

CITY OF CLEVELAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

CITY OF CLEVELAND, TEXAS
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INTRODUCTORY SECTION

CITY OF CLEVELAND, TEXAS
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2011

Jill Kirkonis Mayor
Niki Coats Council Member Position 1
Brian C. Eoff..... Council Member Position 2
Carolyn McWaters Council Member Position 3
Jorge Cuellar Council Member Position 4
Delores Terry Council Member Position 5
Kelly McDonald Interim City Manager
Becky Roseberry..... 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, 2011, 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, 2011, 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 January 10, 2012, 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.
Certified Public Accountants

Conroe, Texas
January 10, 2012

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, 2011. 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 \$16,283,470 (net assets). As required by GASB Statement No. 34, net assets also reflect \$13,111,449 that is invested in capital assets, net of related debt.
- During the year, the City's revenues of \$12,098,983 exceeded expenses of \$10,235,383 by \$1,863,600.
- The General Fund reported a fund balance this year of \$740,807, in which \$694,064 was unassigned and approximated 9% of General Fund expenditures. Total fund balance decreased \$155,594 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$178,063 which was restricted for debt service fund expenditures. Total fund balance decreased \$21,062 from prior year.
- The Utility Fund reported an operating income of \$561,612, and an increase in net assets of \$369,312.
- The Component Unit – Cleveland Economic Development Corporation reported net assets of \$1,794,394, of which \$829,164 was unrestricted. Total net assets increased \$235,205 from prior year.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$16,283,470 at September 30, 2011.

Table A-1
CITY OF CLEVELAND, TEXAS NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current and Other Assets | \$ 2,832,942 | \$ 2,485,466 | \$ 4,030,374 | \$ 1,801,920 | \$ 6,863,316 | \$ 4,287,386 |
| Capital Assets | 15,111,032 | 13,908,362 | 7,849,797 | 7,525,985 | 22,960,829 | 21,434,347 |
| Total Assets | 17,943,974 | 16,393,828 | 11,880,171 | 9,327,905 | 29,824,145 | 25,721,733 |
| Long-term Liabilities Outstanding | 7,302,922 | 7,554,832 | 5,115,000 | 3,010,000 | 12,417,922 | 10,564,832 |
| Other Liabilities | 772,124 | 464,356 | 350,629 | 272,675 | 1,122,753 | 737,031 |
| Total Liabilities | 8,075,046 | 8,019,188 | 5,465,629 | 3,282,675 | 13,540,675 | 11,301,863 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, net of Related Debt | 7,808,110 | 6,356,700 | 5,303,339 | 5,035,958 | 13,111,449 | 11,392,658 |
| Restricted | 353,791 | 357,560 | 398,449 | 418,182 | 752,240 | 775,742 |
| Unrestricted | 1,707,027 | 1,660,380 | 712,754 | 591,090 | 2,419,781 | 2,251,470 |
| Total Net Assets | \$ 9,868,928 | \$ 8,374,640 | \$ 6,414,542 | \$ 6,045,230 | \$ 16,283,470 | \$ 14,419,870 |

The City's total assets of \$29,824,145 are largely comprised of capital assets, net of accumulated depreciation of \$22,960,829, or 77%. 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 \$12,417,922 comprise the largest portion of the City's total liabilities of \$13,540,675 at 92%. Of total long-term liabilities, \$770,359 is due within one year, with the remainder \$11,647,563 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 80% of total net assets or \$13,111,449 represents investments in capital assets, net of related debt and approximately 5% of total net assets or \$752,240 represents restriction for debt service. The \$2,419,781 (15%) 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 \$1,863,600 at September 30, 2011.

**Table A-2
CITY OF CLEVELAND, TEXAS CHANGE IN NET ASSETS**

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,918,739 | \$ 1,152,058 | \$ 3,140,654 | \$ 3,407,971 | \$ 5,059,393 | \$ 4,560,029 |
| Operating Grants and Contributions | 135,575 | 388,312 | - | - | 135,575 | 388,312 |
| Capital Grants and Contributions | 1,437,552 | 466,613 | 343,560 | 168,186 | 1,781,112 | 634,799 |
| General Revenues: | | | | | | |
| Property Taxes | 2,232,954 | 2,225,907 | - | - | 2,232,954 | 2,225,907 |
| Sales and Other Taxes | 2,316,293 | 2,457,479 | - | - | 2,316,293 | 2,457,479 |
| Franchise Taxes | 483,970 | 540,596 | - | - | 483,970 | 540,596 |
| Earnings on Investments | 10,889 | 11,826 | 7,547 | 6,790 | 18,436 | 18,616 |
| Gain on Sale of Assets | 15,500 | - | - | - | 15,500 | - |
| Proceeds from Insurance | 29,392 | 66,903 | 10,899 | 23,348 | 40,291 | 90,251 |
| Miscellaneous | 15,459 | 61,797 | - | 2,061 | 15,459 | 63,858 |
| Total Revenues | 8,596,323 | 7,371,491 | 3,502,660 | 3,608,356 | 12,098,983 | 10,979,847 |
| Expenses: | | | | | | |
| General Government | 800,884 | 941,093 | - | - | 800,884 | 941,093 |
| Public Safety | 4,108,437 | 3,711,673 | - | - | 4,108,437 | 3,711,673 |
| Public Works | 284,069 | 281,045 | - | - | 284,069 | 281,045 |
| Transportation | 820,878 | 812,646 | - | - | 820,878 | 812,646 |
| Culture and Recreation | 1,034,176 | 894,707 | - | - | 1,034,176 | 894,707 |
| Grants | 39,731 | 324,674 | - | - | 39,731 | 324,674 |
| Economic Development | 86,902 | 75,233 | - | - | 86,902 | 75,233 |
| Debt Service | 326,958 | 343,649 | - | - | 326,958 | 343,649 |
| Water and Sewer | - | - | 2,733,348 | 3,029,476 | 2,733,348 | 3,029,476 |
| Total Expenses | 7,502,035 | 7,384,720 | 2,733,348 | 3,029,476 | 10,235,383 | 10,414,196 |
| Excess (Deficiency) Before Transfers | 1,094,288 | (13,229) | 769,312 | 578,880 | 1,863,600 | 565,651 |
| Transfers In (Out) | 400,000 | 450,367 | (400,000) | (450,367) | - | - |
| Increase (Decrease) in Net Assets | 1,494,288 | 437,138 | 369,312 | 128,513 | 1,863,600 | 565,651 |
| Net Assets - Beginning | 8,374,640 | 7,937,502 | 6,045,230 | 5,916,717 | 14,419,870 | 13,854,219 |
| Net Assets - Ending | \$ 9,868,928 | \$ 8,374,640 | \$ 6,414,542 | \$ 6,045,230 | \$ 16,283,470 | \$ 14,419,870 |

Governmental Activities

The City's total revenues were \$8,596,323 from all governmental activities. A significant portion, \$2,316,293 or 27%, of the City's revenue comes from sales and other taxes. Property tax revenue accounts for \$2,232,954, or 26%, of total revenue for governmental activities. The most significant changes in governmental revenues was the increases in capital grants and contributions and charges for services. The increase in capital grants and contributions results primarily from the receipt of grant funds for completion of the storm drainage project. The increase in charges for services results primarily from an increase in fines collected because of the red light project and forfeitures.

The total cost of all governmental programs and services was \$7,502,035. The public safety function accounted for \$4,108,437, or 55% of this total. Expenses increased \$117,315 in total, which was primarily the result of increases in public safety. The increase in public safety results from an increase expenditures associated with the red light 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 \$369,312. 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 \$3,140,654 are utilized to provide funds for program expenses of \$2,733,348.

The increase in net assets for business-type activities is due to an increase in federal grants for water and sewer improvements as well as a decrease in sanitation expenditures due to the City now contracts with an outside company for sanitation services.

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, unassigned 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 \$1,349,055, which is a decrease of \$38,526 from last year's total of \$1,387,581.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$694,064, which represented 94% of total general fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 9% 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 \$178,063, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance decreased \$21,062 during the year, primarily due to the debt service requirements exceeded the tax collections.

The capital projects ending fund balance of \$0. The net decrease in fund balance during the current year in the capital projects fund was \$3,170. The increase was due to planned expenditures exceeded 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 \$712,754. The total increase in net assets for the Water and Sewer Funds was \$369,312. 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. Differences between the originally-adopted budget and the final amended budget of the general fund were to increase appropriations \$109,183. There were no significant individual variations between the original budget and final budget.

