

CITY OF CLEVELAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

CITY OF CLEVELAND, TEXAS
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INTRODUCTORY SECTION

CITY OF CLEVELAND, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2010

Jill Kirkonis Mayor
Eddie Lowery Council Member Position 1
Barbara McIntyre Council Member Position 2
Cedric McDuffie Council Member Position 3
Durlene Davis Council Member Position 4
Delores Terry Council Member Position 5
Kelly McDonald Interim City Manager
Kellan Shaw Director of Finance

FINANCIAL SECTION



Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of City Council
City of Cleveland, Texas
Cleveland, Texas 77327

The Honorable Mayor and Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland (City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the Texas Municipal Retirement System, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and discretely presented component unit financial statements section, and other supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and discretely presented component unit financial statements section, other supplementary information section, 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

Hereford, Lynch, Sellars & Kirkham, P.C.
February 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Cleveland's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to City of Cleveland's basic financial statements. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds financial statements* tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, public works, transportation, culture and recreation, grants, economic development, debt service, and water and sewer. Charges for services, operating grants and contributions, and taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following types of funds:

- **Governmental funds**—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explain the relationship (or differences) between them.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$14,419,870 (net assets). As required by GASB Statement No. 34, net assets also reflect \$11,392,658 that is invested in capital assets, net of related debt.
- During the year, the City's revenues of \$10,979,847 exceeded expenses of \$10,414,196 by \$565,651.
- The General Fund reported a fund balance this year of \$896,401, in which \$800,859 was unreserved and undesignated and approximated 12% of General Fund expenditures. Total fund balance increased \$96,960 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$199,125 which was reserved for debt service fund expenditures. Total fund balance decreased \$97,023 from prior year.
- The Utility Fund reported an operating income of \$516,593, and an increase in net assets of \$128,513.
- The Component Unit – Cleveland Economic Development Corporation reported net assets of \$1,559,189, of which \$1,364,135 was unrestricted. Total net assets increased \$104,373 from prior year.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$14,419,870 at September 30, 2010.

Table A-1
City of Cleveland, Texas Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 2,485,466	\$ 2,463,453	\$ 1,801,920	\$ 1,629,285	\$ 4,287,386	\$ 4,092,738
Capital Assets	13,908,362	13,819,527	7,525,985	7,780,687	21,434,347	21,600,214
Total Assets	16,393,828	16,282,980	9,327,905	9,409,972	25,721,733	25,692,952
Long-term Liabilities Outstanding	7,554,832	7,934,337	3,010,000	3,255,000	10,564,832	11,189,337
Other Liabilities	464,356	411,141	272,675	238,255	737,031	649,396
Total Liabilities	8,019,188	8,345,478	3,282,675	3,493,255	11,301,863	11,838,733
Net Assets:						
Invested in Capital Assets, net of Related Debt	6,356,700	5,888,336	5,035,958	5,070,263	11,392,658	10,958,599
Restricted	357,560	437,790	418,182	480,918	775,742	918,708
Unrestricted	1,660,380	1,611,376	591,090	365,536	2,251,470	1,976,912
Total Net Assets	\$ 8,374,640	\$ 7,937,502	\$ 6,045,230	\$ 5,916,717	\$ 14,419,870	\$ 13,854,219

The City's total assets of \$25,721,733 are largely comprised of capital assets, net of accumulated depreciation of \$21,434,347, or 83%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$10,564,832 comprise the largest portion of the City's total liabilities of \$11,301,863 at 93%. Of total long-term liabilities, \$611,366 is due within one year, with the remainder \$9,953,466 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to the financial statements.

Approximately 79% of total net assets or \$11,392,658 represents investments in capital assets, net of related debt. The \$2,251,470 of unrestricted net assets represent resources available to fund the programs of the City next year.

Changes in net assets. The City's combined increase in current year net assets was \$565,651 at September 30, 2010.

Table A-2
City of Cleveland, Texas Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,152,058	\$ 1,845,793	\$ 3,407,971	\$ 3,144,089	\$ 4,560,029	\$ 4,989,882
Operating Grants and Contributions	388,312	70,097	-	-	388,312	70,097
Capital Grants and Contributions	466,613	220,444	168,186	-	634,799	220,444
General Revenues:						
Property Taxes	2,225,907	2,060,953	-	-	2,225,907	2,060,953
Sales and Other Taxes	2,457,479	2,644,130	-	-	2,457,479	2,644,130
Franchise Taxes	540,596	382,186	-	-	540,596	382,186
Earnings on Investments	11,826	9,639	6,790	7,012	18,616	16,651
Grants and Contributions not restricted to specific program	-	56,627	-	7,488	-	64,115
Proceeds from Insurance	66,903	82,511	23,348	11,036	90,251	93,547
Miscellaneous	61,797	105,494	2,061	4,269	63,858	109,763
Total Revenues	<u>7,371,491</u>	<u>7,477,874</u>	<u>3,608,356</u>	<u>3,173,894</u>	<u>10,979,847</u>	<u>10,651,768</u>
Expenses:						
General Government	941,093	1,041,737	-	-	941,093	1,041,737
Public Safety	3,711,673	3,653,792	-	-	3,711,673	3,653,792
Public Works	281,045	234,484	-	-	281,045	234,484
Transportation	812,646	578,481	-	-	812,646	578,481
Culture and Recreation	894,707	885,924	-	-	894,707	885,924
Grants	324,674	50,183	-	-	324,674	50,183
Economic Development	75,233	72,367	-	-	75,233	72,367
Debt Service	343,649	364,868	-	-	343,649	364,868
Water and Sewer	-	-	3,029,476	3,027,741	3,029,476	3,027,741
Total Expenses	<u>7,384,720</u>	<u>6,881,836</u>	<u>3,029,476</u>	<u>3,027,741</u>	<u>10,414,196</u>	<u>9,909,577</u>
Excess (Deficiency) Before Transfers	(13,229)	596,038	578,880	146,153	565,651	742,191
Transfers In (Out)	450,367	400,000	(450,367)	(400,000)	-	-
Increase (Decrease) in Net Assets	437,138	996,038	128,513	(253,847)	565,651	742,191
Net Assets - Beginning	7,937,502	7,059,064	5,916,717	6,170,564	13,854,219	13,229,628
Prior Period Adjustment	-	(117,600)	-	-	-	(117,600)
Net Assets - Ending	<u>\$ 8,374,640</u>	<u>\$ 7,937,502</u>	<u>\$ 6,045,230</u>	<u>\$ 5,916,717</u>	<u>\$ 14,419,870</u>	<u>\$ 13,854,219</u>

Governmental Activities

The City's total revenues were \$7,371,491 from all governmental activities. A significant portion, \$2,457,479 or 33%, of the City's revenue comes from sales and other taxes. Property tax revenue accounts for \$2,225,907, or 30%, of total revenue for governmental activities. The most significant change in governmental revenues was the increase in charges for services. The decrease in charges for services results primarily from a decrease in ambulance collections, primarily due to a write off of uncollectable accounts.

The total cost of all governmental programs and services was \$7,384,720. The public safety function accounted for \$3,711,673, or 50% of this total. Expenses increased \$502,884 in total, which was primarily the result of increases in transportation and grants. The increase in transportation results from an increase in street repairs, and grant expenditures increased due to the Home grant housing project.

