

CITY OF CLEVELAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

CITY OF CLEVELAND, TEXAS
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INTRODUCTORY SECTION

CITY OF CLEVELAND, TEXAS
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2012

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
Dion Miller City Manager
Becky Roseberry..... Director of Finance
Kelly McDonald City Secretary

FINANCIAL SECTION

HLSK

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, Texas (City), as of and for the year ended September 30, 2012, 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 the 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8 2013, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 consider 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 basic financial statements. The combining and discretely presented component unit financial statements section is 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 and statistical 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 them.

Respectfully submitted,

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

**HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants**

**Conroe, Texas
February 8, 2013**

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, 2012. 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 \$16,726,900 (net assets). As required by GASB Statement No. 34, net assets also reflect \$13,203,584 that is invested in capital assets, net of related debt.
- During the year, the City's revenues of \$9,838,337 exceeded expenses of \$9,394,907 by \$443,430.
- The General Fund reported a fund balance this year of \$909,620, in which \$692,564 was unassigned and approximated 13% of General Fund expenditures. Total fund balance increased \$168,813 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$104,705 which was restricted for debt service fund expenditures. Total fund balance decreased \$73,358 from prior year.
- The Utility Fund reported an operating income of \$883,855, and an increase in net assets of \$760,239.
- The Component Unit – Cleveland Economic Development Corporation reported net assets of \$2,048,656, of which \$797,630 was unrestricted. Total net assets increased \$254,262 from prior year.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$16,726,900 at September 30, 2012.

Table A-1
CITY OF CLEVELAND, TEXAS NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 6,269,344	\$ 2,832,942	\$ 4,178,540	\$ 4,030,374	\$ 10,447,884	\$ 6,863,316
Capital Assets	15,031,932	15,111,032	8,051,722	7,849,797	23,083,654	22,960,829
Total Assets	21,301,276	17,943,974	12,230,262	11,880,171	33,531,538	29,824,145
Long-term Liabilities Outstanding	10,973,245	7,302,922	4,760,000	5,115,000	15,733,245	12,417,922
Other Liabilities	775,912	772,124	295,481	350,629	1,071,393	1,122,753
Total Liabilities	11,749,157	8,075,046	5,055,481	5,465,629	16,804,638	13,540,675
Net Assets:						
Invested in Capital Assets, net of Related Debt	7,473,754	7,808,110	5,729,830	5,303,339	13,203,584	13,111,449
Restricted	258,725	353,791	423,569	398,449	682,294	752,240
Unrestricted	1,819,640	1,707,027	1,021,382	712,754	2,841,022	2,419,781
Total Net Assets	\$ 9,552,119	\$ 9,868,928	\$ 7,174,781	\$ 6,414,542	\$ 16,726,900	\$ 16,283,470

The City's total assets of \$33,531,538 are largely comprised of capital assets, net of accumulated depreciation of \$23,083,654, or 69%. 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 \$15,733,245 comprise the largest portion of the City's total liabilities of \$16,804,638 at 94%. Of total long-term liabilities, \$1,230,209 is due within one year, with the remainder \$14,503,036 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to the financial statements.

Approximately 79% of total net assets or \$13,203,584 represents investments in capital assets, net of related debt and approximately 4% of total net assets or \$682,294 represents restriction for debt service. The \$2,841,022 (17%) 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 \$443,430 at September 30, 2012.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,302,044	\$ 1,918,739	\$ 3,057,831	\$ 3,140,654	\$ 4,359,875	\$ 5,059,393
Operating Grants and Contributions	89,085	135,575	-	-	89,085	135,575
Capital Grants and Contributions	37,166	1,437,552	-	343,560	37,166	1,781,112
General Revenues:						
Property Taxes	2,304,674	2,232,954	-	-	2,304,674	2,232,954
Sales and Other Taxes	2,405,630	2,316,293	-	-	2,405,630	2,316,293
Franchise Taxes	502,327	483,970	-	-	502,327	483,970
Earnings on Investments	38,950	10,889	33,547	7,547	72,497	18,436
Gain on Sale of Assets	1,800	15,500	-	-	1,800	15,500
Proceeds from Insurance	759	29,392	17,002	10,899	17,761	40,291
Miscellaneous	47,522	15,459	-	-	47,522	15,459
Total Revenues	6,729,957	8,596,323	3,108,380	3,502,660	9,838,337	12,098,983
Expenses:						
General Government	832,552	800,884	-	-	832,552	800,884
Public Safety	3,797,176	4,108,437	-	-	3,797,176	4,108,437
Public Works	292,486	284,069	-	-	292,486	284,069
Transportation	634,128	820,878	-	-	634,128	820,878
Culture and Recreation	959,573	1,034,176	-	-	959,573	1,034,176
Grants	-	39,731	-	-	-	39,731
Economic Development	147,739	86,902	-	-	147,739	86,902
Debt Service	373,910	326,958	-	-	373,910	326,958
Water and Sewer	-	-	2,357,343	2,733,348	2,357,343	2,733,348
Total Expenses	7,037,564	7,502,035	2,357,343	2,733,348	9,394,907	10,235,383
Excess (Deficiency) Before Transfers	(307,607)	1,094,288	751,037	769,312	443,430	1,863,600
Transfers In (Out)	(9,202)	400,000	9,202	(400,000)	-	-
Increase (Decrease) in Net Assets	(316,809)	1,494,288	760,239	369,312	443,430	1,863,600
Net Assets - Beginning	9,868,928	8,374,640	6,414,542	6,045,230	16,283,470	14,419,870
Net Assets - Ending	\$ 9,552,119	\$ 9,868,928	\$ 7,174,781	\$ 6,414,542	\$ 16,726,900	\$ 16,283,470

Governmental Activities

The City's total revenues were \$6,729,957 from all governmental activities. A significant portion, \$2,405,630 or 36%, of the City's revenue comes from sales and other taxes. Property tax revenue accounts for \$2,304,674, or 34%, of total revenue for governmental activities. The most significant changes in governmental revenues were the decreases in capital grants and contributions and charges for services. The decrease in capital grants and contributions results primarily from the receipt of grant funds in prior years for completion of the storm drainage project. The decrease in charges for services results primarily from the City contracted EMS services to a third party provider.

The total cost of all governmental programs and services was \$7,037,564. The public safety function accounted for \$3,797,176, or 54% of this total. Expenses decreased \$464,471 in total, which was primarily the result of decreases in public safety. The decrease in public safety is due to the City contracted EMS services to a third party provider.

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 \$760,239. 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 and charges for services include 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 \$3,057,831 are utilized to provide funds for program expenses of \$2,357,343.

The increase in net assets for business-type activities is due to the City has decreased the cost 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 \$4,759,712, which is an increase of \$3,410,657 from last year's total of \$1,349,055.