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 \$1,297,127 unfavorable variance primarily due to increases in spending in Street Department Capital Outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had invested \$22,960,829 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
(net of depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | \$ 2,068,148 | \$ 2,068,148 | \$ 178,621 | \$ 178,621 | \$ 2,246,769 | \$ 2,246,769 |
| Buildings and Improvements | 14,007,773 | 12,624,298 | 47,997 | 47,997 | 14,055,770 | 12,672,295 |
| Furniture & Equipment | 4,016,762 | 3,689,685 | 661,303 | 488,566 | 4,678,065 | 4,178,251 |
| Water System | - | - | 4,375,434 | 3,939,005 | 4,375,434 | 3,939,005 |
| Sewer System | - | - | 15,127,980 | 14,727,488 | 15,127,980 | 14,727,488 |
| Construction in Progress | 54,236 | 30,000 | - | 218,691 | 54,236 | 248,691 |
| Totals | 20,146,919 | 18,412,131 | 20,391,335 | 19,600,368 | 40,538,254 | 38,012,499 |
| Total Accumulated Depreciation | (5,035,887) | (4,503,769) | (12,541,538) | (12,074,383) | (17,577,425) | (16,578,152) |
| Net Capital Assets | \$ 15,111,032 | \$ 13,908,362 | \$ 7,849,797 | \$ 7,525,985 | \$ 22,960,829 | \$ 21,434,347 |

Major capital asset purchases during the year included the following:

- Improvements to Sewer System \$400,493
- Storm Drainage Project \$1,353,445
- 500k Gallon Ground Tank \$398,608

Long Term Debt

At year-end, the City had \$12,417,922 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

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Certificates of Obligation | \$ 7,170,000 | \$ 7,510,000 | \$ - | \$ - | \$ 7,170,000 | \$ 7,510,000 |
| Revenue Bonds | - | - | 5,115,000 | 3,010,000 | 5,115,000 | 3,010,000 |
| Note Payable | 132,922 | 44,832 | - | - | 132,922 | 44,832 |
| Total Long-term Debt | \$ 7,302,922 | \$ 7,554,832 | \$ 5,115,000 | \$ 3,010,000 | \$ 12,417,922 | \$ 10,564,832 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Total tax rate \$.685 per \$100 valuation in fiscal year 2012 (\$.472 for maintenance and operations and \$.213 for interest and sinking).
- These indicators were taken into account when adopting the general fund budget for 2012. Amounts available for appropriation in the general fund budget are \$694,064 at September 30, 2011. 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 increase \$82,442.
- On October 11, 2011 the City issued \$500,000 Tax Notes in the fiscal year 2011-2012.

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

EXHIBIT A-1

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

| | Governmental Activities | Business-type Activities | Total | Component Unit Cleveland EDC |
|--|----------------------------|-----------------------------|----------------------|---------------------------------------|
| ASSETS: | | | | |
| Cash and Cash Equivalents | \$ 1,398,361 | \$ 522,564 | \$ 1,920,925 | \$ 683,463 |
| Investments | 51,352 | 53,410 | 104,762 | 131,744 |
| Receivables (Net of Allowances for Uncollectibles, Where Applicable): | | | | |
| Property Taxes | 647,068 | - | 647,068 | - |
| Accounts | 103,400 | 451,708 | 555,108 | - |
| Due From Other Governments | 565,888 | 56,421 | 622,309 | 34,647 |
| Other | 44,249 | - | 44,249 | - |
| Internal Balances | 20,720 | (20,720) | - | - |
| Due From Component Unit | 1,904 | - | 1,904 | - |
| Deferred Charges | - | 112,498 | 112,498 | - |
| Restricted Assets: | | | | |
| Cash - Reserve | - | 398,449 | 398,449 | - |
| Cash - Construction | - | 2,453,649 | 2,453,649 | - |
| Investment - Construction | - | 2,395 | 2,395 | - |
| Capital Assets: | | | | |
| Land | 2,068,148 | 178,621 | 2,246,769 | 1,228,132 |
| Buildings and Improvements | 14,007,773 | 47,997 | 14,055,770 | - |
| Furniture & Equipment | 4,016,762 | 661,303 | 4,678,065 | - |
| Water System | - | 4,375,434 | 4,375,434 | - |
| Sewer System | - | 15,127,980 | 15,127,980 | - |
| Construction in Progress | 54,236 | - | 54,236 | 88,520 |
| Accumulated Depreciation | (5,035,887) | (12,541,538) | (17,577,425) | - |
| Total Assets | <u>17,943,974</u> | <u>11,880,171</u> | <u>29,824,145</u> | <u>2,166,506</u> |
| LIABILITIES: | | | | |
| Accounts Payable | 631,421 | 124,746 | 756,167 | 18,786 |
| Accrued Liabilities | 110,095 | 20,253 | 130,348 | - |
| Refundable Deposits | - | 182,080 | 182,080 | - |
| Accrued Interest | 29,357 | 23,550 | 52,907 | - |
| Due to Primary Government | - | - | - | 1,904 |
| Unearned Revenue | 1,251 | - | 1,251 | - |
| Noncurrent Liabilities: | | | | |
| Notes Payable - Current | 40,359 | - | 40,359 | 35,567 |
| Notes Payable - Long-term | 92,563 | - | 92,563 | 315,855 |
| Certificates of Obligation and Bonds Payable-Current | 375,000 | 355,000 | 730,000 | - |
| Certificates of Obligation and Bonds Payable-Long-term | 6,795,000 | 4,760,000 | 11,555,000 | - |
| Total Liabilities | <u>8,075,046</u> | <u>5,465,629</u> | <u>13,540,675</u> | <u>372,112</u> |
| NET ASSETS: | | | | |
| Investment in Capital Assets, Net of Related Debt | 7,808,110 | 5,303,339 | 13,111,449 | 965,230 |
| Restricted for: | | | | |
| Debt Services | 353,791 | 398,449 | 752,240 | - |
| Unrestricted | 1,707,027 | 712,754 | 2,419,781 | 829,164 |
| Total Net Assets | <u>\$ 9,868,928</u> | <u>\$ 6,414,542</u> | <u>\$ 16,283,470</u> | <u>\$ 1,794,394</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, 2011

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | |
|--------------------------------------|-----------------------------|----------------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| PRIMARY GOVERNMENT: | | | | |
| Governmental Activities: | | | | |
| General Government: | | | | |
| City Council | \$ 25,635 | \$ - | \$ - | \$ - |
| City Administration | 775,249 | - | - | - |
| Public Safety: | | | | |
| Municipal Court | 207,606 | 34,942 | - | - |
| Police Department | 2,643,915 | 969,711 | 78,971 | - |
| Animal Control | 96,573 | - | - | - |
| Fire and Ambulance | 1,160,343 | 597,725 | - | 151,999 |
| Public Works: | | | | |
| Inspection Department | 206,476 | 60,531 | - | - |
| Garage Department | 77,593 | - | - | - |
| Transportation: | | | | |
| Street Department | 762,696 | - | - | 1,248,053 |
| Airport Department | 58,182 | 68,563 | - | 37,500 |
| Culture and Recreation: | | | | |
| Library | 396,673 | 23,991 | 6,161 | - |
| Cemetery and Parks | 325,954 | 55,898 | - | - |
| Civic/Community | 311,549 | 107,378 | - | - |
| Grants | 39,731 | - | 50,443 | - |
| Economic Development | 86,902 | - | - | - |
| Debt Service: | | | | |
| Interest and Fiscal Charges | 326,958 | - | - | - |
| Total Governmental Activities | <u>7,502,035</u> | <u>1,918,739</u> | <u>135,575</u> | <u>1,437,552</u> |
| Business-type Activities: | | | | |
| Water and Sewer | 2,733,348 | 3,140,654 | - | 343,560 |
| Total Business-Type Activities | <u>2,733,348</u> | <u>3,140,654</u> | <u>-</u> | <u>343,560</u> |
| Total Primary Government | \$ <u>10,235,383</u> | \$ <u>5,059,393</u> | \$ <u>135,575</u> | \$ <u>1,781,112</u> |
| COMPONENT UNIT: | | | | |
| Cleveland Economic Development Corp. | \$ <u>200,907</u> | \$ - | \$ - | \$ - |