Business-type Activities

Business-type activities are financed in whole or part by fees charged to external users for goods or services (water and sewer). They are reported in the enterprise fund. Business-type activities increased the City's net assets by \$128,513. Revenue can be reported as program revenue or general revenue-all revenues are general unless they are required to be reported as program revenues. Program revenue, charges for services, which includes revenues attributable to a specific program because they result from exchange-like transactions or other events, such as charges to customers. Charges for service of \$3,407,971 are utilized to provide funds for program expenses of \$3,029,476.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

As the City completed the year, its governmental funds, as presented in the balance sheet reported combined ending fund balances of \$1,387,581, which is an increase of \$82,091 from last year's total of \$1,305,490.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$800,859, which represented 89% of total general fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 12% of total General Fund expenditures. Refer to page 18 of this report for a more detailed presentation of governmental fund balances.

The debt service fund ending fund balance of \$199,125, all of which is reserved for the payment of principal and interest on debt. The debt service fund balance decreased \$97,023 during the year, primarily due to the debt service requirements exceeded the tax collections.

The capital projects ending fund fund balance of \$3,170, all of which is reserved for capital expenditures. The net increase in fund balance during the current year in the capital projects fund was \$24. The increase was due to interest earned.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the current fiscal year amounted to \$591,090. The total increase for the Water and Sewer Funds was \$128,513. Other factors concerning these funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended the budget several times throughout the year. Significant differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

- \$414,768 increase Capital Outlay
- \$211,824 increase in Grants

Significant differences between the final amended budget and actual amounts can be briefly summarized as follows:

- Actual Expenditures, when compared to the final budgeted amount, had a \$291,935 unfavorable variance due to increases in spending in Administration, Police, Inspection, Street Department, Grants, Ambulance, Capital Outlay, Principal on Long-Term Debt, and Interest and Fiscal Charges.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$21,434,347 in a broad range of capital assets. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Table A-3
City of Cleveland, Texas Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,068,148	\$ 2,068,148	\$ 178,621	\$ 178,621	\$ 2,246,769	\$ 2,246,769
Water System	-	-	3,939,005	3,939,005	3,939,005	3,939,005
Sewer System	-	-	14,727,488	14,354,295	14,727,488	14,354,295
Buildings and Improvements	12,624,298	12,624,298	47,997	47,997	12,672,295	12,672,295
Furniture & Equipment	3,689,685	3,238,750	488,566	477,668	4,178,251	3,716,418
Construction in Progress	30,000	600	218,691	355,854	248,691	356,454
Totals	18,412,131	17,931,796	19,600,368	19,353,440	38,012,499	37,285,236
Total Accumulated Depreciation	(4,503,769)	(4,112,269)	(12,074,383)	(11,572,753)	(16,578,152)	(15,685,022)
Net Capital Assets	\$ 13,908,362	\$ 13,819,527	\$ 7,525,985	\$ 7,780,687	\$ 21,434,347	\$ 21,600,214

Major capital asset purchases during the year included the following:

- Improvements to Sewer System \$365,114
- Ford Crown Victorias \$98,418

Long Term Debt

At year-end, the City had \$10,564,832 in long-term debt outstanding as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-4
City of Cleveland, Texas Long-term Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Certificates of Obligation	\$ 7,510,000	\$ 7,835,000	\$ -	\$ -	\$ 7,510,000	\$ 7,835,000
Revenue Bonds	-	-	3,010,000	3,255,000	3,010,000	3,255,000
Note Payable	44,832	99,337	-	-	44,832	99,337
Total Long-term Debt	\$ 7,554,832	\$ 7,934,337	\$ 3,010,000	\$ 3,255,000	\$ 10,564,832	\$ 11,189,337

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Total tax rate \$.685 per \$100 valuation in fiscal year 2011 (\$.4803 for maintenance and operations and \$.2047 for interest and sinking).
- These indicators were taken into account when adopting the general fund budget for 2011. Amounts available for appropriation in the general fund budget are \$800,859 at September 30, 2010. The City projects to transfer \$400,000 from the Water and Sewer Fund to the General Fund which will be used to fund expenditures of the General Fund budget.
- The City's budgetary General Fund balance is expected to decrease \$127,273.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department.

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BASIC FINANCIAL STATEMENTS

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CITY OF CLEVELAND, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

EXHIBIT A-1

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 1,383,614	\$ 285,848	\$ 1,669,462	\$ 1,011,399
<i>Investments</i>	51,286	53,341	104,627	331,384
<i>Receivables (Net of Allowances for Uncollectibles, Where Applicable):</i>				
<i>Property Taxes</i>	553,364	-	553,364	-
<i>Accounts</i>	109,177	511,341	620,518	-
<i>Due From Other Governments</i>	238,423	-	238,423	33,000
<i>Other</i>	33,094	-	33,094	-
<i>Internal Balances</i>	6,732	(6,732)	-	-
<i>Prepaid Items</i>	104,692	-	104,692	-
<i>Deferred Charges</i>	-	34,798	34,798	-
<i>Restricted Assets:</i>				
<i>Cash - Grants</i>	5,084	-	5,084	-
<i>Cash - Reserve</i>	-	438,149	438,149	-
<i>Cash - Construction</i>	-	18,649	18,649	-
<i>Investment - Construction</i>	-	466,526	466,526	-
<i>Capital Assets:</i>				
<i>Land</i>	2,068,148	178,621	2,246,769	580,324
<i>Buildings and Improvements</i>	12,624,298	47,997	12,672,295	-
<i>Furniture & Equipment</i>	3,689,685	488,566	4,178,251	-
<i>Water System</i>	-	3,939,005	3,939,005	-
<i>Sewer System</i>	-	14,727,488	14,727,488	-
<i>Construction in Progress</i>	30,000	218,691	248,691	-
<i>Accumulated Depreciation</i>	(4,503,769)	(12,074,383)	(16,578,152)	-
Total Assets	<u>16,393,828</u>	<u>9,327,905</u>	<u>25,721,733</u>	<u>1,956,107</u>
LIABILITIES:				
<i>Accounts Payable</i>	344,155	53,795	397,950	11,648
<i>Accrued Liabilities</i>	91,189	14,085	105,274	-
<i>Refundable Deposits</i>	-	184,828	184,828	-
<i>Accrued Interest</i>	29,012	19,967	48,979	-
<i>Noncurrent Liabilities:</i>				
<i>Notes Payable - Current</i>	16,366	-	16,366	33,848
<i>Notes Payable - Long-term</i>	28,466	-	28,466	351,422
<i>Certificates of Obligation and Bonds Payable-Current</i>	340,000	255,000	595,000	-
<i>Certificates of Obligation and Bonds Payable-Long-term</i>	7,170,000	2,755,000	9,925,000	-
Total Liabilities	<u>8,019,188</u>	<u>3,282,675</u>	<u>11,301,863</u>	<u>396,918</u>
NET ASSETS:				
<i>Investment in Capital Assets, Net of Related Debt</i>	6,356,700	5,035,958	11,392,658	195,054
<i>Restricted for:</i>				
<i>Grants</i>	5,084	-	5,084	-
<i>Debt Services</i>	352,476	418,182	770,658	-
<i>Unrestricted</i>	1,660,380	591,090	2,251,470	1,364,135
Total Net Assets	<u>\$ 8,374,640</u>	<u>\$ 6,045,230</u>	<u>\$ 14,419,870</u>	<u>\$ 1,559,189</u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government:				
City Council	\$ 27,421	\$ -	\$ -	\$ -
City Administration	913,672	-	-	-
Public Safety:				
Municipal Court	192,902	59,593	-	-
Police Department	2,235,671	547,539	50,161	91,827
Fire Department	346,679	-	1,700	280,932
Animal Control	60,926	-	-	-
Ambulance	875,495	233,271	4,054	-
Public Works:				
Inspection Department	204,166	83,913	-	-
Garage Department	76,879	-	-	-
Transportation:				
Street Department	757,364	-	-	-
Airport Department	55,282	60,523	8,093	93,854
Culture and Recreation:				
Library	349,584	17,956	13,290	-
Cemetery and Parks	293,196	47,742	-	-
Civic/Community	251,927	101,521	-	-
Grants	324,674	-	311,014	-
Economic Development	75,233	-	-	-
Debt Service:				
Interest and Fiscal Charges	343,649	-	-	-
Total Governmental Activities	<u>7,384,720</u>	<u>1,152,058</u>	<u>388,312</u>	<u>466,613</u>
Business-type Activities:				
Water and Sewer	3,029,476	3,407,971	-	168,186
Total Business-Type Activities	<u>3,029,476</u>	<u>3,407,971</u>	<u>-</u>	<u>168,186</u>
Total Primary Government	\$ <u>10,414,196</u>	\$ <u>4,560,029</u>	\$ <u>388,312</u>	\$ <u>634,799</u>
COMPONENT UNIT:				
Cleveland Economic Development Corp.	\$ <u>361,862</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

