

# **CITY OF CLEVELAND, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**



**CITY OF CLEVELAND, TEXAS**  
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## INTRODUCTORY SECTION

**CITY OF CLEVELAND, TEXAS**  
*PRINCIPAL CITY OFFICIALS*  
*SEPTEMBER 30, 2013*

Niki Coats..... Mayor  
Mike Penry ..... Council Member Position 1  
Otis Cohn ..... 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

Certified Public Accountants • A Professional Corporation

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Cleveland, Texas 77327  
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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor  
and Members of City Council and Management of the  
City of Cleveland, Texas  
907 E. Houston  
Cleveland, Texas 77327

### Report on the Financial Statements

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 City of Cleveland, Texas (City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessments of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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 City of Cleveland, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note I. F. *Accounting Changes* in the notes to the financial statements, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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 Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland, Texas' basic financial statements. The introductory section, combining and discretely presented component unit financial statements, 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, and other supplementary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and discretely presented component unit financial statements, and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014, on our consideration of the City of Cleveland, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cleveland, Texas' internal control over financial reporting and compliance.

Respectfully,

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

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

**Conroe, Texas  
February 11, 2014**

## Management's Discussion and Analysis

As management of the City of Cleveland, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

### Financial Highlights

- The assets and deferred outflow of resources of the City exceeded its liabilities at the close of the fiscal year by \$18,603,209 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$14,076,445 that is net investment in capital assets.
- During the year, the City's revenues of \$11,243,139 exceeded expenses of \$9,129,595 by \$2,113,544.
- The General Fund reported a fund balance this year of 1,506,409, of which \$1,478,340 was unassigned and approximated 28% of General Fund expenditures. Total fund balance increased \$596,789 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$160,024 which was restricted for debt service fund expenditures. Total fund balance increased \$55,319 from prior year.
- The Utility Fund reported an operating income of \$870,999, and an increase in net position of \$2,933,418.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,711,951, of which \$762,202 was unrestricted. Total net position decreased \$336,705 from prior year.

### Overview of the Basic Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, transportation, culture and recreation, grants, economic development, and debt service. The business-type activities of the City include water and sewer services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from financial information presented for the primary government itself.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary Funds.** *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer services. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer services which is considered to be a major fund of the City.

**Notes to the Basic Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

## Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$18,603,209, at the close of the most recent fiscal year.

**Table A-1**  
**CITY OF CLEVELAND, TEXAS NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 3,554,164	\$ 6,269,344	\$ 6,454,840	\$ 4,178,540	\$ 10,009,004	\$ 10,447,884
Capital Assets	17,505,246	15,031,932	9,018,473	8,051,722	26,523,719	23,083,654
<b>Total Assets</b>	<b>21,059,410</b>	<b>21,301,276</b>	<b>15,473,313</b>	<b>12,230,262</b>	<b>36,532,723</b>	<b>33,531,538</b>
<b>Total Deferred Outflows of Resources</b>	<b>129,779</b>	-	-	-	<b>129,779</b>	-
Long-term Liabilities Outstanding	11,919,314	10,973,245	5,204,078	4,760,000	17,123,392	15,733,245
Other Liabilities	668,321	775,912	267,580	295,481	935,901	1,071,393
<b>Total Liabilities</b>	<b>12,587,635</b>	<b>11,749,157</b>	<b>5,471,658</b>	<b>5,055,481</b>	<b>18,059,293</b>	<b>16,804,638</b>
<b>Net Position:</b>						
Net Investments in Capital Assets	5,596,033	7,473,754	8,480,412	5,729,830	14,076,445	13,203,584
Restricted	360,818	258,725	429,909	423,569	790,727	682,294
Unrestricted	2,644,703	1,819,640	1,091,334	1,021,382	3,736,037	2,841,022
<b>Total Net Position</b>	<b>\$ 8,601,554</b>	<b>\$ 9,552,119</b>	<b>\$ 10,001,655</b>	<b>\$ 7,174,781</b>	<b>\$ 18,603,209</b>	<b>\$ 16,726,900</b>

The City's total assets of \$36,532,723 are largely comprised of capital assets, net of accumulated depreciation of \$26,523,719, or 73%. 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 \$17,123,392 comprise the largest portion of the City's total liabilities of \$18,059,293 at 95%. Of total long-term liabilities, \$1,384,177 is due within one year, with the remainder \$15,739,215 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 76% of total net position or \$14,076,445 represents investments in capital assets, net of related debt and approximately 4% of total net position or \$790,727 represents restriction for debt service. The \$3,736,037 (20%) of unrestricted net position represents resources available to fund the programs of the City next year.

**Changes in Net Position.** Governmental and business-type activities combined to increase the City's net position by \$2,113,544 from current operations and decreased \$237,235 from the implementation of a new accounting standard as described in the Notes to the Financial Statements. The elements giving rise to this change may be determined from the table below.