General Revenues:
 Property Taxes
 Sales and Other Taxes
 Franchise Taxes
 Earnings on Investments
 Gain on Sale of Assets
 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 |
| \$ (25,635) | \$ - | \$ (25,635) | \$ - |
| (775,249) | - | (775,249) | - |
| (172,664) | - | (172,664) | - |
| (1,595,233) | - | (1,595,233) | - |
| (96,573) | - | (96,573) | - |
| (410,619) | - | (410,619) | - |
| (145,945) | - | (145,945) | - |
| (77,593) | - | (77,593) | - |
| 485,357 | - | 485,357 | - |
| 47,881 | - | 47,881 | - |
| (366,521) | - | (366,521) | - |
| (270,056) | - | (270,056) | - |
| (204,171) | - | (204,171) | - |
| 10,712 | - | 10,712 | - |
| (86,902) | - | (86,902) | - |
| <u>(326,958)</u> | <u>-</u> | <u>(326,958)</u> | <u>-</u> |
| <u>(4,010,169)</u> | <u>-</u> | <u>(4,010,169)</u> | <u>-</u> |
| - | 750,866 | 750,866 | - |
| - | 750,866 | 750,866 | - |
| <u>(4,010,169)</u> | <u>750,866</u> | <u>(3,259,303)</u> | |
| | | | <u>(200,907)</u> |
| 2,232,954 | - | 2,232,954 | - |
| 2,316,293 | - | 2,316,293 | 429,429 |
| 483,970 | - | 483,970 | - |
| 10,889 | 7,547 | 18,436 | 6,683 |
| 15,500 | - | 15,500 | - |
| 29,392 | 10,899 | 40,291 | - |
| 15,459 | - | 15,459 | - |
| 400,000 | (400,000) | - | - |
| <u>5,504,457</u> | <u>(381,554)</u> | <u>5,122,903</u> | <u>436,112</u> |
| 1,494,288 | 369,312 | 1,863,600 | 235,205 |
| 8,374,640 | 6,045,230 | 14,419,870 | 1,559,189 |
| <u>\$ 9,868,928</u> | <u>\$ 6,414,542</u> | <u>\$ 16,283,470</u> | <u>\$ 1,794,394</u> |

CITY OF CLEVELAND, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

| | General Fund | Debt Service Fund |
|---|--------------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| ASSETS: | | |
| Cash and Cash Equivalents | \$ 559,170 | \$ 176,588 |
| Investments | 51,352 | - |
| Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable): | | |
| Property Taxes | 446,346 | 200,722 |
| Accounts - Ambulance | 94,053 | - |
| Accounts -Hotel/Motel | - | - |
| Due From Other Governments | 565,888 | - |
| Other | 44,249 | - |
| Due From Other Funds | 48,522 | 1,475 |
| Due From Component Unit | 1,904 | - |
| Total Assets | \$ <u>1,811,484</u> | \$ <u>378,785</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES : | | |
| Accounts Payable | \$ 415,264 | \$ - |
| Accrued Liabilities | 108,379 | - |
| Due To Other Funds | 5,385 | - |
| Deferred Revenue | 541,649 | 200,722 |
| Total Liabilities | <u>1,070,677</u> | <u>200,722</u> |
| FUND BALANCES: | | |
| Restricted for Court | 13,243 | - |
| Restricted for Debt | - | 178,063 |
| Restricted for Economic Development | - | - |
| Restricted for Police | - | - |
| Assigned Fund Balance - Capital Expenditures for Fire and Ambulance | 15,500 | - |
| Assigned Fund Balance - Development Services | 18,000 | - |
| Unassigned Fund Balances | 694,064 | - |
| Total Fund Balance | <u>740,807</u> | <u>178,063</u> |
| Total Liabilities and Fund Balance | \$ <u>1,811,484</u> | \$ <u>378,785</u> |

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

EXHIBIT A-3

| Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|-----------------------------|--------------------------------|--------------------------------|
| \$ - | \$ 662,603 | \$ 1,398,361 |
| - | - | 51,352 |
| - | - | 647,068 |
| - | - | 94,053 |
| - | 9,347 | 9,347 |
| - | - | 565,888 |
| - | - | 44,249 |
| - | 1,619 | 51,616 |
| - | - | 1,904 |
| <u>\$ -</u> | <u>\$ 673,569</u> | <u>\$ 2,863,838</u> |
| - | - | - |
| - | 216,157 | \$ 631,421 |
| - | 1,716 | 110,095 |
| - | 25,511 | 30,896 |
| - | - | 742,371 |
| <u>-</u> | <u>243,384</u> | <u>1,514,783</u> |
| - | - | - |
| - | - | 13,243 |
| - | - | 178,063 |
| - | 278,448 | 278,448 |
| - | 151,737 | 151,737 |
| - | - | 15,500 |
| - | - | 18,000 |
| - | - | 694,064 |
| <u>-</u> | <u>430,185</u> | <u>1,349,055</u> |
| <u>\$ -</u> | <u>\$ 673,569</u> | <u>\$ 2,863,838</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, 2011****Total Fund Balance - Governmental Funds (Exhibit A-3)** \$ 1,349,055

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. 15,111,032Property taxes receivables are not available to pay for current period expenditures
and, therefore, are deferred in the funds. 647,068Ambulance receivables are not available to pay for current period expenditures
and, therefore, are deferred in the funds. 94,052Long-term liabilities are not due and payable in the current period and, therefore,
are not reported in the funds. (7,302,922)Other long-term liabilities, at year-end, consisted of accrued interest on the bonds
and notes payable. (29,357)**Total Net Assets - Governmental Activities (Exhibit A-1)** \$ 9,868,928

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, 2011**

| | General Fund | Debt Service Fund |
|--|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| REVENUE: | | |
| <i>Taxes:</i> | | |
| <i>Property Taxes</i> | \$ 1,499,148 | \$ 640,102 |
| <i>Sales and Other Taxes</i> | 2,189,659 | - |
| <i>Franchise Taxes</i> | 483,970 | - |
| <i>License and Permits</i> | 60,531 | - |
| <i>Charges for Services</i> | 867,819 | - |
| <i>Fines and Forfeitures</i> | 352,990 | - |
| <i>Intergovernmental</i> | 1,535,627 | - |
| <i>Earnings on Investments</i> | 4,823 | 2,086 |
| <i>Contributions</i> | 38,361 | - |
| <i>Miscellaneous</i> | 15,459 | - |
| Total Revenues | <u>7,048,387</u> | <u>642,188</u> |
| EXPENDITURES: | | |
| <i>City Council</i> | 24,966 | - |
| <i>Administration</i> | 726,547 | - |
| <i>Civic / Community</i> | 242,442 | - |
| <i>Court</i> | 207,606 | - |
| <i>Police</i> | 2,009,753 | - |
| <i>Animal Control</i> | 96,573 | - |
| <i>Inspection</i> | 203,972 | - |
| <i>Street Department</i> | 669,138 | - |
| <i>Airport Department</i> | 30,401 | - |
| <i>Garage Department</i> | 76,242 | - |
| <i>Library Department</i> | 345,773 | - |
| <i>Cemetery and Parks</i> | 301,134 | - |
| <i>Grants</i> | 39,731 | - |
| <i>Fire and Ambulance</i> | 1,067,889 | - |
| <i>Economic Development</i> | - | - |
| <i>Capital Outlay:</i> | | |
| <i>Administration</i> | 28,258 | - |
| <i>Police</i> | - | - |
| <i>Animal Control</i> | 6,740 | - |
| <i>Street Department</i> | 1,353,445 | - |
| <i>Airport Department</i> | 17,496 | - |
| <i>Library Department</i> | 33,984 | - |
| <i>Cemetery and Parks</i> | 18,903 | - |
| <i>Fire and Ambulance</i> | 231,857 | - |
| <i>Debt Service:</i> | | |
| <i>Principal Retirement</i> | 46,920 | 340,000 |
| <i>Interest and Fiscal Charges</i> | 3,363 | 323,250 |
| Total Expenditures | <u>7,783,133</u> | <u>663,250</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(734,746)</u> | <u>(21,062)</u> |
| <i>Other Financing Sources (Uses):</i> | | |
| <i>Proceeds from Sale of Assets</i> | 15,500 | - |
| <i>Proceeds from Insurance</i> | 29,392 | - |
| <i>Proceeds from Loans</i> | 135,010 | - |
| <i>Transfers In (Out)</i> | 399,250 | - |
| Total Other Financing Sources (Uses) | <u>579,152</u> | <u>-</u> |
| Net Change in Fund Balances | (155,594) | (21,062) |
| Fund Balance - Beginning | 896,401 | 199,125 |
| Fund Balance - Ending | <u><u>\$ 740,807</u></u> | <u><u>\$ 178,063</u></u> |