General Revenues:
 Property Taxes
 Sales and Other Taxes
 Franchise Taxes
 Earnings on Investments
 Proceeds from Insurance
 Miscellaneous
Transfers
 Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (27,421)	\$ -	\$ (27,421)	\$ -
(913,672)	-	(913,672)	-
(133,309)	-	(133,309)	-
(1,546,144)	-	(1,546,144)	-
(64,047)	-	(64,047)	-
(60,926)	-	(60,926)	-
(638,170)	-	(638,170)	-
(120,253)	-	(120,253)	-
(76,879)	-	(76,879)	-
(757,364)	-	(757,364)	-
107,188	-	107,188	-
(318,338)	-	(318,338)	-
(245,454)	-	(245,454)	-
(150,406)	-	(150,406)	-
(13,660)	-	(13,660)	-
(75,233)	-	(75,233)	-
<u>(343,649)</u>	<u>-</u>	<u>(343,649)</u>	<u>-</u>
<u>(5,377,737)</u>	<u>-</u>	<u>(5,377,737)</u>	<u>-</u>
-	546,681	546,681	-
-	546,681	546,681	-
<u>(5,377,737)</u>	<u>546,681</u>	<u>(4,831,056)</u>	<u>(361,862)</u>
2,225,907	-	2,225,907	-
2,457,479	-	2,457,479	453,405
540,596	-	540,596	-
11,826	6,790	18,616	12,830
66,903	23,348	90,251	-
61,797	2,061	63,858	-
450,367	(450,367)	-	-
<u>5,814,875</u>	<u>(418,168)</u>	<u>5,396,707</u>	<u>466,235</u>
437,138	128,513	565,651	104,373
7,937,502	5,916,717	13,854,219	1,454,816
<u>\$ 8,374,640</u>	<u>\$ 6,045,230</u>	<u>\$ 14,419,870</u>	<u>\$ 1,559,189</u>

CITY OF CLEVELAND, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund
	<u> </u>	<u> </u>
ASSETS:		
<i>Cash and Cash Equivalents</i>	\$ 762,778	\$ 199,125
<i>Investments</i>	51,286	-
<i>Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable):</i>		
<i>Property Taxes</i>	371,001	182,363
<i>Accounts - Ambulance</i>	109,177	-
<i>Due From Other Governments</i>	238,423	-
<i>Other</i>	33,094	-
<i>Due From Other Funds</i>	44,968	-
<i>Prepaid Items</i>	95,542	-
<i>Restricted Assets:</i>		
<i>Cash - Home Program</i>	5,084	-
Total Assets	<u>\$ 1,711,353</u>	<u>\$ 381,488</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES :		
<i>Accounts Payable</i>	\$ 239,738	\$ -
<i>Accrued Liabilities</i>	91,189	-
<i>Due To Other Funds</i>	3,847	-
<i>Deferred Revenue</i>	480,178	182,363
Total Liabilities	<u>814,952</u>	<u>182,363</u>
 FUND BALANCES:		
<i>Reserved for Prepaid Items</i>	95,542	-
<i>Reserved for Construction</i>	-	-
<i>Reserved for Debt Service</i>	-	199,125
<i>Unreserved, Undesignated</i>	800,859	-
Total Fund Balance	<u>896,401</u>	<u>199,125</u>
 Total Liabilities and Fund Balance	 <u>\$ 1,711,353</u>	 <u>\$ 381,488</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,170	\$ 418,541	\$ 1,383,614
-	-	51,286
-	-	553,364
-	-	109,177
-	-	238,423
-	-	33,094
-	3,847	48,815
-	9,150	104,692
-	-	5,084
<u>\$ 3,170</u>	<u>\$ 431,538</u>	<u>\$ 2,527,549</u>
\$ -	\$ 104,417	\$ 344,155
-	-	91,189
-	38,236	42,083
-	-	662,541
<u>-</u>	<u>142,653</u>	<u>1,139,968</u>
-	9,150	104,692
3,170	-	3,170
-	-	199,125
-	279,735	1,080,594
<u>3,170</u>	<u>288,885</u>	<u>1,387,581</u>
<u>\$ 3,170</u>	<u>\$ 431,538</u>	<u>\$ 2,527,549</u>

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CITY OF CLEVELAND, TEXAS

EXHIBIT A-4

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010*

Total Fund Balance - Governmental Funds (Exhibit A-3)	\$ 1,387,581
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,908,362
Property taxes receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	553,364
Ambulance receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	109,177
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(7,554,832)
Other long-term liabilities, at year-end, consisted of accrued interest on the bonds.	<u>(29,012)</u>
Total Net Assets - Governmental Activities (Exhibit A-1)	<u><u>\$ 8,374,640</u></u>

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

CITY OF CLEVELAND, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Debt Service Fund
REVENUE:		
<i>Taxes:</i>		
<i>Property Taxes</i>	\$ 1,573,120	\$ 567,476
<i>Sales and Other Taxes</i>	2,344,854	-
<i>Franchise Taxes</i>	540,596	-
<i>License and Permits</i>	83,913	-
<i>Charges for Services</i>	663,799	-
<i>Fines and Forfeitures</i>	383,142	-
<i>Intergovernmental</i>	824,925	-
<i>Earnings on Investments</i>	6,770	2,288
<i>Contributions</i>	30,831	-
<i>Miscellaneous</i>	61,781	-
Total Revenues	<u>6,513,731</u>	<u>569,764</u>
 EXPENDITURES:		
<i>City Council</i>	26,752	-
<i>Administration</i>	868,444	-
<i>Civic / Community</i>	182,819	-
<i>Court</i>	192,902	-
<i>Police</i>	1,975,325	-
<i>Fire Department</i>	297,862	-
<i>Animal Control</i>	60,926	-
<i>Inspection</i>	201,662	-
<i>Street Department</i>	668,296	-
<i>Airport Department</i>	28,920	-
<i>Garage Department</i>	75,529	-
<i>Library Department</i>	303,216	-
<i>Cemetery and Parks</i>	269,164	-
<i>Grants</i>	324,674	-
<i>Ambulance</i>	834,762	-
<i>Economic Development</i>	-	-
<i>Capital Outlay</i>	572,657	-
<i>Debt Service:</i>		
<i>Principal Retirement</i>	54,505	325,000
<i>Interest and Fiscal Charges</i>	6,044	341,787
Total Expenditures	<u>6,944,459</u>	<u>666,787</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(430,728)</u>	<u>(97,023)</u>
 Other Financing Sources (Uses):		
<i>Proceeds from Insurance</i>	66,903	-
<i>Transfers In (Out)</i>	460,785	-
Total Other Financing Sources (Uses)	<u>527,688</u>	<u>-</u>
 Net Change in Fund Balances	96,960	(97,023)
 Fund Balance - Beginning	799,441	296,148
Fund Balance - Ending	<u><u>\$ 896,401</u></u>	<u><u>\$ 199,125</u></u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,140,596
-	112,625	2,457,479
-	-	540,596
-	-	83,913
-	-	663,799
-	223,990	607,132
-	-	824,925
24	2,744	11,826
-	-	30,831
-	-	61,781
<u>24</u>	<u>339,359</u>	<u>7,422,878</u>
-	-	26,752
-	-	868,444
-	-	182,819
-	-	192,902
-	144,975	2,120,300
-	-	297,862
-	-	60,926
-	-	201,662
-	-	668,296
-	-	28,920
-	-	75,529
-	-	303,216
-	-	269,164
-	-	324,674
-	-	834,762
-	75,233	75,233
-	26,603	599,260
-	-	379,505
-	-	347,831
-	<u>246,811</u>	<u>7,858,057</u>
<u>24</u>	<u>92,548</u>	<u>(435,179)</u>
-	-	66,903
-	(10,418)	450,367
-	(10,418)	517,270
24	82,130	82,091
<u>3,146</u>	<u>206,755</u>	<u>1,305,490</u>
<u>\$ 3,170</u>	<u>\$ 288,885</u>	<u>\$ 1,387,581</u>