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 \$692,564, which represented 76% 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 13% of total General Fund expenditures. Refer to the notes to the financial statements for a more detailed presentation of governmental fund balances.

The debt service fund ending fund balance of \$104,705, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance decreased \$73,358 during the year, primarily due to the debt service requirements for the new debt exceeded the tax collections. The tax rate was set prior to the issuance of new debt

The capital projects ending fund balance of \$3,284,376. The net increase in fund balance during the current year in the capital projects fund was \$3,284,376. The increase was due to proceeds from issuance of certificates of obligation.

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 \$1,021,382. The total increase in net assets for the Water and Sewer Funds was \$760,239. 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 \$225,013. There were no significant individual variations between the original budget and final budget.

The City's actual results for the General Fund did not have any significant variances with the final budgeted amounts per department.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$23,083,654 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,068,148	\$ 2,068,148	\$ 178,621	\$ 178,621	\$ 2,246,769	\$ 2,246,769
Buildings and Improvements	14,038,772	14,007,773	47,997	47,997	14,086,769	14,055,770
Furniture & Equipment	4,122,800	4,016,762	670,253	661,303	4,793,053	4,678,065
Water System	-	-	4,375,434	4,375,434	4,375,434	4,375,434
Sewer System	-	-	15,127,980	15,127,980	15,127,980	15,127,980
Construction in Progress	312,263	54,236	664,812	-	977,075	54,236
Totals	20,541,983	20,146,919	21,065,097	20,391,335	41,607,080	40,538,254
Total Accumulated Depreciation	(5,510,051)	(5,035,887)	(13,013,375)	(12,541,538)	(18,523,426)	(17,577,425)
Net Capital Assets	\$ 15,031,932	\$ 15,111,032	\$ 8,051,722	\$ 7,849,797	\$ 23,083,654	\$ 22,960,829

Major capital asset purchases during the year included the following:

- Governmental Activities Construction \$258,027
- Governmental Activities Antenna \$30,999
- Governmental Activities Vehicles \$225,179
- Business-type Activities Construction \$664,812

Long Term Debt

At year-end, the City had \$15,733,245 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	
	2012	2011	2012	2011	2012	2011
Certificates of Obligation (net)	\$ 10,771,654	\$ 7,170,000	\$ -	\$ -	\$ 10,771,654	\$ 7,170,000
Revenue Bonds	-	-	4,760,000	5,115,000	4,760,000	5,115,000
Note Payable	201,591	132,922	-	-	201,591	132,922
Total Long-term Debt	\$ 10,973,245	\$ 7,302,922	\$ 4,760,000	\$ 5,115,000	\$ 15,733,245	\$ 12,417,922

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Total tax rate \$0.78 per \$100 valuation in fiscal year 2013 (\$0.4831 for maintenance and operations and \$0.2969 for interest and sinking).
- These indicators were taken into account when adopting the general fund budget for 2013. Amounts available for appropriation in the general fund budget are \$692,564 at September 30, 2012. The City projects to transfer \$417,050 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 \$58,224.
- On December 11, 2012 the City issued \$2,470,000 Certificates of Obligation in the fiscal year 2012-2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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CITY OF CLEVELAND, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT A-1

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 5,274,182	\$ 774,323	\$ 6,048,505	\$ 764,124
<i>Investments</i>	375	433	808	1,797
Receivables (Net of Allowances for Uncollectibles, Where Applicable):				
<i>Property Taxes</i>	642,817	-	642,817	-
<i>Accounts</i>	8,332	454,396	462,728	-
<i>Due From Other Governments</i>	209,737	-	209,737	-
<i>Other</i>	9,665	-	9,665	-
<i>Internal Balances</i>	(87,711)	87,711	-	-
<i>Due From Primary Government</i>	-	-	-	34,956
<i>Deferred Charges</i>	130,691	106,544	237,235	-
<i>Prepaid Items</i>	81,256	-	81,256	-
Restricted Assets:				
<i>Cash - Reserve</i>	-	423,569	423,569	-
<i>Cash - Construction</i>	-	2,329,166	2,329,166	-
<i>Investment - Construction</i>	-	2,398	2,398	-
Capital Assets:				
<i>Land</i>	2,068,148	178,621	2,246,769	1,228,132
<i>Buildings and Improvements</i>	14,038,772	47,997	14,086,769	-
<i>Furniture & Equipment</i>	4,122,800	670,253	4,793,053	-
<i>Water System</i>	-	4,375,434	4,375,434	-
<i>Sewer System</i>	-	15,127,980	15,127,980	-
<i>Construction in Progress</i>	312,263	664,812	977,075	338,749
<i>Accumulated Depreciation</i>	(5,510,051)	(13,013,375)	(18,523,426)	-
Total Assets	<u>21,301,276</u>	<u>12,230,262</u>	<u>33,531,538</u>	<u>2,367,758</u>
LIABILITIES:				
<i>Accounts Payable</i>	582,143	69,634	651,777	3,247
<i>Accrued Liabilities</i>	105,675	23,242	128,917	-
<i>Refundable Deposits</i>	13,350	180,793	194,143	-
<i>Accrued Interest</i>	39,788	21,812	61,600	-
<i>Due to Component Unit</i>	34,956	-	34,956	-
Noncurrent Liabilities:				
<i>Notes Payable - Current</i>	95,209	-	95,209	37,472
<i>Notes Payable - Long-term</i>	106,382	-	106,382	278,383
<i>Certificates of Obligation and Bonds Payable-Current</i>	740,000	395,000	1,135,000	-
<i>Certificates of Obligation and Bonds Payable-Long-term</i>	10,031,654	4,365,000	14,396,654	-
Total Liabilities	<u>11,749,157</u>	<u>5,055,481</u>	<u>16,804,638</u>	<u>319,102</u>
NET ASSETS:				
<i>Investment in Capital Assets, Net of Related Debt</i>	7,473,754	5,729,830	13,203,584	1,251,026
Restricted for:				
<i>Debt Services</i>	258,725	423,569	682,294	-
<i>Unrestricted</i>	1,819,640	1,021,382	2,841,022	797,630
Total Net Assets	<u>\$ 9,552,119</u>	<u>\$ 7,174,781</u>	<u>\$ 16,726,900</u>	<u>\$ 2,048,656</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, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government:				
City Council	\$ 29,700	\$ -	\$ -	\$ -
City Administration	802,852	-	-	-
Public Safety:				
Municipal Court	182,176	11,853	-	-
Police Department	2,505,851	844,535	46,538	-
Technology	247,946	-	-	-
Animal Control	68,466	-	-	-
Fire and Ambulance	792,737	173,580	5,501	-
Public Works:				
Inspection Department	222,096	60,453	-	-
Garage Department	70,390	-	-	-
Transportation:				
Street Department	559,127	-	600	-
Airport Department	75,001	70,024	-	16,616
Culture and Recreation:				
Library	342,999	18,922	-	-
Cemetery and Parks	321,225	48,505	-	-
Civic/Community	295,349	74,172	-	-
Grants	-	-	-	20,550
Economic Development	147,739	-	-	-
Debt Service:				
Interest and Fiscal Charges	373,910	-	36,446	-
Total Governmental Activities	<u>7,037,564</u>	<u>1,302,044</u>	<u>89,085</u>	<u>37,166</u>
Business-type Activities:				
Water and Sewer	<u>2,357,343</u>	<u>3,057,831</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>2,357,343</u>	<u>3,057,831</u>	<u>-</u>	<u>-</u>
Total Primary Government	\$ <u>9,394,907</u>	\$ <u>4,359,875</u>	\$ <u>89,085</u>	\$ <u>37,166</u>
COMPONENT UNIT:				
Cleveland Economic Development Corp.	<u>\$ 193,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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
\$ (29,700)	\$ -	\$ (29,700)	\$ -
(802,852)	-	(802,852)	-
(170,323)	-	(170,323)	-
(1,614,778)	-	(1,614,778)	-
(247,946)	-	(247,946)	-
(68,466)	-	(68,466)	-
(613,656)	-	(613,656)	-
(161,643)	-	(161,643)	-
(70,390)	-	(70,390)	-
(558,527)	-	(558,527)	-
11,639	-	11,639	-
(324,077)	-	(324,077)	-
(272,720)	-	(272,720)	-
(221,177)	-	(221,177)	-
20,550	-	20,550	-
(147,739)	-	(147,739)	-
<u>(337,464)</u>	<u>-</u>	<u>(337,464)</u>	<u>-</u>
<u>(5,609,269)</u>	<u>-</u>	<u>(5,609,269)</u>	<u>-</u>
-	700,488	700,488	-
-	700,488	700,488	-
<u>(5,609,269)</u>	<u>700,488</u>	<u>(4,908,781)</u>	<u>(193,275)</u>
2,304,674	-	2,304,674	-
2,405,630	-	2,405,630	443,070
502,327	-	502,327	-
38,950	33,547	72,497	4,467
1,800	-	1,800	-
759	17,002	17,761	-
47,522	-	47,522	-
(9,202)	9,202	-	-
<u>5,292,460</u>	<u>59,751</u>	<u>5,352,211</u>	<u>447,537</u>
(316,809)	760,239	443,430	254,262
9,868,928	6,414,542	16,283,470	1,794,394
<u>\$ 9,552,119</u>	<u>\$ 7,174,781</u>	<u>\$ 16,726,900</u>	<u>\$ 2,048,656</u>