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

EXHIBIT A-5

| Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|-----------------------------|--------------------------------|--------------------------------|
| \$ - | \$ - | \$ 2,139,250 |
| - | 126,634 | 2,316,293 |
| - | - | 483,970 |
| - | - | 60,531 |
| - | - | 867,819 |
| - | 651,663 | 1,004,653 |
| - | - | 1,535,627 |
| 17 | 3,963 | 10,889 |
| - | - | 38,361 |
| - | - | 15,459 |
| 17 | 782,260 | 8,472,852 |
| - | - | 24,966 |
| 3,937 | - | 730,484 |
| - | - | 242,442 |
| - | - | 207,606 |
| - | 495,953 | 2,505,706 |
| - | - | 96,573 |
| - | - | 203,972 |
| - | - | 669,138 |
| - | - | 30,401 |
| - | - | 76,242 |
| - | - | 345,773 |
| - | - | 301,134 |
| - | - | 39,731 |
| - | - | 1,067,889 |
| - | 86,902 | 86,902 |
| - | - | 28,258 |
| - | 58,105 | 58,105 |
| - | - | 6,740 |
| - | - | 1,353,445 |
| - | - | 17,496 |
| - | - | 33,984 |
| - | - | 18,903 |
| - | - | 231,857 |
| - | - | 386,920 |
| - | - | 326,613 |
| 3,937 | 640,960 | 9,091,280 |
| (3,920) | 141,300 | (618,428) |
| - | - | 15,500 |
| - | - | 29,392 |
| - | - | 135,010 |
| 750 | - | 400,000 |
| 750 | - | 579,902 |
| (3,170) | 141,300 | (38,526) |
| 3,170 | 288,885 | 1,387,581 |
| \$ - | \$ 430,185 | \$ 1,349,055 |

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, 2011*

Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ (38,526)

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. 93,704

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. (15,125)

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.

| | | |
|----------------------|------------------|-----------|
| Capital Outlay | \$ 1,748,788 | |
| Depreciation Expense | <u>(546,118)</u> | 1,202,670 |

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. 386,920

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. (135,010)

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 increase of accrued interest reported in the statement of activities consist of accrued interest on notes and certificates of obligation. (345)

Change in Net Assets of Governmental Activities (Exhibit A-2) \$ 1,494,288

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 BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUE: | | | | |
| <i>Taxes:</i> | | | | |
| Property Taxes | \$ 1,517,514 | \$ 1,517,514 | \$ 1,499,148 | \$ (18,366) |
| Sales and Other Taxes | 2,199,582 | 2,199,582 | 2,189,659 | (9,923) |
| Franchise Taxes | 533,000 | 533,000 | 483,970 | (49,030) |
| License and Permits | 65,000 | 65,000 | 60,531 | (4,469) |
| Charges for Services | 930,300 | 661,500 | 867,819 | 206,319 |
| Fines and Forfeitures | 661,500 | 930,300 | 352,990 | (577,310) |
| Intergovernmental | 65,109 | 65,109 | 1,535,627 | 1,470,518 |
| Earnings on Investments | 6,900 | 6,900 | 4,823 | (2,077) |
| Contributions | - | - | 38,361 | 38,361 |
| Miscellaneous | 125,191 | 125,191 | 15,459 | (109,732) |
| Total Revenues | <u>6,104,096</u> | <u>6,104,096</u> | <u>7,048,387</u> | <u>944,291</u> |
| EXPENDITURES: | | | | |
| City Council | 31,100 | 31,100 | 24,966 | 6,134 |
| Administration | 908,851 | 880,593 | 726,547 | 154,046 |
| Civic/Community | 223,892 | 234,596 | 242,442 | (7,846) |
| Court | 203,956 | 203,956 | 207,606 | (3,650) |
| Police | 2,039,521 | 2,065,608 | 2,009,753 | 55,855 |
| Animal Control | 110,894 | 104,154 | 96,573 | 7,581 |
| Inspection | 225,694 | 225,694 | 203,972 | 21,722 |
| Street Department | 655,785 | 669,138 | 669,138 | - |
| Airport Department | 33,629 | 30,401 | 30,401 | - |
| Garage Department | 76,179 | 76,179 | 76,242 | (63) |
| Library Department | 335,734 | 344,851 | 345,773 | (922) |
| Cemetery and Parks | 306,878 | 302,530 | 301,134 | 1,396 |
| Grants | - | - | 39,731 | (39,731) |
| Fire and Ambulance | 1,224,710 | 1,067,889 | 1,067,889 | - |
| Capital Outlay | | | | |
| Administration | - | 28,258 | 28,258 | - |
| Animal Control | - | 6,740 | 6,740 | - |
| Street Department | - | - | 1,353,445 | (1,353,445) |
| Airport Department | - | 3,228 | 17,496 | (14,268) |
| Library Department | - | - | 33,984 | (33,984) |
| Cemetery and Parks | - | 18,903 | 18,903 | - |
| Fire and Ambulance | - | 156,821 | 231,857 | (75,036) |
| Debt Service: | | | | |
| Principal Retirement | - | 32,717 | 46,920 | (14,203) |
| Interest and Fiscal Charges | - | 2,650 | 3,363 | (713) |
| Total Expenditures | <u>6,376,823</u> | <u>6,486,006</u> | <u>7,783,133</u> | <u>(1,297,127)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(272,727)</u> | <u>(381,910)</u> | <u>(734,746)</u> | <u>(352,836)</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Assets | - | - | 15,500 | 15,500 |
| Proceeds from Insurance | - | - | 29,392 | 29,392 |
| Proceeds from Loans | - | - | 135,010 | 135,010 |
| Transfers In (Out) | 400,000 | 410,704 | 399,250 | (11,454) |
| Total Other Financing Sources (Uses) | <u>400,000</u> | <u>410,704</u> | <u>579,152</u> | <u>168,448</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses | 127,273 | 28,794 | (155,594) | (184,388) |
| Fund Balance - Beginning | 896,401 | 896,401 | 896,401 | - |
| Fund Balance - Ending | <u>\$ 1,023,674</u> | <u>\$ 925,195</u> | <u>\$ 740,807</u> | <u>\$ (184,388)</u> |

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

CITY OF CLEVELAND, TEXAS

EXHIBIT A-8

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 SEPTEMBER 30, 2011

| | Water and Sewer Fund |
|--|-----------------------------|
| | <u> </u> |
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 522,564 |
| Investments | 53,410 |
| Receivables (Net of Allowances for Uncollectibles): | |
| Accounts - Utilities | 451,708 |
| Due from Other Governments | 56,421 |
| Due from Other Funds | 2,291 |
| Total Current Assets | <u>1,086,394</u> |
| Noncurrent Assets: | |
| Restricted Assets: | |
| Cash - Reserve | 398,449 |
| Cash - Construction | 2,453,649 |
| Investment - Construction | 2,395 |
| Deferred Charges: | |
| Bond Issuance | 112,498 |
| Capital Assets: | |
| Land | 178,621 |
| Buildings & Improvements | 47,997 |
| Furniture & Equipment | 661,303 |
| Water System | 4,375,434 |
| Sewer System | 15,127,980 |
| Accumulated Depreciation | <u>(12,541,538)</u> |
| Total Noncurrent Assets | 10,816,788 |
| Total Assets | \$ <u>11,903,182</u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts Payable | \$ 124,746 |
| Accrued Liabilities | 20,253 |
| Refundable Deposits | 182,080 |
| Accrued Interest Payable | 23,550 |
| Due to Other Funds | 23,011 |
| Total Current Liabilities | <u>373,640</u> |
| Noncurrent Liabilities: | |
| Bonds and Certificates of Obligation Payable - Current | 355,000 |
| Bonds and Certificates of Obligation Payable - Long-term | 4,760,000 |
| Total Noncurrent Liabilities | <u>5,115,000</u> |
| Total Liabilities | <u>5,488,640</u> |
| NET ASSETS: | |
| Investment in Capital Assets, Net of Related Debt | 5,303,339 |
| Restricted for: | |
| Debt Services - Reserve (Expendable) | 398,449 |
| Unrestricted | 712,754 |
| Total Net Assets | <u>6,414,542</u> |
| Total Liabilities and Fund Balance | \$ <u>11,903,182</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 NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