CITY OF CLEVELAND, TEXAS

EXHIBIT A-6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ 82,091

Amounts reported for governmental activities in the statement of activities are different because:

Some property taxes will not be collected for several months after the City's fiscal year end and are not considered "available" revenues and, therefore, are deferred in the governmental funds. Deferred tax revenues increased by this amount this year. 85,311

Some ambulance revenue will not be collected for several months after the City's fiscal year end and are not considered "available" revenues and, therefore, are deferred in the governmental funds. Deferred ambulance revenues decreased by this amount this year. (202,786)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$599,260 exceeds depreciation expense \$509,610 in the period. 89,650

In the statement of activities, only the gain (loss) on the retirement of the capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balances by the net book value of the capital assets sold or retired, including adjustments. (815)

Repayment of notes and certificates of obligation is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets. 379,505

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease of accrued interest reported in the statement of activities consist of accrued interest on notes and certificates of obligation. 4,182

Change in Net Assets of Governmental Activities (Exhibit A-2) \$ 437,138

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

CITY OF CLEVELAND, TEXAS

EXHIBIT A-7

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
<i>Taxes:</i>				
Property Taxes	\$ 1,609,077	\$ 1,609,077	\$ 1,573,120	\$ (35,957)
Sales and Other Taxes	2,415,314	2,230,589	2,344,854	114,265
Franchise Taxes	542,085	542,085	540,596	(1,489)
License and Permits	62,000	61,500	83,913	22,413
Charges for Services	685,500	931,800	663,799	(268,001)
Fines and Forfeitures	482,000	495,331	383,142	(112,189)
Intergovernmental	-	503,521	824,925	321,404
Earnings on Investments	7,500	7,500	6,770	(730)
Contributions	-	2,250	30,831	28,581
Miscellaneous	178,250	97,472	61,781	(35,691)
Total Revenues	5,981,726	6,481,125	6,513,731	32,606
EXPENDITURES:				
City Council	29,155	32,821	26,752	6,069
Administration	872,274	841,446	868,444	(26,998)
Civic/Community	206,676	188,260	182,819	5,441
Court	197,603	198,085	192,902	5,183
Police	1,970,533	1,949,069	1,975,325	(26,256)
Fire Department	436,298	341,568	297,862	43,706
Animal Control	73,208	64,596	60,926	3,670
Inspection	200,543	200,543	201,662	(1,119)
Street Department	647,159	649,159	668,296	(19,137)
Airport Department	67,629	34,340	28,920	5,420
Garage Department	75,535	75,535	75,529	6
Library Department	345,199	328,343	303,216	25,127
Cemetery and Parks	315,700	278,789	269,164	9,625
Grants	-	211,824	324,674	(112,850)
Ambulance	828,534	801,605	834,762	(33,157)
Capital Outlay	-	414,768	572,657	(157,889)
<i>Debt Service:</i>				
Principal Retirement	-	39,112	54,505	(15,393)
Interest and Fiscal Charges	-	2,659	6,044	(3,385)
Total Expenditures	6,266,046	6,652,522	6,944,459	(291,937)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(284,320)	(171,397)	(430,728)	(259,331)
<i>Other Financing Sources (Uses):</i>				
Proceeds from Insurance	-	65,656	66,903	1,247
Operating Transfers In	400,000	410,418	460,785	50,367
Total Other Financing Sources (Uses)	400,000	476,074	527,688	51,614
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	115,680	304,677	96,960	(207,717)
Fund Balance - Beginning	799,441	799,441	799,441	-
Fund Balance - Ending	\$ 915,121	\$ 1,104,118	\$ 896,401	\$ (207,717)

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

EXHIBIT A-8

	<u>Water and Sewer Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 285,848
Investments	53,341
Receivables (Net of Allowances for Uncollectibles):	
Accounts - Utilities	511,341
Total Current Assets	<u>850,530</u>
Noncurrent Assets:	
Restricted Assets:	
Cash - Reserve	438,149
Cash - Construction	18,649
Investment - Construction	466,526
Deferred Charges:	
Bond Issuance	34,798
Capital Assets:	
Land	178,621
Buildings & Improvements	47,997
Furniture & Equipment	488,566
Water System	3,939,005
Sewer System	14,727,488
Construction in Progress	218,691
Accumulated Depreciation	<u>(12,074,383)</u>
Total Noncurrent Assets	8,484,107
Total Assets	\$ <u>9,334,637</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 53,795
Accrued Liabilities	14,085
Refundable Deposits	184,828
Accrued Interest Payable	19,967
Due to Other Funds	6,732
Total Current Liabilities	<u>279,407</u>
Noncurrent Liabilities:	
Bonds and Certificates of Obligation Payable - Current	255,000
Bonds and Certificates of Obligation Payable - Long-term	2,755,000
Total Noncurrent Liabilities	<u>3,010,000</u>
Total Liabilities	<u>3,289,407</u>
NET ASSETS:	
Investment in Capital Assets, Net of Related Debt	5,035,958
Restricted for:	
Debt Services - Reserve (Expendable)	418,182
Unrestricted	591,090
Total Net Assets	<u>6,045,230</u>
Total Liabilities and Fund Balance	\$ <u>9,334,637</u>

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

CITY OF CLEVELAND, TEXAS

EXHIBIT A-9

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Water and Sewer Fund</u>
OPERATING REVENUES:	
<i>Charges for Services</i>	\$ 3,407,971
<i>Miscellaneous</i>	2,061
Total Operating Revenues	<u>3,410,032</u>
OPERATING EXPENSES:	
<i>Administrative</i>	289,848
<i>Water Production</i>	472,866
<i>Sewer Department</i>	590,495
<i>Sanitation Services</i>	1,035,900
<i>Depreciation</i>	504,330
Total Operating Expenses	<u>2,893,439</u>
Operating Income	<u>516,593</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Intergovernmental</i>	168,186
<i>Proceeds from Insurance</i>	23,348
<i>Earnings on Investments</i>	6,790
<i>Interest and Fees on Debt</i>	(135,637)
<i>Loss on Sale of Capital Asset</i>	(400)
Total Non-Operating Revenues (Expenses)	<u>62,287</u>
Income before Other Financing Sources (Uses)	578,880
OTHER FINANCING SOURCES (USES):	
<i>Transfers Out</i>	(450,367)
Total Other Financing Sources (Uses)	<u>(450,367)</u>
Change in Net Assets	128,513
Total Net Assets - Beginning	5,916,717
Total Net Assets - Ending	\$ <u><u>6,045,230</u></u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT A-10