CITY OF CLEVELAND, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS:		
Cash and Cash Equivalents	\$ 960,689	\$ 100,160
Investments	375	-
Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable):		
Property Taxes	456,580	186,237
Accounts - Hotel/Motel	-	-
Due From Other Governments	209,737	-
Other	-	-
Due From Other Funds	2,733	4,545
Prepaid Items	81,256	-
Total Assets	\$ <u>1,711,370</u>	\$ <u>290,942</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES :		
Accounts Payable	\$ 100,457	\$ -
Accrued Liabilities	101,621	-
Refundable Deposits	13,350	-
Due To Other Funds	94,786	-
Due To Component Unit	34,956	-
Deferred Revenue	456,580	186,237
Total Liabilities	<u>801,750</u>	<u>186,237</u>
 FUND BALANCES:		
Nonspendable - Prepaid Items	81,256	-
Restricted for Court	7,484	-
Restricted for Debt	-	104,705
Restricted for Construction	-	-
Restricted for Economic Development	-	-
Restricted for Police	-	-
Assigned Fund Balance - Development Services	128,316	-
Unassigned Fund Balances	692,564	-
Total Fund Balance	<u>909,620</u>	<u>104,705</u>
 Total Liabilities and Fund Balance	 \$ <u>1,711,370</u>	 \$ <u>290,942</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
\$ 3,524,876	\$ 688,457	\$ 5,274,182
-	-	375
-	-	642,817
-	8,332	8,332
-	-	209,737
9,500	165	9,665
-	-	7,278
-	-	81,256
<u>\$ 3,534,376</u>	<u>\$ 696,954</u>	<u>\$ 6,233,642</u>
\$ 250,000	\$ 231,686	\$ 582,143
-	4,054	105,675
-	-	13,350
-	203	94,989
-	-	34,956
-	-	642,817
<u>250,000</u>	<u>235,943</u>	<u>1,473,930</u>
-	-	81,256
-	-	7,484
-	-	104,705
3,284,376	-	3,284,376
-	265,693	265,693
-	195,318	195,318
-	-	128,316
-	-	692,564
<u>3,284,376</u>	<u>461,011</u>	<u>4,759,712</u>
<u>\$ 3,534,376</u>	<u>\$ 696,954</u>	<u>\$ 6,233,642</u>

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CITY OF CLEVELAND, TEXAS
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012*