| | Water and Sewer Fund |
|--|----------------------------|
| OPERATING REVENUES: | |
| <i>Charges for Services</i> | \$ 3,140,654 |
| Total Operating Revenues | <u>3,140,654</u> |
| OPERATING EXPENSES: | |
| <i>Administrative</i> | 298,393 |
| <i>Water Production</i> | 556,055 |
| <i>Sewer Department</i> | 614,807 |
| <i>Sanitation Services</i> | 642,632 |
| <i>Depreciation</i> | 467,155 |
| Total Operating Expenses | <u>2,579,042</u> |
| Operating Income | <u>561,612</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| <i>Intergovernmental</i> | 343,560 |
| <i>Proceeds from Insurance</i> | 10,899 |
| <i>Earnings on Investments</i> | 7,547 |
| <i>Interest and Fees on Debt</i> | (154,306) |
| Total Non-Operating Revenues (Expenses) | <u>207,700</u> |
| Income before Other Financing Sources (Uses) | 769,312 |
| OTHER FINANCING SOURCES (USES): | |
| <i>Transfers Out</i> | (400,000) |
| Total Other Financing Sources (Uses) | <u>(400,000)</u> |
| Change in Net Assets | 369,312 |
| Total Net Assets - Beginning | 6,045,230 |
| Total Net Assets - Ending | <u>\$ 6,414,542</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, 2011

EXHIBIT A-10

| | Water and Sewer Fund |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| <i>Cash Received for Services</i> | \$ 3,197,539 |
| <i>Cash Payments to Suppliers for Goods and Services</i> | (2,098,480) |
| Net Cash Provided (Used) by Operating Activities | <u>1,099,059</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| <i>Transfers From (To) Other Funds</i> | (400,000) |
| <i>Grant Contributions</i> | 287,139 |
| <i>Insurance Proceeds</i> | 10,899 |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(101,962)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| <i>Proceeds from Capital Debt</i> | 2,360,000 |
| <i>Purchase of Capital Assets</i> | (790,967) |
| <i>Principal Paid on Capital Debt</i> | (255,000) |
| <i>Interest and Fees Paid on Capital Debt</i> | (150,723) |
| Net Cash Provided (Used) for Capital and Related Financing Activities | <u>1,163,310</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| <i>Earnings on Investments</i> | 7,547 |
| <i>Sale (Purchase) of Investments</i> | 464,062 |
| Net Cash Provided (Used) for Investing Activities | <u>471,609</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,632,016 |
| Cash and Cash Equivalents at Beginning of Year | 742,646 |
| Cash and Cash Equivalents at End of Year | <u>\$ 3,374,662</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating Income | \$ 561,612 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| <i>Depreciation</i> | 467,155 |
| <i>Change in Assets and Liabilities:</i> | |
| <i>Decrease (Increase) in Accounts and Other Receivables, net</i> | 59,633 |
| <i>Decrease (Increase) in Deferred Charges</i> | (77,700) |
| <i>Decrease (Increase) in Due to Other Funds</i> | (2,291) |
| <i>Increase (Decrease) in Accounts Payable</i> | 70,951 |
| <i>Increase (Decrease) in Accrued Liabilities</i> | 6,168 |
| <i>Increase (Decrease) in Refundable Deposits</i> | (2,748) |
| <i>Increase (Decrease) in Due to Other Funds</i> | 16,279 |
| Total Adjustments | <u>537,447</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,099,059</u> |

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

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 both restricted and unrestricted (committed, assigned, or unassigned) resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

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, 2011 was \$0.685 per \$100, allocated \$0.4803 for the General Fund and \$0.2047 for the Debt Service Fund.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 "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.

i. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The Board established (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Director of Finance or her designee through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

j. 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.

k. 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

- 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, 2011, the general fund expenditures exceeded its appropriations in the following functions:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|-----------------------------|-----------------------|---------------------|---------------|
| General Fund: | | | |
| Civic/Community | \$ 234,596 | \$ 242,442 | \$ (7,846) |
| Court | 203,956 | 207,606 | (3,650) |
| Garage Department | 76,179 | 76,242 | (63) |
| Library Department | 344,851 | 345,773 | (922) |
| Grants | - | 39,731 | (39,731) |
| Capital Outlay: | | | |
| Street Department | - | 1,353,445 | (1,353,445) * |
| Airport Department | 3,228 | 17,496 | (14,268) |
| Library Department | - | 33,984 | (33,984) |
| Fire and Ambulance | 156,821 | 231,857 | (75,036) |
| Debt Service: | | | |
| Principal Retirement | 32,717 | 46,920 | (14,203) |
| Interest and Fiscal Changes | 2,650 | 3,363 | (713) |

(*Funded by grants reported as intergovernmental revenues)

C. Deposits and Investments

Primary Government:

As of September 30, 2011, the City had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|--|-------------------|--|
| Texpool - LGIP | \$ 107,157 | 0.22 |
| Total Fair Value | \$ 107,157 | |
| Portfolio Weighted Average Maturity | | 0.22 |

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio and by holding securities to maturity.

Credit risk. For fiscal year 2011, 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, 2011, City's bank balance of \$3,237,907 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011, 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 | \$ 131,744 | 0.22 |
| Total Fair Value | \$ 131,744 | |
| Portfolio Weighted Average Maturity | | 0.22 |

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 | \$ 479,942 | \$ 215,830 | \$ - | \$ 695,772 |
| Accounts | 916,410 | - | 610,375 | 1,526,785 |
| Due From Other Governments | 565,888 | - | - | 565,888 |
| Other | 44,249 | - | - | 44,249 |
| Gross Receivables | 2,006,489 | 215,830 | 610,375 | 2,832,694 |
| Less: Allowance for Uncollectible | (855,953) | (15,108) | (158,667) | (1,029,728) |
| Net Total Receivables | \$ 1,150,536 | \$ 200,722 | \$ 451,708 | \$ 1,802,966 |

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 | \$ (10,671) |
| Uncollectibles Related to Debt Service Property Taxes | (1,382) |
| Uncollectibles Related to General Fund Ambulance Service | (476,627) |
| Uncollectibles Related to Water and Sewer Fund Utilities | (15,408) |
| Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues as Follows: | \$ (504,088) |

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) | \$ 446,346 | \$ - |
| Delinquent Property Taxes Receivable (Debt Service Fund) | 200,722 | - |
| Ambulance Receivable (General Fund) | 94,052 | - |
| Fireworks Contributions (General Fund) | - | 1,251 |
| Total Deferred/Unearned Revenue For Governmental Funds | \$ 741,120 | \$ 1,251 |

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

E. Capital Assets

Primary Government:

Capital asset activity for the period ended September 30, 2011, 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 | 30,000 | 24,236 | - | - | 54,236 |
| Total Capital Assets, not being Depreciated | 2,098,148 | 24,236 | - | - | 2,122,384 |
| Capital Assets, being Depreciated: | | | | | |
| Building and Improvements | 12,624,298 | 1,383,475 | - | - | 14,007,773 |
| Furniture and Equipment | 3,689,685 | 341,077 | (14,000) | - | 4,016,762 |
| Total Capital Assets, being Depreciated | 16,313,983 | 1,724,552 | (14,000) | - | 18,024,535 |
| Less Accumulated Depreciation for: | | | | | |
| Building and Improvements | (1,913,282) | (300,333) | - | - | (2,213,615) |
| Furniture and Equipment | (2,590,487) | (245,785) | 14,000 | - | (2,822,272) |
| Total Accumulated Depreciation | (4,503,769) | (546,118) | 14,000 | - | (5,035,887) |
| Total Capital Assets, being Depreciated, net | 11,810,214 | 1,178,434 | - | - | 12,988,648 |
| Governmental Activities Capital Assets, net | \$ 13,908,362 | \$ 1,202,670 | \$ - | \$ - | \$ 15,111,032 |