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
<i>Cash Received for Services</i>	\$ 3,286,983
<i>Cash Payments to Suppliers for Goods and Services</i>	<u>(2,347,093)</u>
Net Cash Provided (Used) by Operating Activities	<u>939,890</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
<i>Transfers From (To) Other Funds</i>	(450,367)
<i>Grant Contributions</i>	168,186
<i>Insurance Proceeds</i>	<u>23,348</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(258,833)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
<i>Purchase of Capital Assets</i>	(252,928)
<i>Principal Paid on Capital Debt</i>	(245,000)
<i>Interest and Fees Paid on Capital Debt</i>	(137,198)
<i>Proceeds from Sale of Capital Assets</i>	<u>2,900</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(632,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
<i>Earnings on Investments</i>	6,790
<i>Sale (Purchase) of Investments</i>	<u>(1,014)</u>
Net Cash Provided (Used) for Investing Activities	<u>5,776</u>
Net Increase (Decrease) in Cash and Cash Equivalents	54,607
Cash and Cash Equivalents at Beginning of Year	688,039
Cash and Cash Equivalents at End of Year	\$ <u><u>742,646</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 516,593
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<i>Depreciation</i>	504,330
<i>Change in Assets and Liabilities:</i>	
<i>Decrease (Increase) in Accounts and Other Receivables, net</i>	(125,523)
<i>Decrease (Increase) in Deferred Charges</i>	1,890
<i>Increase (Decrease) in Accounts Payable</i>	19,422
<i>Increase (Decrease) in Accrued Liabilities</i>	14,085
<i>Increase (Decrease) in Refundable Deposits</i>	2,474
<i>Increase (Decrease) in Due to Other Funds</i>	<u>6,619</u>
Total Adjustments	<u>423,297</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>939,890</u></u>

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

A. Summary of Significant Accounting Policies

The accompanying financial statements of City of Cleveland, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden to the City
- There is fiscal dependency by the organization on the City
- The exclusion of the organization would result in misleading or incomplete financial statements

Based on the above criteria, the City reports the Cleveland Economic Development Corporation (CEDC), a component unit, which is reported as a discretely presented component unit. The CEDC was established as a non-profit industrial development corporation on November 27, 2001. The primary purpose of the Corporation is to (1) enhance appearance, housing and education, (2) envision improvements and plan for progress in the local economy and (3) create and develop opportunities for enhancing the quality of life. The Corporation receives funding primarily through sales and use taxes levied for the benefit of the Corporation. The Corporation is exempt from Federal income taxes under Section 501(c) 6 of the Internal Revenue Code. The Corporation is managed by a five member board of directors who are appointed by the City Council of the City of Cleveland, Texas.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, ambulance fees, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Depreciation expense has been allocated to all applicable functions in order to present the expenditures of the City more accurately on the Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Financial Statements: Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grants, insurance proceeds and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following *major governmental funds*:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund. The principal sources of revenue of the General Fund are taxes, ambulance fees, fines and intergovernmental revenues.

Debt Service Fund: This fund is used to account for the accumulation of resources and payment of general obligation bonds and contractual obligations. The primary source of revenue for Debt Service is property taxes.

Capital Projects Fund: This fund is used to account for the expenditures of resources accumulated from the issuance of debt and related interest earnings for the acquisition and construction of city facilities and utility systems.

The City reports the following *major enterprise fund*:

Water and Sewer Fund: This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed or recovered primarily through user charges or periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and ambulance fees are recognized in the period the services are performed. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. The City considers revenues reported in the

CITY OF CLEVELAND, TEXAS
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governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of taxes and fees for ambulance services. Revenues received from grant sources and investments are recognized under the susceptible-to-accrual concept. Taxes, ambulance services, and miscellaneous revenues are recorded as revenue when received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt agreements are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City is authorized to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, or investment pools.

Investments for the City are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

b. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand and cash on deposit (including restricted cash).

c. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Liberty County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2010 was \$0.685 per \$100, allocated \$0.5066 for the General Fund and \$0.1784 for the Debt Service Fund.

d. Restricted Assets

Certain proceeds of the City are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or grants. The "reserve" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments over the next twelve months. The "grants" account is used to report unexpended grant funds advanced for only expenditures authorized per the grant. The "construction" account is the unexpended balance from debt proceeds.

e. Deferred Charges

Debt issuance costs applicable to future accounting periods are recorded as deferred charges.

f. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	10-50
Furniture and Equipment	5-15
Water System	5-50
Sewer System	5-50

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the individual is eligible for the benefit.

h. Long-term Obligations

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

CITY OF CLEVELAND, TEXAS
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i. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Actual results could differ from those estimates.

4. Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the City Manager submits to the City council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to October 1, the budget is legally enacted through passage of an ordinance.
- c. The City Manager may approve a department's request to transfer an unencumbered balance, or portion thereof within any department; however, City Council must approve a transfer of funds between departments.
- d. Budgets for the General and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Special Revenue Funds (grants) are budgeted on a project period basis.

B. Compliance and Accountability

For the year ended September 30, 2010, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Administration	\$ 841,446	\$ 868,444	\$ (26,998)
Police	1,949,069	1,975,325	(26,256)
Inspection	200,543	201,662	(1,119)
Street Department	649,159	668,296	(19,137)
Grants	211,824	324,674	(112,850)
Ambulance	801,605	834,762	(33,157)
Capital Outlay	414,768	572,657	(157,889)
Debt Service:			-
Principal Retirement	39,112	54,505	(15,393)
Interest and Fiscal Changes	2,659	6,044	(3,385)

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
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C. Deposits and Investments

Primary Government:

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	\$ 571,153	0.21
Total Fair Value	\$ 571,153	
Portfolio Weighted Average Maturity		0.21

Interest rate risk. In accordance with its investing policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to meet the cashflow needs.

Credit risk. For fiscal year 2010, the City invested in Texpool. Texpool is duly chartered and administered by the State Comptroller's Office and was rated AAAM by Standard & Poor's Investors Service.

Concentration of credit risk. The City's investment policy does not limit an investment in any one issuer.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2010, City's bank balance of \$3,327,338 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the City's agent and in the City's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial risk due to the investments are insured or registered, or securities are held by the City or its agent in the City's name.