EXHIBIT A-4

Total Fund Balance - Governmental Funds (Exhibit A-3)	\$ 4,759,712
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.	15,031,932
Property taxes receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	642,817
Issuance cost related to debt is not a financial resource and, therefore, is not reported in the funds. Issuance cost is amortized over the life of the related debt.	130,691
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(10,973,245)
Other long-term liabilities, at year-end, consisted of accrued interest on the bonds and notes payable.	<u>(39,788)</u>
Total Net Assets - Governmental Activities (Exhibit A-1)	<u><u>\$ 9,552,119</u></u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUE:		
Taxes:		
Property Taxes	\$ 1,593,334	\$ 715,591
Sales and Other Taxes	2,272,854	-
Franchise Taxes	502,327	-
License and Permits	60,453	-
Charges for Services	478,608	-
Fines and Forfeitures	244,906	-
Intergovernmental	58,721	-
Earnings on Investments	14,371	6,906
Contributions	11,456	36,446
Miscellaneous	46,937	-
Total Revenues	<u>5,283,967</u>	<u>758,943</u>
EXPENDITURES:		
City Council	29,031	-
Administration	752,795	-
Civic / Community	226,242	-
Court	182,176	-
Technology	247,946	-
Police	1,919,743	-
Animal Control	61,726	-
Inspection	221,470	-
Street Department	433,906	-
Airport Department	47,220	-
Garage Department	69,039	-
Library Department	297,886	-
Cemetery and Parks	295,303	-
Fire and Ambulance	684,736	-
Economic Development	-	-
Capital Outlay:		
Administration	-	-
Police	-	-
Animal Control	-	-
Airport Department	9,534	-
Fire and Ambulance	9,056	-
Utility Fund Industrial Park	-	-
Utility Fund Water Park	-	-
Debt Service:		
Principal Retirement	39,344	480,000
Interest and Fiscal Charges	6,413	352,301
Bond Issuance Costs	-	-
Total Expenditures	<u>5,533,566</u>	<u>832,301</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(249,599)</u>	<u>(73,358)</u>
OTHER FINANCING SOURCES (USES):		
Proceeds from Sale of Assets	1,800	-
Proceeds from Insurance	759	-
Proceeds from Certificates of Obligation and Tax Notes	-	-
Proceeds from Loans	-	-
Premium on Bonds Issued	-	-
Transfers In (Out)	415,853	-
Total Other Financing Sources (Uses)	<u>418,412</u>	<u>-</u>
Net Change in Fund Balances	168,813	(73,358)
Fund Balance - Beginning	740,807	178,063
Fund Balance - Ending	<u>\$ 909,620</u>	<u>\$ 104,705</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
\$ -	\$ -	\$ 2,308,925
-	132,776	2,405,630
-	-	502,327
-	-	60,453
-	-	478,608
-	607,482	852,388
20,550	-	79,271
12,969	4,704	38,950
-	-	47,902
-	4,310	51,247
<u>33,519</u>	<u>749,272</u>	<u>6,825,701</u>
-	-	29,031
-	-	752,795
-	-	226,242
-	-	182,176
-	-	247,946
-	421,300	2,341,043
-	-	61,726
-	-	221,470
-	-	433,906
-	-	47,220
-	-	69,039
-	-	297,886
-	-	295,303
-	-	684,736
-	147,739	147,739
16,294	-	16,294
-	256,179	256,179
255,233	-	255,233
-	-	9,534
-	-	9,056
154,505	-	154,505
270,550	-	270,550
-	56,400	575,744
-	1,241	359,955
138,609	-	138,609
<u>835,191</u>	<u>882,859</u>	<u>8,083,917</u>
(801,672)	(133,587)	(1,258,216)
-	-	1,800
-	-	759
3,895,000	-	3,895,000
-	164,413	164,413
191,048	-	191,048
-	-	415,853
<u>4,086,048</u>	<u>164,413</u>	<u>4,668,873</u>
3,284,376	30,826	3,410,657
-	430,185	1,349,055
<u>\$ 3,284,376</u>	<u>\$ 461,011</u>	<u>\$ 4,759,712</u>

CITY OF CLEVELAND, TEXAS

EXHIBIT A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ 3,410,657

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. (4,251)

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. (94,052)

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	\$ 539,555	
Depreciation Expense	<u>(618,655)</u>	(79,100)

The issuance of long-term debt (e.g., bonds, certificate of obligation, and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from certificates of obligation	\$ (3,895,000)	
Proceeds from notes	(164,413)	
Payment of principal (certificates of obligation and notes)	575,744	
Issuance premium	(191,048)	
Amortization of premiums	4,394	
Bond issuance cost capitalized	138,109	
Amortization of bond issuance cost	(7,418)	
Accrued interest on debt	<u>(10,431)</u>	<u>(3,550,063)</u>

Change in Net Assets of Governmental Activities (Exhibit A-2) \$ (316,809)

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, CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes:				
Property Taxes	\$ 1,562,340	\$ 1,562,340	\$ 1,593,334	\$ 30,994
Sales and Other Taxes	2,205,088	2,205,088	2,272,854	67,766
Franchise Taxes	534,000	534,000	502,327	(31,673)
License and Permits	65,000	66,702	60,453	(6,249)
Charges for Services	398,125	534,725	478,608	(56,117)
Fines and Forfeitures	344,000	344,000	244,906	(99,094)
Intergovernmental	-	25,985	58,721	32,736
Earnings on Investments	5,400	5,400	14,371	8,971
Contributions	750	750	11,456	10,706
Miscellaneous	43,350	44,872	46,937	2,065
Total Revenues	5,158,053	5,323,862	5,283,967	(39,895)
EXPENDITURES:				
City Council	31,700	31,700	29,031	2,669
Administration	751,351	772,484	752,795	19,689
Civic/Community	229,807	253,674	226,242	27,432
Court	191,955	191,955	182,176	9,779
Technology	274,826	274,826	247,946	26,880
Police	1,900,764	1,935,167	1,919,743	15,424
Animal Control	58,397	62,601	61,726	875
Inspection	215,394	233,004	221,470	11,534
Street Department	473,052	481,052	433,906	47,146
Airport Department	38,650	46,498	47,220	(722)
Garage Department	79,702	79,702	69,039	10,663
Library Department	281,504	294,249	297,886	(3,637)
Cemetery and Parks	285,180	292,880	295,303	(2,423)
Fire and Ambulance	621,103	689,572	684,736	4,836
Capital Outlay:				
Airport Department	-	9,534	9,534	-
Fire and Ambulance	-	9,500	9,056	444
Debt Service:				
Principal Retirement	40,844	39,345	39,344	1
Interest and Fiscal Charges	2,382	3,881	6,413	(2,532)
Total Expenditures	5,476,611	5,701,624	5,533,566	168,058
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(318,558)</u>	<u>(377,762)</u>	<u>(249,599)</u>	<u>128,163</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Assets	1,000	1,000	1,800	800
Proceeds from Insurance	-	-	759	759
Transfers In (Out)	400,000	400,000	415,853	15,853
Total Other Financing Sources (Uses)	401,000	401,000	418,412	17,412
Net Change in Fund Balances	82,442	23,238	168,813	145,575
Fund Balance - Beginning	740,807	740,807	740,807	-
Fund Balance - Ending	\$ 823,249	\$ 764,045	\$ 909,620	\$ 145,575

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2012

EXHIBIT A-8

	<u>Water and Sewer Fund</u>
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 774,323
<i>Investments</i>	433
Receivables (Net of Allowances for Uncollectibles):	
<i>Accounts - Utilities</i>	454,396
<i>Due from Other Funds</i>	90,241
Total Current Assets	<u>1,319,393</u>
Noncurrent Assets:	
Restricted Assets:	
<i>Cash - Reserve</i>	423,569
<i>Cash - Construction</i>	2,329,166
<i>Investment - Construction</i>	2,398
Deferred Charges:	
<i>Bond Issuance</i>	106,544
Capital Assets:	
<i>Land</i>	178,621
<i>Buildings & Improvements</i>	47,997
<i>Furniture & Equipment</i>	670,253
<i>Water System</i>	4,375,434
<i>Sewer System</i>	15,127,980
<i>Construction in Progress</i>	664,812
<i>Accumulated Depreciation</i>	<u>(13,013,375)</u>
Total Noncurrent Assets	10,913,399
Total Assets	\$ <u>12,232,792</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts Payable</i>	\$ 69,634
<i>Accrued Liabilities</i>	23,242
<i>Refundable Deposits</i>	180,793
<i>Accrued Interest Payable</i>	21,812
<i>Due to Other Funds</i>	2,530
Total Current Liabilities	<u>298,011</u>
Noncurrent Liabilities:	
<i>Bonds and Certificates of Obligation Payable - Current</i>	395,000
<i>Bonds and Certificates of Obligation Payable - Long-term</i>	<u>4,365,000</u>
Total Noncurrent Liabilities	<u>4,760,000</u>
Total Liabilities	<u>5,058,011</u>
NET ASSETS:	
<i>Investment in Capital Assets, Net of Related Debt</i>	5,729,830
Restricted for:	
<i>Debt Services - Reserve (Expendable)</i>	423,569
Unrestricted	<u>1,021,382</u>
Total Net Assets	<u>7,174,781</u>
Total Liabilities and Fund Balance	\$ <u>12,232,792</u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT A-9