Depreciation was charged to governmental-type activities as follows:

| | |
|-----------------------|-------------------|
| City Council | \$ 669 |
| Administration | 44,765 |
| Civic Center | 69,107 |
| Police | 138,209 |
| Inspection Department | 2,504 |
| Street Department | 93,558 |
| Airport Department | 27,781 |
| Garage Department | 1,351 |
| Library Department | 50,900 |
| Cemetery and Parks | 24,820 |
| Fire and Ambulance | 92,454 |
| Total | \$ 546,118 |

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

| | Beginning Balance | Increases | Decreases | Adjustments and Transfers | Ending Balance |
|---|----------------------|-------------------|-------------|---------------------------------|---------------------|
| Business-type Activities: | | | | | |
| Capital Assets, not being Depreciated: | | | | | |
| Land | \$ 178,621 | \$ - | \$ - | \$ - | \$ 178,621 |
| Construction in Progress | 218,691 | 580,409 | - | (799,100) | - |
| Total Capital Assets, not being Depreciated | 397,312 | 580,409 | - | (799,100) | 178,621 |
| Capital Assets, being Depreciated: | | | | | |
| Building and Improvements | 47,997 | - | - | - | 47,997 |
| Furniture and Equipment | 488,566 | 172,737 | - | - | 661,303 |
| Water System | 3,939,005 | 37,821 | - | 398,608 | 4,375,434 |
| Sewer System | 14,727,488 | - | - | 400,492 | 15,127,980 |
| Total Capital Assets, being Depreciated | 19,203,056 | 210,558 | - | 799,100 | 20,212,714 |
| Less Accumulated Depreciation for: | | | | | |
| Building and Improvements | (19,047) | (1,408) | - | - | (20,455) |
| Furniture and Equipment | (415,122) | (36,253) | - | - | (451,375) |
| Water System | (2,766,315) | (77,436) | - | - | (2,843,751) |
| Sewer System | (8,873,899) | (352,058) | - | - | (9,225,957) |
| Total Accumulated Depreciation | (12,074,383) | (467,155) | - | - | (12,541,538) |
| Total Capital Assets, being Depreciated, net | 7,128,673 | (256,597) | - | 799,100 | 7,671,176 |
| Business-type Activities Capital Assets, net | \$ 7,525,985 | \$ 323,812 | \$ - | \$ - | \$ 7,849,797 |

Depreciation was charged to business-type activities as follows:

| | |
|----------------------|-------------------|
| Water and Sewer Fund | \$ 467,155 |
| | <u>\$ 467,155</u> |

Discretely Presented Component Unit:

The Cleveland Economic Development Corporation purchased land in the amount of \$647,808 and started an ongoing construction project in the amount of \$88,520 during the period ended September 30, 2011. The balance of total assets at fiscal year end was \$1,316,652.

F. Interfund Balances and Activity

Primary Government:

1. Due To and From Other Funds at September 30, 2011 consisted of the following:

| | Interfund Receivables | Interfund Payables |
|----------------------|--------------------------|-----------------------|
| General Fund | \$ 48,522 | \$ 5,385 |
| Debt Service Fund | 1,475 | - |
| Hotel/Motel Fund | - | 10,704 |
| Money Seizures Fund | 1,619 | 14,807 |
| Water and Sewer Fund | 2,291 | 23,011 |
| Totals | \$ 53,907 | \$ 53,907 |

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
SEPTEMBER 30, 2011

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2011, consisted of the following:

| <u>Transfers From</u> | <u>Transfers To</u> | <u>Amount</u> |
|-----------------------|-----------------------|-------------------|
| Water and Sewer Fund | General Fund | \$ 400,000 |
| General Fund | Capital Projects Fund | 750 |
| | | <u>\$ 400,750</u> |

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund. The transfers from the General Fund were utilized to pay expenditures of the Capital Projects.

G. Long-Term Obligations

Primary Government and Discretely Presented Component Unit (CEDC):

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 (CEDC).

Changes in long-term obligations for the period ended September 30, 2011 are as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Notes Payable | \$ 44,832 | \$ 135,010 | \$ 46,920 | \$ 132,922 | \$ 40,359 |
| Certificates of Obligation | 7,510,000 | - | 340,000 | 7,170,000 | 375,000 |
| Total Governmental Activities | <u>\$ 7,554,832</u> | <u>\$ 135,010</u> | <u>\$ 386,920</u> | <u>\$ 7,302,922</u> | <u>\$ 415,359</u> |
| Business-type Activities: | | | | | |
| Revenue Bonds (RB) | \$ 3,010,000 | \$ 2,360,000 | \$ 255,000 | \$ 5,115,000 | \$ 355,000 |
| Total Business-type Activities | <u>\$ 3,010,000</u> | <u>\$ 2,360,000</u> | <u>\$ 255,000</u> | <u>\$ 5,115,000</u> | <u>\$ 355,000</u> |
| Discretely Presented Component Unit (CEDC): | | | | | |
| Notes Payable | \$ 385,270 | - | \$ 33,848 | \$ 351,422 | \$ 35,567 |
| Total Discretely Presented Component Unit | <u>\$ 385,270</u> | <u>\$ -</u> | <u>\$ 33,848</u> | <u>\$ 351,422</u> | <u>\$ 35,567</u> |

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 3-4 year current interest notes.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

| Description | Interest Rate | Maturity Date | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------------------------|---------------|---------------|-------------------|-------------------|------------------|-------------------|
| 2008 Laptops | 5.94% | 2011 | \$ 3,313 | \$ - | \$ 3,313 | \$ - |
| 2009 Police Vehicle Computers | 5.91% | 2012 | 41,519 | - | 13,053 | 28,466 |
| 2011 Tractor & Security System | 4.53% | 2015 | - | 135,010 | 30,554 | 104,456 |
| Totals | | | \$ 44,832 | \$ 135,010 | \$ 46,920 | \$ 132,922 |

Debt service requirements for notes payable at September 30, 2011 are as follows:

| Year Ending September 30, | Governmental Activities | | |
|---------------------------|-------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2012 | \$ 40,359 | \$ 6,414 | \$ 46,773 |
| 2013 | 42,379 | 4,395 | 46,774 |
| 2014 | 28,994 | 2,273 | 31,267 |
| 2015 | 21,190 | 960 | 22,150 |
| Totals | \$ 132,922 | \$ 14,042 | \$ 146,964 |

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:

| Series | Interest Rate | Maturity Date | Original Issue | Beginning Balance | Additions | Reductions | Ending Balance |
|---------------|---------------|---------------|----------------|---------------------|-------------|-------------------|---------------------|
| 2001 | 5.10% | 2012 | 1,800,000 | \$ 440,000 | \$ - | \$ 215,000 | \$ 225,000 |
| 2003 | 6.00% | 2023 | 7,430,000 | 7,070,000 | - | 125,000 | 6,945,000 |
| Totals | | | | \$ 7,510,000 | \$ - | \$ 340,000 | \$ 7,170,000 |

Debt service requirements for certificates of obligation at September 30, 2011 are as follows:

| Year Ending September 30, | Governmental Activities | | |
|---------------------------|-------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 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 | \$ 7,170,000 | \$ 2,043,907 | \$ 9,213,907 |

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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:

| Series | Interest Rate | Maturity Date | Original Issue | Beginning Balance | Additions | Reductions | Ending Balance |
|---------------|---------------|---------------|----------------|---------------------|---------------------|-------------------|---------------------|
| 1997 RB | 2.65-4.45% | 2017 | \$ 2,250,000 | \$ 1,075,000 | \$ - | \$ 125,000 | \$ 950,000 |
| 2000 RB | 5.10-4.80% | 2020 | 1,865,000 | 1,400,000 | - | 110,000 | 1,290,000 |
| 2009 TRB | 0.350-4.30% | 2029 | 555,000 | 535,000 | - | 20,000 | 515,000 |
| 2011 TRB | 0.100-3.90% | 2031 | 2,360,000 | - | 2,360,000 | - | 2,360,000 |
| Totals | | | | \$ 3,010,000 | \$ 2,360,000 | \$ 255,000 | \$ 5,115,000 |