Discretely Presented Component Unit:

As of September 30, 2010, the Cleveland Economic Development Corporation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	\$ 331,384	0.21
Total Fair Value	\$ 331,384	
Portfolio Weighted Average Maturity		0.21

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

D. Receivables

Primary Government:

Receivables as of year end for the City's individual major governmental and proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:				
Property Taxes	\$ 398,926	\$ 196,089	\$ -	\$ 595,015
Accounts	454,907	-	654,600	1,109,507
Due From Other Governments	238,423	-	-	238,423
Other	33,094	-	-	33,094
Gross Receivables	<u>1,125,350</u>	<u>196,089</u>	<u>654,600</u>	<u>1,976,039</u>
Less: Allowance for Uncollectible	(373,655)	(13,726)	(143,259)	(530,640)
Net Total Receivables	<u>\$ 751,695</u>	<u>\$ 182,363</u>	<u>\$ 511,341</u>	<u>\$ 1,445,399</u>

Tax revenues of the general and debt service fund are reported net of estimated uncollectible amounts. Ambulance revenues in the general fund are reported net of estimated uncollectible amounts. Revenues of the Water and Sewer Fund are reported net of estimated uncollectible amounts. Total uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Uncollectibles Related to General Fund Property Taxes	\$ (5,380)
Uncollectibles Related to Debt Service Property Taxes	(1,041)
Uncollectibles Related to General Fund Ambulance Service	1,054,270
Uncollectibles Related to Water and Sewer Fund Utilities	(13,068)
Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues as Follows:	<u>\$ 1,034,781</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable (General Fund)	\$ 371,001	\$ -
Delinquent Property Taxes Receivable (Debt Service Fund)	182,363	-
Ambulance Receivable (General Fund)	109,177	-
Total Deferred/Unearned Revenue For Governmental Funds	<u>\$ 662,541</u>	<u>\$ -</u>

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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E. Capital Assets

Primary Government:

Capital asset activity for the period ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments and Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land	\$ 2,068,148	\$ -	\$ -	\$ -	\$ 2,068,148
Construction in Progress	600	114,539	-	(85,139)	30,000
Total Capital Assets, not being Depreciated	2,068,748	114,539	-	(85,139)	2,098,148
Capital Assets, being Depreciated:					
Building and Improvements	12,624,298	-	-	-	12,624,298
Furniture and Equipment	3,238,750	484,721	(118,925)	85,139	3,689,685
Total Capital Assets, being Depreciated	15,863,048	484,721	(118,925)	85,139	16,313,983
Less Accumulated Depreciation for:					
Building and Improvements	(1,621,213)	(292,069)	-	-	(1,913,282)
Furniture and Equipment	(2,491,056)	(217,541)	118,110	-	(2,590,487)
Total Accumulated Depreciation	(4,112,269)	(509,610)	118,110	-	(4,503,769)
Total Capital Assets, being Depreciated, net	11,750,779	(24,889)	(815)	85,139	11,810,214
Governmental Activities Capital Assets, net	\$ 13,819,527	\$ 89,650	\$ (815)	\$ -	\$ 13,908,362

Depreciation was charged to governmental activities functions as follows:

City Council	\$ 669
Administration	45,228
Civic Center	69,108
Police	115,371
Fire Department	48,817
Inspection Department	2,504
Street Department	89,068
Airport Department	26,362
Garage Department	1,350
Library Department	46,368
Cemetery and Parks	24,032
Ambulance	40,733
Total	\$ 509,610

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments and Transfers</u>	<u>Ending Balance</u>
Business-type Activities:					
Capital Assets, not being Depreciated:					
Land	\$ 178,621	\$ -	\$ -	\$ -	178,621
Construction in Progress	355,854	227,951	-	(365,114)	218,691
Total Capital Assets, not being Depreciated	534,475	227,951	-	(365,114)	397,312
Capital Assets, being Depreciated:					
Building and Improvements	47,997	-	-	-	47,997
Furniture and Equipment	477,668	16,898	(6,000)	-	488,566
Water System	3,939,005	-	-	-	3,939,005
Sewer System	14,354,295	8,079	-	365,114	14,727,488
Total Capital Assets, being Depreciated	18,818,965	24,977	(6,000)	365,114	19,203,056
Less Accumulated Depreciation for:					
Building and Improvements	(17,639)	(1,408)	-	-	(19,047)
Furniture and Equipment	(395,751)	(22,071)	2,700	-	(415,122)
Water System	(2,693,495)	(72,820)	-	-	(2,766,315)
Sewer System	(8,465,868)	(408,031)	-	-	(8,873,899)
Total Accumulated Depreciation	(11,572,753)	(504,330)	2,700	-	(12,074,383)
Total Capital Assets, being Depreciated, net	7,246,212	(479,353)	(3,300)	365,114	7,128,673
Business-type Activities Capital Assets, net	\$ 7,780,687	\$ (251,402)	\$ (3,300)	\$ -	\$ 7,525,985

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 504,330
	<u>\$ 504,330</u>

Discretely Presented Component Unit:

The Cleveland Economic Development Corporation purchased land in the amount of \$462,649 during the period ended September 30, 2010 and the balance at fiscal year end was \$580,324.

F. Interfund Balances and Activity

Primary Government:

1. Due To and From Other Funds at September 30, 2010 consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 44,968	\$ 3,847
Special Police Fund	3,847	24,275
Water and Sewer Fund	-	6,732
Hotel/Motel Fund	-	13,961
Totals	\$ 48,815	\$ 48,815

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from expenditures that are paid by one fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more funds.

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
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2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2010, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 450,367
Special Revenue Police Fund	General Fund	10,418
		<u>\$ 460,785</u>

The transfers from the Water and Sewer Fund and Special Revenue Police Fund were utilized to pay budgeted expenditures of the General Fund.

G. Long-Term Obligations

Primary Government:

1. Long-term Obligation Activity

Long-term obligations include notes payable, revenue bonds and certificates of obligation. The requirements for the certificates of obligation principal and interest payments are accounted for in the Debt Service Fund. The requirements for the revenue bonds principal and interest payments are accounted for in the Water and Sewer Fund. The requirements for notes payable principal and interest payments are accounted for in the General Fund and the Discretely Presented Component Unit.

Changes in long-term obligations for the period ended September 30, 2010 are as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Amounts</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental Activities:					
Notes Payable	\$ 99,337	\$ -	\$ 54,505	\$ 44,832	\$ 16,366
Certificates of Obligation	7,835,000	-	325,000	7,510,000	340,000
Total Governmental Activities	<u>\$ 7,934,337</u>	<u>\$ -</u>	<u>\$ 379,505</u>	<u>\$ 7,554,832</u>	<u>\$ 356,366</u>
Business-type Activities:					
Revenue Bonds (RB)	\$ 3,255,000	\$ -	\$ 245,000	\$ 3,010,000	\$ 255,000
Total Business-type Activities	<u>\$ 3,255,000</u>	<u>\$ -</u>	<u>\$ 245,000</u>	<u>\$ 3,010,000</u>	<u>\$ 255,000</u>
Discretely Presented Component Unit:					
Notes Payable	\$ -	\$ 412,200	\$ 26,930	\$ 385,270	\$ 33,848
Total Discretely Presented Component Unit	<u>\$ -</u>	<u>\$ 412,200</u>	<u>\$ 26,930</u>	<u>\$ 385,270</u>	<u>\$ 33,848</u>

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

2. Governmental Activities

The City issued notes payable and certificates of obligation.

Notes Payable:

The City issued notes payable to provide funds for the purchase of equipment. The notes payable are secured by the equipment purchased. The notes are issued as 2-3 year current interest notes.

The following is a summary of changes in the notes payable of the governmental activities for the fiscal year:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2000 Pumper Truck	6.04%	2009	\$ 28,731	\$ -	\$ 28,731	\$ -
2007 Computers	5.96%	2010	4,878	-	4,878	-
2008 Servers and Firebox's	5.53%	2010	5,442	-	5,442	-
2008 Laptops	5.94%	2011	6,443	-	3,130	3,313
2009 Police Vehicle Computers	5.91%	2012	53,843	-	12,324	41,519
Totals			\$ 99,337	\$ -	\$ 54,505	\$ 44,832

Debt service requirements for notes payable at September 30, 2010 are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 16,366	\$ 2,651	\$ 19,017
2012	13,824	1,682	15,506
2013	14,642	865	15,507
Totals	\$ 44,832	\$ 5,198	\$ 50,030

Certificates of Obligation:

The City issues certificates of obligation to provide funds for the construction and improvement of the airport, law enforcement center, civic center, city hall, parks and various other projects. Principal and interest payments on the City's debt are secured solely by ad valorem property taxes levied on all taxable property within the city limits.