	Water and Sewer Fund
OPERATING REVENUES:	
<i>Charges for Services</i>	\$ 3,057,831
Total Operating Revenues	<u>3,057,831</u>
OPERATING EXPENSES:	
<i>Administrative</i>	259,789
<i>Water Production</i>	561,595
<i>Sewer Department</i>	611,491
<i>Sanitation Services</i>	266,056
<i>Depreciation</i>	475,045
Total Operating Expenses	<u>2,173,976</u>
Operating Income	<u>883,855</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Proceeds from Insurance</i>	17,002
<i>Earnings on Investments</i>	33,547
<i>Interest and Fees on Debt</i>	(183,367)
Total Non-Operating Revenues (Expenses)	<u>(132,818)</u>
Income before Other Financing Sources (Uses)	751,037
OTHER FINANCING SOURCES (USES):	
<i>Capital Contribution</i>	425,055
<i>Transfers In (Out)</i>	(415,853)
Total Other Financing Sources (Uses)	<u>9,202</u>
Change in Net Assets	760,239
Total Net Assets - Beginning	6,414,542
Total Net Assets - Ending	\$ <u><u>7,174,781</u></u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT A-10

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
<i>Cash Received for Services</i>	\$ 3,053,856
<i>Cash Payments to Suppliers for Goods and Services</i>	(1,853,531)
Net Cash Provided (Used) by Operating Activities	<u>1,200,325</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
<i>Transfers From (To) Other Funds</i>	(415,853)
<i>Grant Contributions</i>	56,421
<i>Insurance Proceeds</i>	17,002
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(342,430)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
<i>Purchase of Capital Assets</i>	(679,262)
<i>Capital Contributions</i>	425,055
<i>Principal Paid on Capital Debt</i>	(355,000)
<i>Interest and Fees Paid on Capital Debt</i>	(185,105)
<i>Sale of Capital Assets</i>	2,292
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(792,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
<i>Earnings on Investments</i>	33,547
<i>Sale (Purchase) of Investments</i>	52,974
Net Cash Provided (Used) for Investing Activities	<u>86,521</u>
Net Increase (Decrease) in Cash and Cash Equivalents	152,396
Cash and Cash Equivalents at Beginning of Year	3,374,662
Cash and Cash Equivalents at End of Year	\$ <u><u>3,527,058</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 883,855
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<i>Depreciation</i>	475,045
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Accounts and Other Receivables, net</i>	(2,688)
<i>Decrease (Increase) in Deferred Charges</i>	5,954
<i>Decrease (Increase) in Due From Other Funds</i>	(87,950)
<i>Increase (Decrease) in Accounts Payable</i>	(55,112)
<i>Increase (Decrease) in Accrued Liabilities</i>	2,989
<i>Increase(Decrease) in Refundable Deposits</i>	(1,287)
<i>Increase (Decrease) in Due to Other Funds</i>	(20,481)
Total Adjustments	<u>316,470</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>1,200,325</u></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, 2012

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, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The City also recognizes as

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 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 and contributions from the Cleveland Economic Development Corporation.

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. 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 various services. Revenues received from grant sources and investments are recognized under the susceptible-to-accrual concept. Taxes 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

CITY OF CLEVELAND, TEXAS
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SEPTEMBER 30, 2012

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, 2012 was \$0.685 per \$100, allocated \$0.472 for the General Fund and \$0.213 for the Debt Service Fund.

d. Restricted Assets

Certain proceeds of the City are classified as restricted assets on the balance sheet because they are maintained in separate bank or investment 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" accounts are 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 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 their 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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

4. Budgetary Data

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

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

B. Compliance and Accountability

For the year ended September 30, 2012, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Airport Department	\$ 46,498	\$ 47,220	\$ (722)
Library Department	294,249	297,886	(3,637)
Cemetery and Parks	292,880	295,303	(2,423)
Debt Service:			
Interest and Fiscal Charges	3,881	6,413	(2,532)

C. Deposits and Investments

Primary Government:

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fund</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	General Fund	AAAm	\$ 375	0.22
Texpool - LGIP	Water & Sewer Fund*	AAAm	2,831	0.22
Total Fair Value			\$ 3,206	
Portfolio Weighted Average Maturity				0.22

*Includes Restricted Investments

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 2012, the City invested in Texpool. Texpool is duly chartered and administered by the State Comptroller's Office. The rating of such investment is noted above.

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

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, City's bank balance of \$9,049,840 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the City's agent and in the City's name.

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

Discretely Presented Component Unit:

As of September 30, 2012, the Cleveland Economic Development Corporation's (CEDC) bank balance was \$764,125 and was insured and collateralized by the bank's agent in the CEDC's name.

As of September 30, 2012, the Cleveland Economic Development Corporation had the following investments:

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	AAAm	\$ 1,797	0.22
Total Fair Value		\$ 1,797	
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	\$ 496,283	\$ 202,431	\$ -	\$ 698,714
Accounts	-	-	629,535	629,535
Due From Other Governments	209,737	-	-	209,737
Gross Receivables	706,020	202,431	629,535	1,537,986
Less: Allowance for Uncollectible	(39,703)	(16,194)	(175,139)	(231,036)
Net Total Receivables	\$ 666,317	\$ 186,237	\$ 454,396	\$ 1,306,950

Tax revenues of the general and debt service 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	\$ (6,107)
Uncollectibles Related to Debt Service Property Taxes	(1,086)
Uncollectibles Related to Water and Sewer Fund Utilities	(31,610)
Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues as Follows:	\$ (38,803)

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)	\$ 456,580	\$ -
Delinquent Property Taxes Receivable (Debt Service Fund)	186,237	-
Total Unavailable/Unearned Revenue For Governmental Funds	\$ 642,817	\$ -

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

Primary Government:

