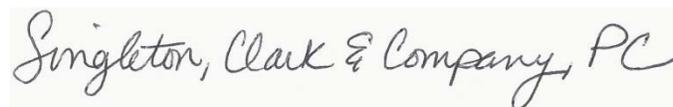
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 2018, and have issued our report thereon dated November 9, 2018, 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

November 9, 2018

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

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 Montgomery County and San Jacinto County</u>			
Impact Aid	84.041	18-146901	\$ 11,447
Total Passed through Montgomery & San Jacinto Counties			<u>11,447</u>
<u>Passed through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101146901	1,203,914
ESEA, Title I, Section 1003 - School Improvement	84.010A	18610123146901	79,710
Career and Technical Education - Basic Grant	84.048A	184200557110008	100,892
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	18694501146901	176,877
Title III, Part A - English Lang. Acquisition and Enhancement	84.365A	18671001146901	114,458
Title VI, Part A, LEP	84.369A	69551702	693,043
Total Passed through Texas Education Agency			<u>2,368,894</u>
<u>Passed through the Southeast Texas Cooperative</u>			
IDEA - Part B, Formula ¹	84.027A	18-146901	78,670
Total Passed through the Southeast Texas Cooperative			<u>78,670</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,459,011</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed through Texas Education Agency</u>			
National School Breakfast Program ²	10.553	71401801	797,025
National School Lunch Program ²	10.555	71301801	2,194,292
Summer Feeding Program ²	10.559	18-146901	16,835
Total Passed through Texas Education Agency			<u>3,008,152</u>
<u>Passed through Texas Department of Agriculture</u>			
Food Distribution Program - Non-Cash Assistance ²	10.555	18-146901	207,527
Total Passed through Texas Department of Agriculture			<u>207,527</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>3,215,679</u>
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
Reserve Officers' Training Corps	12.000	18-146901	58,498
Total Direct Programs			<u>58,498</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>58,498</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed through Texas Dept. of Health and Human Services</u>			
Title XIX, Medicaid - Medical Assistance Program	93.778	18-146901	7,126
Total Passed through Texas Dept. of Health and Human Svcs.			<u>7,126</u>
TOTAL U.S. DEPT. OF HEALTH AND HUMAN SVCS.			<u>7,126</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,740,314</u>
<i>Not Considered Federal Financial Assistance:</i>			
School Health and Related Services (SHARS) Revenue			\$ 1,091,984
TOTAL FEDERAL REVENUE PER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE			<u>\$ 6,832,298</u>

¹ Special Education (IDEA) Cluster as defined in OMB Compliance Supplement.

² Child Nutrition Cluster as defined in OMB Compliance Supplement.

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CLEVELAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

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, 2018. 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, 2018

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:

NSLP-Child Nutrition Cluster	Unmodified
------------------------------	------------

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
10.553, 10.555	NSLP-Child Nutrition Cluster

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, 2018

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, 2018 and 2017.

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, 2018 and 2017.