The following is a summary of changes in the certificates of obligation for the fiscal year:

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
1999	5.10%	2010	\$ 200,000	\$ 25,000	\$ -	\$ 25,000	\$ -
2001	5.10%	2012	1,800,000	640,000	-	200,000	440,000
2003	6.00%	2023	7,430,000	7,170,000	-	100,000	7,070,000
Totals				\$ 7,835,000	\$ -	\$ 325,000	\$ 7,510,000

CITY OF CLEVELAND, TEXAS
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Debt service requirements for certificates of obligation at September 30, 2010 are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 340,000	\$ 322,951	\$ 662,951
2012	375,000	303,478	678,478
2013	440,000	280,043	720,043
2014	510,000	256,643	766,643
2015	530,000	235,843	765,843
2016	550,000	214,105	764,105
2017	575,000	191,036	766,036
2018	600,000	166,355	766,355
2019	660,000	139,415	799,415
2020	675,000	110,713	785,713
2021	725,000	80,613	805,613
2022	750,000	49,088	799,088
2023	780,000	16,575	796,575
Totals	\$ <u>7,510,000</u>	\$ <u>2,366,858</u>	\$ <u>9,876,858</u>

3. Business-Type Activities

Revenue Bonds:

The City issues bonds to provide funds for the construction and improvement of the City's water and sewer system.

The City pledges the net revenues of the waterworks and sanitary sewer system for payment of principal and interest on the revenue bonds, which are equally secured by a first lien on the City's combined waterworks and sanitary sewer system.

The following is a summary of changes in the revenue bonds of business-type activities for the fiscal year:

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
1997 RB	2.65-4.45%	2017	\$ 2,250,000	\$ 1,195,000	\$ -	\$ 120,000	\$ 1,075,000
2000 RB	5.10-4.80%	2020	1,865,000	1,505,000	-	105,000	1,400,000
2009 TRB	0.350-4.30%	2029	555,000	555,000	-	20,000	535,000
Totals				\$ <u>3,255,000</u>	\$ <u>-</u>	\$ <u>245,000</u>	\$ <u>3,010,000</u>

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Debt service requirements for revenue bonds at September 30, 2010 are as follows:

<u>Year Ending September 30</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 255,000	\$ 125,715	\$ 380,715
2012	260,000	115,559	375,559
2013	295,000	104,308	399,308
2014	310,000	91,736	401,736
2015	315,000	78,523	393,523
2016	330,000	64,709	394,709
2017	335,000	50,340	385,340
2018	195,000	39,328	234,328
2019	200,000	30,553	230,553
2020	205,000	21,465	226,465
2021	30,000	11,888	41,888
2022	30,000	10,815	40,815
2023	30,000	9,697	39,697
2024	35,000	8,454	43,454
2025	35,000	7,071	42,071
2026	35,000	5,636	40,636
2027	35,000	4,175	39,175
2028	40,000	2,579	42,579
2029	40,000	859	40,859
Totals	\$ 3,010,000	\$ 783,410	\$ 3,793,410

4. Discretely Presented Component Unit

Notes Payable:

The Cleveland Economic Development Corporation issued notes payable to provide funds for the purchase of land. The notes payable are secured by the land purchased. The notes are issued as 10 year current interest notes.

The following is a summary of changes in the notes payable of the discretely presented component unit for the fiscal year:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2010 Land	5.10%	2020	\$ -	\$ 412,200	\$ 26,930	\$ 385,270
Totals			\$ -	\$ 412,200	\$ 26,930	\$ 385,270

Discretely Presented Component Unit

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 33,848	\$ 18,861	\$ 52,709
2012	35,567	17,143	52,710
2013	37,472	15,237	52,709
2014	39,428	13,281	52,709
2015	41,487	11,223	52,710
2016	43,627	9,082	52,709
2017	45,931	6,779	52,710
2018	48,328	4,381	52,709
2019	50,852	1,857	52,709
2020	8,730	56	8,786
Totals	\$ 385,270	\$ 97,900	\$ 483,170

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Cost-Sharing Multiple Employer Defined Benefit Pension Plan

Plan Description:

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations for the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2010	Plan Year 2009
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5 , 0/20	60/5 , 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Contributions:

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost was \$305,660 and net pension obligation/(asset) was \$0.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2010	305,660	305,660	100%	-
2009	267,819	267,819	100%	-
2008	224,025	224,025	100%	-

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/2009	12/31/2008	12/31/2007
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	28 years; closed period	29 years; closed period	30 years; closed period
Asset Valuation Method	10-year Smoothed Market	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	3,714,745	5,623,373	66.1%	1,908,628	3,086,771	61.8%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Texas Municipal Retirement System

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	3,714,745	5,623,373	66.1%	1,908,628	3,086,771	61.8%
12/31/2008	3,791,698	5,603,179	67.7%	1,811,481	2,854,989	63.4%
12/31/2007	3,991,589	5,655,347	70.6%	1,663,758	2,686,423	61.9%

J. Postemployment Benefits-Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	Plan Year 2009	Plan Year 2010
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Contributions:

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2010, 2009 and 2008 were \$8,153, \$8,632, and \$9,558, respectively, which equaled the required contributions each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.07%	0.07%	100.0%
2010	0.07%	0.07%	100.0%
2009	0.07%	0.07%	100.0%
2008	0.10%	0.10%	100.0%
2007	0.08%	0.08%	100.0%

CITY OF CLEVELAND, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	3,714,745	5,623,373	66.1%	1,908,628	3,086,771	61.8%
12/31/2008	3,791,698	5,603,179	67.7%	1,811,481	2,854,989	63.4%
12/31/2007	3,991,589	5,655,347	70.6%	1,663,758	2,686,423	61.9%

**COMBINING AND DISCRETELY PRESENTED COMPONENT UNIT
FINANCIAL STATEMENTS SECTION**

CITY OF CLEVELAND, TEXAS
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

EXHIBIT B-1

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 246,466	\$ 172,075	\$ 418,541
<i>Due From Other Funds</i>	-	3,847	3,847
<i>Prepaid Items</i>	9,150	-	9,150
Total Assets	\$ 255,616	\$ 175,922	\$ 431,538
LIABILITIES AND FUND BALANCES			
LIABILITIES :			
<i>Accounts Payable</i>	\$ 5,000	\$ 99,417	\$ 104,417
<i>Due To Other Funds</i>	13,961	24,275	38,236
Total Liabilities	18,961	123,692	142,653
FUND BALANCES:			
<i>Reserved for Prepaid Items</i>	9,150	-	9,150
<i>Unreserved, Undesignated</i>	227,505	52,230	279,735
Total Fund Balance	236,655	52,230	288,885
Total Liabilities and Fund Balance	\$ 255,616	\$ 175,922	\$ 431,538

CITY OF CLEVELAND, TEXAS

EXHIBIT B-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
REVENUE:			
<i>Sales and Other Taxes</i>	\$ 112,625	\$ -	\$ 112,625
<i>Fines and Forfeitures</i>	-	223,990	223,990
<i>Earnings on Investments</i>	1,717	1,027	2,744
Total Revenues	<u>114,342</u>	<u>225,017</u>	<u>339,359</u>
EXPENDITURES:			
<i>Economic Development</i>	75,233	-	75,233
<i>Police</i>	-	144,975	144,975
<i>Capital Outlay</i>	-	26,603	26,603
Total Expenditures	<u>75,233</u>	<u>171,578</u>	<u>246,811</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>39,109</u>	<u>53,439</u>	<u>92,548</u>
Other Financing Sources (Uses):			
<i>Transfers Out</i>	-	(10,418)	(10,418)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(10,418)</u>	<u>(10,418)</u>
Net change in fund balances	39,109	43,021	82,130
Fund balances, beginning of year	197,546	9,209	206,755
Fund balances, end of year	<u>\$ 236,655</u>	<u>\$ 52,230</u>	<u>\$ 288,885</u>