Capital asset activity for the period ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 2,068,148	\$ -	\$ -	\$ 2,068,148
Construction in Progress	54,236	258,027	-	312,263
Total Capital Assets, not being Depreciated	<u>2,122,384</u>	<u>258,027</u>	<u>-</u>	<u>2,380,411</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	14,007,773	30,999	-	14,038,772
Furniture and Equipment	4,016,762	250,529	(144,491)	4,122,800
Total Capital Assets, being Depreciated	<u>18,024,535</u>	<u>281,528</u>	<u>(144,491)</u>	<u>18,161,572</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,213,615)	(336,614)	-	(2,550,229)
Furniture and Equipment	(2,822,272)	(282,041)	144,491	(2,959,822)
Total Accumulated Depreciation	<u>(5,035,887)</u>	<u>(618,655)</u>	<u>144,491</u>	<u>(5,510,051)</u>
Total Capital Assets, being Depreciated, net	<u>12,988,648</u>	<u>(337,127)</u>	<u>-</u>	<u>12,651,521</u>
Governmental Activities Capital Assets, net	<u>\$ 15,111,032</u>	<u>\$ (79,100)</u>	<u>\$ -</u>	<u>\$ 15,031,932</u>

Depreciation was charged to governmental-type activities as follows:

City Council	\$ 669
Administration	50,057
Civic Center	69,107
Police	164,807
Inspection Department	626
Street Department	125,221
Airport Department	27,781
Garage Department	1,351
Library Department	45,113
Cemetery and Parks	25,922
Fire and Ambulance	108,001
Total	<u>\$ 618,655</u>

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in Progress	-	664,812	-	664,812
Total Capital Assets, not being Depreciated	<u>178,621</u>	<u>664,812</u>	<u>-</u>	<u>843,433</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	47,997	-	-	47,997
Furniture and Equipment	661,303	14,450	(5,500)	670,253
Water System	4,375,434	-	-	4,375,434
Sewer System	15,127,980	-	-	15,127,980
Total Capital Assets, being Depreciated	<u>20,212,714</u>	<u>14,450</u>	<u>(5,500)</u>	<u>20,221,664</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(20,455)	(1,408)	-	(21,863)
Furniture and Equipment	(451,375)	(40,782)	3,208	(488,949)
Water System	(2,843,751)	(82,683)	-	(2,926,434)
Sewer System	(9,225,957)	(350,172)	-	(9,576,129)
Total Accumulated Depreciation	<u>(12,541,538)</u>	<u>(475,045)</u>	<u>3,208</u>	<u>(13,013,375)</u>
Total Capital Assets, being Depreciated, net	<u>7,671,176</u>	<u>(460,595)</u>	<u>(2,292)</u>	<u>7,208,289</u>
Business-type Activities Capital Assets, net	<u>\$ 7,849,797</u>	<u>\$ 204,217</u>	<u>\$ (2,292)</u>	<u>\$ 8,051,722</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 475,045
	<u>\$ 475,045</u>

Discretely Presented Component Unit:

Land owned by the Cleveland Economic Development Corporation did not incur changes in the current fiscal year and the balance remains at \$1,228,132 at September 30, 2012. The Cleveland Economic Development Corporation contributed to an ongoing construction project in the amount of \$250,229 during the period ended September 30, 2012, which increased total cost to date to \$338,749. The balance of total assets at fiscal year end was \$1,566,881.

F. Interfund Balances and Activity

Primary Government:

- Due To and From Other Funds at September 30, 2012 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 2,733	\$ 94,786
Debt Service Fund	4,545	-
Hotel/Motel Fund	-	202
Money Seizures Fund	-	1
Water and Sewer Fund	90,241	2,530
Totals	<u>\$ 97,519</u>	<u>\$ 97,519</u>

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

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

Transfers to and from other funds at September 30, 2012, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 415,853
		<u>\$ 415,853</u>

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

Component Unit - Economic Development Corporation:

Amounts receivable and payable between the City and its component unit at September 30, 2012 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ -	\$ 34,956
Component Unit - EDC	34,956	-
Totals	<u>\$ 34,956</u>	<u>\$ 34,956</u>

The component unit amount for sales tax is included in due from primary government.

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 City is required by the revenue bond to establish and maintain a reserve 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, 2012 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:					
Certificates of Obligation	\$ 7,170,000	\$ 3,895,000	\$ 480,000	\$ 10,585,000	\$ 740,000
Less Deferred Amounts:					
For Issuance Premiums	-	191,048	4,394	186,654	-
Total Certificates	<u>7,170,000</u>	<u>4,086,048</u>	<u>484,394</u>	<u>10,771,654</u>	<u>740,000</u>
Notes Payable	132,922	164,413	95,744	201,591	95,209
Total Governmental Activities	<u>\$ 7,302,922</u>	<u>\$ 4,250,461</u>	<u>\$ 580,138</u>	<u>\$ 10,973,245</u>	<u>\$ 835,209</u>
Business-type Activities:					
Revenue Bonds (RB)	\$ 5,115,000	-	\$ 355,000	\$ 4,760,000	\$ 395,000
Total Business-type Activities	<u>\$ 5,115,000</u>	<u>\$ -</u>	<u>\$ 355,000</u>	<u>\$ 4,760,000</u>	<u>\$ 395,000</u>
Discretely Presented Component Unit (CEDC):					
Notes Payable	\$ 351,422	-	\$ 35,567	\$ 315,855	\$ 37,472
Total Discretely Presented Component Unit	<u>\$ 351,422</u>	<u>\$ -</u>	<u>\$ 35,567</u>	<u>\$ 315,855</u>	<u>\$ 37,472</u>

CITY OF CLEVELAND, TEXAS
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SEPTEMBER 30, 2012

2. Governmental Activities

The City's governmental activities debt consist of certificates of obligation and notes payable.

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, animal center, parks and various other projects. Principal and interest payments on the City's debt are secured by ad valorem property taxes levied on all taxable property within the city limits and user fees related to water and sewer fees.

In addition, the City has an Intra-Local Agreement with the Cleveland Economic Development Corporation (CEDC) whereas the CEDC is responsible for \$2,935,000 of the 2012 Series as noted in the following table for a total original issue of \$3,370,000. The CEDC portion of such debt had a balance of \$2,935,000 as of September 30, 2012. The CEDC is pledging sales tax revenue to fund the debt requirements.