Debt service requirements for revenue bonds at September 30, 2011 are as follows:

| Year Ending September 30, | Business-type Activities | | |
|---------------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2012 | \$ 355,000 | \$ 178,584 | \$ 533,584 |
| 2013 | 395,000 | 167,283 | 562,283 |
| 2014 | 410,000 | 154,436 | 564,436 |
| 2015 | 415,000 | 140,573 | 555,573 |
| 2016 | 430,000 | 125,734 | 555,734 |
| 2017 | 435,000 | 109,940 | 544,940 |
| 2018 | 300,000 | 97,026 | 397,026 |
| 2019 | 305,000 | 85,941 | 390,941 |
| 2020 | 315,000 | 74,190 | 389,190 |
| 2021 | 140,000 | 61,616 | 201,616 |
| 2022 | 145,000 | 57,164 | 202,164 |
| 2023 | 150,000 | 52,255 | 202,255 |
| 2024 | 155,000 | 46,992 | 201,992 |
| 2025 | 160,000 | 41,381 | 201,381 |
| 2026 | 165,000 | 35,451 | 200,451 |
| 2027 | 170,000 | 29,219 | 199,219 |
| 2028 | 180,000 | 22,535 | 202,535 |
| 2029 | 185,000 | 15,435 | 200,435 |
| 2030 | 150,000 | 8,933 | 158,933 |
| 2031 | 155,000 | 3,023 | 158,023 |
| Totals | \$ 5,115,000 | \$ 1,507,711 | \$ 6,622,711 |

4. Discretely Presented Component Unit - CEDC

Notes Payable:

The Cleveland Economic Development Corporation (CEDC) 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 | \$ 385,270 | \$ - | \$ 33,848 | \$ 351,422 |
| Totals | | | \$ 385,270 | \$ - | \$ 33,848 | \$ 351,422 |

Discretely Presented Component Unit

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|-------------------|
| 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 | \$ 351,422 | \$ 79,039 | \$ 430,461 |

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 2011, 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 from the 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 2011 |
|--|---------------------------|---------------------------|
| 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 |

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 \$292,035 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) |
|--------------------|---------------------------|--------------------------|-------------------------------|---------------------------------|
| 2011 | 292,035 | 292,035 | 100% | - |
| 2010 | 305,660 | 305,660 | 100% | - |
| 2009 | 267,819 | 267,819 | 100% | - |

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

| | | | | |
|---|---------------------------|---------------------------|-----------------------------------|---------------------------|
| Valuation Date | 12/31/2008 | 12/31/2009 | 12/31/2010-prior to restructuring | 12/31/2010-Restructured |
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| GASB 25 Equivalent Single Amortization Period | 29.0 years; closed period | 28.1 years; closed period | 27.2 years; closed period | 27.2 years; closed period |
| Amortized Period for new Gains/Losses | 30 years | 30 years | 30 years | 30 years |
| Asset Valuation Method | Amortized Cost | 10-year Smoothed Market | 10-year Smoothed Market | 10-year Smoothed Market |
| Actuarial Assumptions: | | | | |
| Investment Rate of Return* | 7.5% | 7.5% | 7.5% | 7.0% |
| Projected Salary Increases* | Varies by age and service | Varies by age and service | Varies by age and service | Varies by age and service |
| * Includes Inflation at | 3.00% | 3.00% | 3.00% | 3.00% |
| Cost-of-Living Adjustments | 2.1% | 2.1% | 2.1% | 2.1% |

Funded Status and Funding Progress:

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented 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) |
| 12/31/2010 ¹ | 4,264,622 | 6,210,030 | 68.7% | 1,945,408 | 3,071,804 | 63.3% |
| 12/31/2010 ² | 6,066,467 | 7,735,708 | 78.4% | 1,669,241 | 3,071,804 | 54.3% |

(1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. 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) |
| 12/31/2008 | 3,791,698 | 5,603,179 | 67.7% | 1,811,481 | 2,854,989 | 63.4% |
| 12/31/2009 | 3,714,745 | 5,623,373 | 66.1% | 1,908,628 | 3,086,771 | 61.8% |
| 12/31/2010 ¹ | 4,264,622 | 6,210,030 | 68.7% | 1,945,408 | 3,071,804 | 63.3% |
| 12/31/2010 ² | 6,066,467 | 7,735,708 | 78.4% | 1,669,241 | 3,071,804 | 54.3% |

(1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure

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 2010 | Plan Year 2011 |
|---|----------------|----------------|
| Active employees (yes or no) | Yes | Yes |
| Retirees (yes or no) | Yes | Yes |

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 2011, 2010 and 2009 were \$6,821, \$8,153, and \$8,632, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

| Plan/ Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|------------------------------------|--|--|--|
| 2012 | 0.08% | 0.08% | 100.0% |
| 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% |

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REQUIRED SUPPLEMENTARY INFORMATION

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) |
| 12/31/2008 | 3,791,698 | 5,603,179 | 67.7% | 1,811,481 | 2,854,989 | 63.4% |
| 12/31/2009 | 3,714,745 | 5,623,373 | 66.1% | 1,908,628 | 3,086,771 | 61.8% |
| 12/31/2010 ¹ | 4,264,622 | 6,210,030 | 68.7% | 1,945,408 | 3,071,804 | 63.3% |
| 12/31/2010 ² | 6,066,467 | 7,735,708 | 78.4% | 1,669,241 | 3,071,804 | 54.3% |

(1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure

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

CITY OF CLEVELAND, TEXAS
 COMBINING BALANCE SHEET -
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

EXHIBIT B-1

| | Hotel/Motel Fund | Money Seizures Fund | Total Nonmajor Governmental Funds |
|--|--------------------------|--------------------------|--|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS: | | | |
| <i>Cash and Cash Equivalents</i> | \$ 285,240 | \$ 377,363 | \$ 662,603 |
| <i>Receivable</i> | | | |
| <i>Accounts</i> | 9,347 | - | 9,347 |
| <i>Due From Other Funds</i> | - | 1,619 | 1,619 |
| Total Assets | <u>\$ 294,587</u> | <u>\$ 378,982</u> | <u>\$ 673,569</u> |
| | | | |
| LIABILITIES AND FUND BALANCES | | | |
| | | | |
| LIABILITIES : | | | |
| <i>Accounts Payable</i> | \$ 5,435 | \$ 210,722 | \$ 216,157 |
| <i>Accrued Liabilities</i> | - | 1,716 | 1,716 |
| <i>Due To Other Funds</i> | 10,704 | 14,807 | 25,511 |
| Total Liabilities | <u>16,139</u> | <u>227,245</u> | <u>243,384</u> |
| | | | |
| FUND BALANCES: | | | |
| <i>Restricted for Economic Development</i> | 278,448 | - | 278,448 |
| <i>Restricted for Police</i> | - | 151,737 | 151,737 |
| Total Fund Balance | <u>278,448</u> | <u>151,737</u> | <u>430,185</u> |
| | | | |
| Total Liabilities and Fund Balance | <u>\$ 294,587</u> | <u>\$ 378,982</u> | <u>\$ 673,569</u> |

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, 2011

| | Hotel/Motel Fund | Money Seizures Fund | Total Nonmajor Governmental Funds |
|---|---------------------|------------------------|--|
| REVENUE: | | | |
| <i>Sales and Other Taxes</i> | \$ 126,634 | \$ - | \$ 126,634 |
| <i>Fines and Forfeitures</i> | - | 651,663 | 651,663 |
| <i>Earnings on Investments</i> | 2,061 | 1,902 | 3,963 |
| Total Revenues | <u>128,695</u> | <u>653,565</u> | <u>782,260</u> |
| EXPENDITURES: | | | |
| <i>Economic Development</i> | 86,902 | - | 86,902 |
| <i>Police</i> | - | 495,953 | 495,953 |
| <i>Capital Outlay</i> | - | 58,105 | 58,105 |
| Total Expenditures | <u>86,902</u> | <u>554,058</u> | <u>640,960</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>41,793</u> | <u>99,507</u> | <u>141,300</u> |
| Net Change in Fund Balances | 41,793 | 99,507 | 141,300 |
| Fund Balances, Beginning of Year | 236,655 | 52,230 | 288,885 |
| Fund Balances, End of Year | <u>\$ 278,448</u> | <u>\$ 151,737</u> | <u>\$ 430,185</u> |