CITY OF CLEVELAND, TEXAS

STATEMENT OF NET ASSETS - COMPONENT UNIT
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2010

EXHIBIT B-3

	Component Unit <u>Cleveland</u> <u>EDC</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 1,011,399
<i>Investments</i>	331,384
<i>Due From Other Governments</i>	33,000
Capital Assets:	
<i>Land</i>	580,324
Total Assets	\$ <u>1,956,107</u>
LIABILITIES :	
<i>Accounts Payable</i>	\$ 11,648
Total Current Liabilities	<u>11,648</u>
Noncurrent Liabilities:	
<i>Note Payable - Current</i>	33,848
<i>Note Payable - Long-term</i>	351,422
Total Noncurrent Liabilities	<u>385,270</u>
Total Liabilities	<u>396,918</u>
NET ASSETS:	
<i>Unrestricted</i>	<u>1,559,189</u>
Total Net Assets	<u>1,559,189</u>
Total Liabilities and Net Assets	\$ <u>1,956,107</u>

CITY OF CLEVELAND, TEXAS

EXHIBIT B-4

*STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS - COMPONENT UNIT
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010*

	<u>Component Unit Cleveland EDC</u>
OPERATING REVENUES:	
<i>Taxes:</i>	
<i>Sales Tax</i>	\$ 453,405
Total Revenues	<u>453,405</u>
OPERATING EXPENSES:	
<i>Economic Development</i>	344,868
Total Expenses	<u>344,868</u>
Operating Income	<u>108,537</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Earnings on Investments</i>	12,830
<i>Interest and Fees on Debt</i>	<u>(16,994)</u>
Total Non-Operating Revenues (Expenses)	<u>(4,164)</u>
Change in Net Assets	104,373
Net Assets - Beginning	1,454,816
Net Assets - Ending	\$ <u><u>1,559,189</u></u>

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OTHER SUPPLEMENTARY INFORMATION SECTION

CITY OF CLEVELAND, TEXAS
SUMMARY OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

SCHEDULE C-1

<u>Tax Year</u>	<u>Balance 9/30/2009</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2010</u>
2009	\$ -	\$ 2,185,248	\$ 1,991,833	\$ (5,283)	\$ 188,132
2008	126,069		29,458	(78)	96,533
2007	93,021	-	17,544	(373)	75,104
2006	79,708	-	11,654	(201)	67,853
2005	62,369	-	6,698	(2,642)	53,029
2004	31,164	-	4,163	(991)	26,010
2003	26,462	-	3,655	(1,078)	21,729
2002	12,850	-	1,621	(585)	10,644
2001	10,071	-	1,186	(540)	8,345
2000 & Prior	61,569	-	6,128	(7,805)	47,636
	<u>\$ 503,283</u>	<u>\$ 2,185,248</u>	<u>\$ 2,073,940</u>	<u>\$ (19,576)</u>	<u>\$ 595,015</u>
Less Allowance for Uncollectible Accounts					41,651
					<u>\$ 553,364</u>

ASSESSED VALUATION SUMMARY

<u>Tax Year</u>	<u>Property Valuations</u>	<u>Tax Rate Per \$100 Valuation</u>
2009	\$319,014,307	\$.6850
2008	296,310,878	.6900
2007	278,449,571	.7000
2006	251,406,314	.7349
2005	241,443,554	.7131
2004	219,858,957	.6950
2003	220,245,156	.6999
2002	208,952,813	.4628
2001	203,039,690	.5325
2000	181,991,861	.6425

CITY OF CLEVELAND, TEXAS**INSURANCE COVERAGE****FOR THE YEAR ENDED SEPTEMBER 30, 2010****SCHEDULE C-2**

<u>Type of Coverage</u>	<u>From</u>	<u>To</u>	<u>Coverage</u>	<u>Insurer</u>
General Liability	10/01/09	10/01/10	\$1,000,000/occurrence	Texas Municipal League
Automobile Liability	10/01/09	10/01/10	\$1,000,000/occurrence	Texas Municipal League
Law Enforcement Liability	10/01/09	10/01/10	\$1,000,000/occurrence	Texas Municipal League
Errors and Omissions Liability	10/01/09	10/01/10	\$2,000,000/occurrence	Texas Municipal League
Boiler and Machinery	10/01/09	10/01/10	\$1,000,000/occurrence	Texas Municipal League
Mobile Equipment	10/01/09	10/01/10	\$ 564,245	Texas Municipal League
Workers' Compensation	10/01/09	10/01/10	-	Texas Municipal League
Real and Personal Property	10/01/09	10/01/10	\$ 41,388,724	Texas Municipal League
Bond – Tax Collector	01/01/09	01/01/13	\$ 100,000	Hartford Insurance Co.

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OVERALL COMPLIANCE, INTERNAL CONTROL SECTION



Hereford, Lynch, Sellars & Kirkham

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**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**

The Honorable Mayor and Members of City Council
City of Cleveland, Texas
Cleveland, Texas 77327

The Honorable Mayor and Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas (City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

Hereford, Lynch, Sellars & Kirkham, P.C.

February 8, 2011



Hereford, Lynch, Sellars & Kirkham

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and Members of City Council
City of Cleveland, Texas
Cleveland, Texas 77327

The Honorable Mayor and Members of City Council:

Compliance

We have audited City of Cleveland's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the City, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

Hereford, Lynch, Sellars & Kirkham, P.C.
February 8, 2011

CITY OF CLEVELAND, TEXAS

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010*

SECTION I – SUMMARY OF AUDITORS’ RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors’ report issued	Unqualified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditors’ report issued on compliance with major programs	Unqualified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133	No
7. Identifications of Major Programs	14.239 Home Investment Partnership Program 16.804 ARRA – FY 2009 Recovery Act JAG Program
8. Dollar Threshold used to Distinguish Between Type A and Type B Federal Programs	\$300,000
9. Auditee Qualified as a Low-Risk Auditee?	No
SECTION II – FINANCIAL STATEMENT FINDINGS	
None reported	
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None reported	

CITY OF CLEVELAND, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

PRIOR YEAR FINDINGS

None reported

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CITY OF CLEVELAND, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CURRENT YEAR FINDINGS

None reported

CITY OF CLEVELAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors' Number	Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct:			
ARRA - FY 2009 Recovery Act JAG Program	16.804	2009-SB-B9-1295	\$ 25,077
COPS Hiring Recovery Program	16.710	2009RKWX0831	48,345
Passed Through Office of the Texas Governor Criminal Justice Division:			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.803	SU-09-A10-22312-01	66,750
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>140,172</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</u>			
Passed Through Texas Department of Rural Affairs:			
Community Development Block Grant	14.228	729141	145,135
Community Development Block Grant	14.228	724078	23,051
Community Development Block Grant	14.228	DRS060014	1,750
Total CFDA Number 14.228			<u>169,936</u>
Passed Through Texas Department of Housing and Community Affairs:			
Home Investment Partnership Program	14.239	1000950	<u>309,263</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 619,371</u>

The accompanying notes to schedule of expenditures of federal awards are an integral part of this statement.

CITY OF CLEVELAND, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2010

(1) General

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of City of Cleveland, Texas (City). The City's reporting entity is defined in Note A of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

(2) Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The modified accrual basis of accounting is described in the notes to the basic financial statements. Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.