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

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2001	5.10%	2012	1,800,000	\$ 225,000	\$ -	\$ 225,000	\$ -
2003	6.00%	2023	7,430,000	6,945,000	-	150,000	6,795,000
2012	2.0-4.0%	2032	3,370,000	-	3,370,000	-	3,370,000
2012	3.15%	2016	525,000	-	525,000	105,000	420,000
Totals				\$ 7,170,000	\$ 3,895,000	\$ 480,000	\$ 10,585,000

Debt service requirements for certificates of obligation at September 30, 2012 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 740,000	\$ 389,956	\$ 1,129,956
2014	815,000	360,695	1,175,695
2015	835,000	333,985	1,168,985
2016	865,000	306,236	1,171,236
2017	785,000	278,011	1,063,011
2018	720,000	250,030	970,030
2019	785,000	220,015	1,005,015
2020	805,000	187,488	992,488
2021	860,000	153,076	1,013,076
2022	885,000	116,825	1,001,825
2023	925,000	79,412	1,004,412
2024	150,000	57,675	207,675
2025	150,000	52,425	202,425
2026	160,000	47,000	207,000
2027	165,000	40,900	205,900
2028	175,000	34,100	209,100
2029	180,000	27,000	207,000
2030	185,000	19,700	204,700
2031	195,000	12,100	207,100
2032	205,000	4,100	209,100
Totals	\$ 10,585,000	\$ 2,970,729	\$ 13,555,729

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2009 Police Vehicle Computers	5.91%	2012	\$ 28,466	\$ -	\$ 13,824	\$ 14,642
2011 Tractor & Security System	4.53%	2015	104,456	-	25,520	78,936
2012 Police Vehicles	4.45%	2014	-	164,413	56,400	108,013
Totals			\$ 132,922	\$ 164,413	\$ 95,744	\$ 201,591

Debt service requirements for notes payable at September 30, 2012 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 95,209	\$ 9,207	\$ 104,416
2014	84,177	4,731	88,908
2015	22,205	960	23,165
Totals	\$ 201,591	\$ 14,898	\$ 216,489

3. Business-Type Activities

Revenue Bonds:

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

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

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

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
1997 RB	2.65-4.45%	2017	\$ 2,250,000	\$ 950,000	\$ -	\$ 125,000	\$ 825,000
2000 RB	5.10-4.80%	2020	1,960,000	1,290,000	-	115,000	1,175,000
2009 TRB	0.350-4.30%	2029	555,000	515,000	-	20,000	495,000
2011 TRB	0.100-3.90%	2031	2,360,000	2,360,000	-	95,000	2,265,000
Totals				\$ 5,115,000	\$ -	\$ 355,000	\$ 4,760,000

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Debt service requirements for revenue bonds at September 30, 2012 are as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 4,760,000	\$ 1,329,127	\$ 6,089,127

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 CEDC sales tax and the land purchased. The notes are issued as 10 year current interest notes.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2010 Land	5.10%	2020	\$ 351,422	\$ -	\$ 35,567	\$ 315,855
Totals			\$ 351,422	\$ -	\$ 35,567	\$ 315,855

<u>Year Ending September 30,</u>	<u>Discretely Presented Component Unit</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 315,855	\$ 61,896	\$ 377,751

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

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 2012, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Subsequent Events

In December, 2012, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2012A \$2,470,000. The Series 2012A Certificates of Obligation has a maturity date of March 1, 2033 with an interest range between 2% to 3.25%.

In addition, the City plans to issue refunding bonds totaling \$7,860,000 in February 2013 maturing March 1, 2026 with an interest range of 2% to 2.375% to defease bonds outstanding to reduce future debt requirements.

J. Construction Commitments

The District has active construction projects as of September 30, 2012. The projects include the construction of the airport water well. At year-end, the City's commitments with contractors are as follows:

Project	
Airport Water Well	\$ 493,000
<i>Total</i>	<u>\$ 493,000</u>

K. Emergency Management Services Contract (EMS) Commitment

The City signed a 3-year contract with Acute Medical Services LLC d/b/a: Harris County EMS to provide 911 services for the City of Cleveland. They leased the City's equipment and building for that term. The City can either extend the contract with Acute Medical Services or take back the 911 service.

L. Economic Development Agreement

The Cleveland Economic Development Corporation (EDC) entered into an agreement with Union Tank Car Company (UTC) for the purposes of promoting local economic development by creating, expanding, and retaining UTC's full time primary jobs. This agreement will remain effective until September 15, 2014, unless terminated sooner. EDC shall make an economic development grant, payable solely from the economic development sales tax levied by the City for the benefit of the EDC, to UTC in the amount of \$1,200 on December 1 of each year during the term of this Agreement for each Full Time Employee hired in excess of 148 Full Time Employees; provided, however that EDC shall have no obligation to make any economic development grant to UTC for any Full Time Employee in excess of 173 Full Time Employees. EDC shall make an economic development grant to UTC in the amount of \$200 on December 1 of each year during the term of this Agreement for each Full Time Employee up to 148 Full Time Employees.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

M. 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 2011	Plan Year 2012
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 \$283,110 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)
2012	283,110	283,110	100%	-
2011	292,035	292,035	100%	-
2010	305,660	305,660	100%	-

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 years; closed period	27.2 years; closed period	26.1 years; closed period
Amortized Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress:

The funded status as of December 31, 2011, 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)
12/31/2011	6,570,103	8,173,202	80.4%	1,603,099	3,050,049	52.6%

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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Texas Municipal Retirement System

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	3,714,745	5,623,373	66.1%	1,908,628	3,086,771	61.8%
12/31/2010	6,066,467	7,735,708	78.4%	1,669,241	3,071,804	54.3%
12/31/2011	6,570,103	8,173,202	80.4%	1,603,099	3,050,049	52.6%

N. 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 2011	Plan Year 2012
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$7,100, \$6,821, and \$8,153, 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
2013	0.09%	0.09%	100.0%
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%

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)
12/31/2009	3,714,745	5,623,373	66.1%	1,908,628	3,086,771	61.8%
12/31/2010	6,066,467	7,735,708	78.4%	1,669,241	3,071,804	54.3%
12/31/2011	6,570,103	8,173,202	80.4%	1,603,099	3,050,049	52.6%

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

CITY OF CLEVELAND, TEXAS
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

EXHIBIT B-1

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 270,903	\$ 417,554	\$ 688,457
Receivable:			
<i>Accounts</i>	8,332	-	8,332
<i>Other</i>	-	165	165
Total Assets	<u>\$ 279,235</u>	<u>\$ 417,719</u>	<u>\$ 696,954</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
<i>Accounts Payable</i>	\$ 11,129	\$ 220,557	\$ 231,686
<i>Accrued Liabilities</i>	2,211	1,843	4,054
<i>Due To Other Funds</i>	202	1	203
Total Liabilities	<u>13,542</u>	<u>222,401</u>	<u>235,943</u>
 FUND BALANCES:			
<i>Restricted for Economic Development</i>	265,693	-	265,693
<i>Restricted for Police</i>	-	195,318	195,318
Total Fund Balance	<u>265,693</u>	<u>195,318</u>	<u>461,011</u>
 Total Liabilities and Fund Balance	<u>\$ 279,235</u>	<u>\$ 417,719</u>	<u>\$ 696,954</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, 2012**