CITY OF CLEVELAND, TEXAS

EXHIBIT B-3

STATEMENT OF NET ASSETS - COMPONENT UNIT
 CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
 SEPTEMBER 30, 2011

| | Component Unit <u>Cleveland EDC</u> |
|--|---|
| ASSETS: | |
| <i>Cash and Cash Equivalents</i> | \$ 683,463 |
| <i>Investments</i> | 131,744 |
| <i>Due From Other Governments</i> | 34,647 |
| Capital Assets: | |
| <i>Land</i> | 1,228,132 |
| <i>Construction in Progress</i> | 88,520 |
| Total Assets | \$ 2,166,506 |
| LIABILITIES : | |
| <i>Accounts Payable</i> | \$ 18,786 |
| <i>Due To Primary Government</i> | 1,904 |
| Total Current Liabilities | 20,690 |
| Noncurrent Liabilities: | |
| <i>Note Payable - Current</i> | 35,567 |
| <i>Note Payable - Long-term</i> | 315,855 |
| Total Noncurrent Liabilities | 351,422 |
| Total Liabilities | 372,112 |
| NET ASSETS: | |
| <i>Investment in Capital Assets, Net of Related Debt</i> | 965,230 |
| <i>Unrestricted</i> | 829,164 |
| Total Net Assets | 1,794,394 |
| Total Liabilities and Net Assets | \$ 2,166,506 |

CITY OF CLEVELAND, TEXAS

EXHIBIT B-4

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - COMPONENT UNIT
 CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Component Unit <u>Cleveland EDC</u> |
|---|---|
| OPERATING REVENUES: | |
| <i>Taxes:</i> | |
| <i>Sales Tax</i> | \$ 429,429 |
| Total Revenues | <u>429,429</u> |
| OPERATING EXPENSES: | |
| <i>Economic Development</i> | <u>182,046</u> |
| Total Expenses | <u>182,046</u> |
| Operating Income | <u>247,383</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| <i>Earnings on Investments</i> | 6,683 |
| <i>Interest and Fees on Debt</i> | <u>(18,861)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(12,178)</u> |
| Change in Net Assets | 235,205 |
| Net Assets - Beginning | 1,559,189 |
| Net Assets - Ending | \$ <u><u>1,794,394</u></u> |

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OTHER SUPPLEMENTARY INFORMATION SECTION

CITY OF CLEVELAND, TEXAS
SUMMARY OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SCHEDULE C-1

| <u>Tax Year</u> | <u>Balance 9/30/2010</u> | <u>Tax Levy</u> | <u>Collections</u> | <u>Adjustments</u> | <u>Balance 9/30/2011</u> |
|---|--------------------------|---------------------|---------------------|--------------------|--------------------------|
| 2010 | \$ - | \$ 2,193,792 | \$ 1,999,299 | \$ 22,797 | \$ 217,290 |
| 2009 | 188,132 | - | 30,210 | (535) | 157,387 |
| 2008 | 96,533 | - | 14,957 | 163 | 81,739 |
| 2007 | 75,104 | - | 8,756 | (1,511) | 64,837 |
| 2006 | 67,853 | - | 7,263 | (15,656) | 44,934 |
| 2005 | 53,029 | - | 4,722 | (16,398) | 31,909 |
| 2004 | 26,010 | - | 2,571 | (1,014) | 22,425 |
| 2003 | 21,729 | - | 2,049 | (569) | 19,111 |
| 2002 | 10,644 | - | 1,283 | (602) | 8,759 |
| 2001 & Prior | 55,981 | - | 3,572 | (5,028) | 47,381 |
| Total | \$ 595,015 | \$ 2,193,792 | \$ 2,074,682 | \$ (18,353) | \$ 695,772 |
| Less Allowance for Uncollectible Accounts | | | | | 48,704 |
| | | | | | \$ 647,068 |

ASSESSED VALUATION SUMMARY

| <u>Tax Year</u> | <u>Property Valuations</u> | <u>Tax Rate Per \$100 Valuation</u> |
|-----------------|----------------------------|-------------------------------------|
| 2010 | \$ 320,261,606 | \$.6850 |
| 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 |

CITY OF CLEVELAND, TEXAS
INSURANCE COVERAGE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SCHEDULE C-2

| <u>Type of Coverage</u> | <u>From</u> | <u>To</u> | <u>Coverage</u> | <u>Insurer</u> |
|--------------------------------|-------------|-----------|------------------------|------------------------|
| General Liability | 10/01/10 | 10/01/11 | \$1,000,000/occurrence | Texas Municipal League |
| Automobile Liability | 10/01/10 | 10/01/11 | \$1,000,000/occurrence | Texas Municipal League |
| Law Enforcement Liability | 10/01/10 | 10/01/11 | \$1,000,000/occurrence | Texas Municipal League |
| Errors and Omissions Liability | 10/01/10 | 10/01/11 | \$2,000,000/occurrence | Texas Municipal League |
| Boiler and Machinery | 10/01/10 | 10/01/11 | \$ 100,000/occurrence | Texas Municipal League |
| Mobile Equipment | 10/01/10 | 10/01/11 | \$ 564,245 | Texas Municipal League |
| Workers' Compensation | 10/01/10 | 10/01/11 | - | Texas Municipal League |
| Real and Personal Property | 10/01/10 | 10/01/11 | \$ 43,016,724 | Texas Municipal League |
| Public Employee Dishonesty | 10/01/10 | 10/01/11 | \$ 250,000 | Texas Municipal League |
| Forgery or Alteration | 10/01/10 | 10/01/11 | \$ 250,000 | Texas Municipal League |
| Computer Fraud | 10/01/10 | 10/01/11 | \$ 250,000 | Texas Municipal League |
| Bond – Tax Collector | 08/01/11 | 12/01/12 | \$ 100,000 | Western Surety Company |

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OVERALL COMPLIANCE, INTERNAL CONTROL SECTION



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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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 10, 2012. 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.
Certified Public Accountants

Conroe, Texas
January 10, 2012



Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' 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, 2011. 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, 2011.

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.
Certified Public Accountants

Conroe, Texas
January 10, 2012

CITY OF CLEVELAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | |
|--|---|
| 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 | CDBG – State Administered CDBG Cluster |
| 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, 2011

PRIOR YEAR FINDINGS

None reported

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CITY OF CLEVELAND, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2011

CURRENT YEAR FINDINGS

None reported

CITY OF CLEVELAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT K-1

| <u>Federal Grantor/ Pass Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors' Number</u> | <u>Disbursements/ Expenditures</u> |
|---|------------------------------------|---|--|
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| Direct: | | | |
| <i>COPS Hiring Recovery Program</i> | 16.710 | 2009RKWX0831 | \$ 34,934 |
| <u>U.S. DEPARTMENT OF ENERGY</u> | | | |
| Direct: | | | |
| <i>ARRA - Energy Efficiency and Conservation Block Grant</i> | 81.128 | DE-EE0000893 | 37,821 |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</u> | | | |
| Passed Through Texas Department of Rural Affairs: | | | |
| CDBG - State Administered CDBG Cluster: | | | |
| <i>Community Development Block Grant</i> | 14.228 | 729141 | 200,628 |
| <i>ARRA - Community Development Block Grant</i> | 14.255 | DRS010028 | 1,360,207 |
| <i>ARRA - Community Development Block Grant</i> | 14.255 | DRS010028 | 105,111 |
| Total CDBG - State Administered CDBG Cluster | | | 1,665,946 |
| <u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</u> | | | |
| Passed Through Texas Department of Transportation: | | | |
| <i>State and Community Highway Safety Grant Program</i> | 20.600 | 2011-Cleveland-S-1YG-0099 | 4,595 |
| <u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u> | | | |
| Passed Through Texas Department of Public Safety's Division of Emergency Management: | | | |
| <i>FEMA - Disaster Grant</i> | 97.036 | BUNDLES #32 & #624,PW00706(0) & 00706(1) | 34,566 |
| <i>FEMA - Disaster Grant</i> | 97.036 | BUNDLES #141 & #627,PW05193(0) & 05193(1) | 14,447 |
| <i>FEMA - Disaster Grant</i> | 97.036 | BUNDLES #628,PW04113(2) | 1,430 |
| Total 97.036 | | | 50,443 |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | |
| Passed Through Houston-Galveston Area Council: | | | |
| <i>Homeland Security Grant Program</i> | 97.073 | OSHSP5436 | 39,845 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS: | | | \$ 1,833,584 |

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, 2011*

(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.