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
REVENUE:			
<i>Sales and Other Taxes</i>	\$ 132,776	\$ -	\$ 132,776
<i>Fines and Forfeitures</i>	-	607,482	607,482
<i>Earnings on Investments</i>	2,208	2,496	4,704
<i>Miscellaneous</i>	-	4,310	4,310
Total Revenues	<u>134,984</u>	<u>614,288</u>	<u>749,272</u>
EXPENDITURES:			
<i>Economic Development</i>	147,739	-	147,739
<i>Police</i>	-	421,300	421,300
<i>Capital Outlay</i>	-	256,179	256,179
<i>Debt Service:</i>			
<i>Principal Retirement</i>	-	56,400	56,400
<i>Interest and Fiscal Charges</i>	-	1,241	1,241
Total Expenditures	<u>147,739</u>	<u>735,120</u>	<u>882,859</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(12,755)</u>	<u>(120,832)</u>	<u>(133,587)</u>
Other Financing Sources (Uses):			
<i>Proceeds from Loans</i>	-	164,413	164,413
Total Other Financing Sources (Uses)	<u>-</u>	<u>164,413</u>	<u>164,413</u>
Net Change in Fund Balances	<u>(12,755)</u>	<u>43,581</u>	<u>30,826</u>
Fund Balances, Beginning of Year	<u>278,448</u>	<u>151,737</u>	<u>430,185</u>
Fund Balances, End of Year	<u>\$ 265,693</u>	<u>\$ 195,318</u>	<u>\$ 461,011</u>

CITY OF CLEVELAND, TEXAS
STATEMENT OF NET ASSETS - COMPONENT UNIT
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2012

EXHIBIT B-3

	Component Unit <u>Cleveland EDC</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 764,124
<i>Investments</i>	1,797
<i>Due From Primary Government</i>	34,956
Capital Assets:	
<i>Land</i>	1,228,132
<i>Construction in Progress</i>	<u>338,749</u>
Total Assets	\$ <u><u>2,367,758</u></u>
LIABILITIES:	
<i>Accounts Payable</i>	\$ <u>3,247</u>
Total Current Liabilities	<u>3,247</u>
Noncurrent Liabilities:	
<i>Note Payable - Current</i>	37,472
<i>Note Payable - Long-term</i>	<u>278,383</u>
Total Noncurrent Liabilities	<u>315,855</u>
Total Liabilities	<u>319,102</u>
NET ASSETS:	
<i>Investment in Capital Assets, Net of Related Debt</i>	1,251,026
<i>Unrestricted</i>	<u>797,630</u>
Total Net Assets	<u>2,048,656</u>
Total Liabilities and Net Assets	\$ <u><u>2,367,758</u></u>

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, 2012**

	Component Unit Cleveland EDC
OPERATING REVENUES:	
<i>Taxes:</i>	
<i>Sales Tax</i>	\$ 443,070
Total Revenues	<u>443,070</u>
OPERATING EXPENSES:	
<i>Economic Development</i>	176,132
Total Expenses	<u>176,132</u>
Operating Income	<u>266,938</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Earnings on Investments</i>	4,467
<i>Interest and Fees on Debt</i>	<u>(17,143)</u>
Total Non-Operating Revenues (Expenses)	<u>(12,676)</u>
Change in Net Assets	254,262
Net Assets - Beginning	1,794,394
Net Assets - Ending	\$ <u><u>2,048,656</u></u>

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STATISTICAL SECTION

CITY OF CLEVELAND, TEXAS
SUMMARY OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE C-1

<u>Tax Year</u>	<u>Balance 9/30/2011</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2012</u>
2011	\$ -	\$ 2,259,763	\$ 2,064,705	\$ (14,492)	\$ 180,566
2010	217,290	-	48,281	(25,506)	143,503
2009	157,387	-	46,785	(3,477)	107,125
2008	81,739	-	13,925	(4,004)	63,810
2007	64,837	-	11,494	(1,110)	52,233
2006	44,934	-	7,957	(38)	36,939
2005	31,909	-	4,844	(36)	27,029
2004	22,425	-	2,822	(70)	19,533
2003	19,111	-	1,710	(151)	17,250
2002 & Prior	56,140	-	4,765	(649)	50,726
Total	\$ 695,772	\$ 2,259,763	\$ 2,207,288	\$ (49,533)	\$ 698,714
Less Allowance for Uncollectible Accounts					55,897
					\$ 642,817

ASSESSED VALUATION SUMMARY

<u>Tax Year</u>	<u>Property Valuations</u>	<u>Tax Rate Per \$100 Valuation</u>		
		<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
2011	\$ 329,892,409	\$ 0.4720	\$ 0.2130	\$ 0.6850
2010	320,261,606	0.4803	0.2047	0.6850
2009	319,014,307	0.5066	0.1784	0.6850
2008	296,310,878	0.4377	0.2523	0.6900
2007	278,449,571	0.4565	0.2435	0.7000
2006	251,406,314	0.4441	0.2908	0.7349

CITY OF CLEVELAND, TEXAS
INSURANCE COVERAGE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE C-2

<u>Type of Coverage</u>	<u>From</u>	<u>To</u>	<u>Coverage</u>	<u>Insurer</u>
General Liability	10/01/11	10/01/12	\$2,000,000/occurrence	Texas Municipal League
Automobile Liability	10/01/11	10/01/12	\$1,000,000/occurrence	Texas Municipal League
Law Enforcement Liability	10/01/11	10/01/12	\$1,000,000/occurrence	Texas Municipal League
Errors and Omissions Liability	10/01/11	10/01/12	\$2,000,000/occurrence	Texas Municipal League
Boiler and Machinery	10/01/11	10/01/12	\$ 100,000/occurrence	Texas Municipal League
Mobile Equipment	10/01/11	10/01/12	\$ 610,745	Texas Municipal League
Workers' Compensation	10/01/11	10/01/12	-	Texas Municipal League
Real and Personal Property	10/01/11	10/01/12	\$ 46,761,145	Texas Municipal League
Public Employee Dishonesty	10/01/11	10/01/12	\$ 250,000	Texas Municipal League
Forgery or Alteration	10/01/11	10/01/12	\$ 250,000	Texas Municipal League
Computer Fraud	10/01/11	10/01/12	\$ 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 AND INTERNAL CONTROL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

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

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

The Honorable Mayor and Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas (City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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 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
February 8, 2013**

CITY OF CLEVELAND, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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
SECTION II – FINANCIAL STATEMENT FINDINGS	
1. FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING	
None	
2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS	
None	

CITY OF CLEVELAND, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

PRIOR YEAR FINDINGS

None reported

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CITY OF CLEVELAND, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

CURRENT YEAR FINDINGS

None reported