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 1,166,348	\$ 1,302,044	\$ 3,114,693	\$ 3,057,831	\$ 4,281,041	\$ 4,359,875
Operating Grants and Contributions	335,583	89,085	-	-	335,583	89,085
Capital Grants and Contributions	636,284	37,166	151,283	-	787,567	37,166
General Revenues:						
Property Taxes	2,618,204	2,304,674	-	-	2,618,204	2,304,674
Sales and Other Taxes	2,537,158	2,405,630	-	-	2,537,158	2,405,630
Franchise Taxes	489,104	502,327	-	-	489,104	502,327
Earnings on Investments	39,452	38,950	54,129	33,547	93,581	72,497
Gain on Sale of Assets	10,000	1,800	-	-	10,000	1,800
Proceeds from Insurance	39,371	759	500	17,002	39,871	17,761
Miscellaneous	51,030	47,522	-	-	51,030	47,522
<b>Total Revenues</b>	<b>7,922,534</b>	<b>6,729,957</b>	<b>3,320,605</b>	<b>3,108,380</b>	<b>11,243,139</b>	<b>9,838,337</b>
<b>Expenses:</b>						
General Government	780,377	832,552	-	-	780,377	832,552
Public Safety	3,357,473	3,797,176	-	-	3,357,473	3,797,176
Public Works	259,242	292,486	-	-	259,242	292,486
Transportation	687,793	634,128	-	-	687,793	634,128
Culture and Recreation	1,023,999	959,573	-	-	1,023,999	959,573
Grants	91,750	-	-	-	91,750	-
Economic Development	94,043	147,739	-	-	94,043	147,739
Debt Service	348,691	373,910	-	-	348,691	373,910
Water and Sewer	-	-	2,486,227	2,357,343	2,486,227	2,357,343
<b>Total Expenses</b>	<b>6,643,368</b>	<b>7,037,564</b>	<b>2,486,227</b>	<b>2,357,343</b>	<b>9,129,595</b>	<b>9,394,907</b>
Excess (Deficiency) Before Transfers	1,279,166	(307,607)	834,378	751,037	2,113,544	443,430
Transfers In (Out)	(2,099,040)	(9,202)	2,099,040	9,202	-	-
Change in Net Position	(819,874)	(316,809)	2,933,418	760,239	2,113,544	443,430
Net Position - Beginning	9,552,119	9,868,928	7,174,781	6,414,542	16,726,900	16,283,470
Prior Period Adjustment Implementing GASB 65 for Bond Issuance Costs	(130,691)	-	(106,544)	-	(237,235)	-
Net Position - Beginning, as restated	9,421,428	9,868,928	7,068,237	6,414,542	16,489,665	16,283,470
<b>Net Position - Ending</b>	<b>\$ 8,601,554</b>	<b>\$ 9,552,119</b>	<b>\$ 10,001,655</b>	<b>\$ 7,174,781</b>	<b>\$ 18,603,209</b>	<b>\$ 16,726,900</b>

**Governmental Activities.** Governmental activities decreased the City's net position by \$819,874. The City's total revenues were \$7,922,534 from all governmental activities. A significant portion, \$2,618,204 or 33%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$2,537,158, or 32%, of total revenue for governmental activities. Capital grants and contributions increased due to capital contributions received from the economic development corporation and from the state.

The total cost of all governmental programs and services was \$6,643,368. The public safety function accounted for \$3,357,473, or 51% of this total. Public safety expenditures decreased due to several positions remained vacant for much of the year, decreasing total salaries.

**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 position by \$2,933,418. 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 \$3,114,693 are utilized to provide funds for program expenses of \$2,486,227.

The increase in net position for business-type activities is due to capital contributions from governmental funds and the economic development corporation and contributions from debt defeasance from governmental funds.

### **Financial Analysis of the City's Funds**

As mentioned earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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 \$2,251,958, which is a decrease of \$2,507,754 from last year's total of \$4,759,712.

The general fund is the City's operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,478,340 and total fund balance was \$1,506,409. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents 28 percent and 29 percent of total general fund expenditures, respectively. The fund balance of the City's general fund increased by \$596,789 during the current fiscal year. For the most part, decreases in police staff and salaries were the primary reason for increase in fund balance.

The debt service fund ending fund balance was \$160,024, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$55,319 during the year, primarily due to tax collections and contributions exceeding debt requirements. The tax rate was set prior to the issuance of new debt.

The capital projects ending fund balance was \$10,101. The net decrease in fund balance during the current year in the capital projects fund was \$3,274,275. The decrease was due to an increase in expenditures on many capital projects.

**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 position of the Water and Sewer Funds at the end of the current fiscal year amounted to \$1,091,334. The total increase in net position for the Water and Sewer Funds was \$2,933,418. 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 \$478,028. 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 2013, the City had invested \$26,523,719 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,068,148	\$ 2,068,148	\$ 178,621	\$ 178,621	\$ 2,246,769	\$ 2,246,769
Buildings and Improvements	17,317,154	14,038,772	47,997	47,997	17,365,151	14,086,769
Furniture & Equipment	3,995,703	4,122,800	716,703	670,253	4,712,406	4,793,053
Water System	-	-	5,951,449	4,375,434	5,951,449	4,375,434
Sewer System	-	-	15,241,198	15,127,980	15,241,198	15,127,980
Construction in Progress	-	312,263	366,629	664,812	366,629	977,075
<b>Totals</b>	<b>23,381,005</b>	<b>20,541,983</b>	<b>22,502,597</b>	<b>21,065,097</b>	<b>45,883,602</b>	<b>41,607,080</b>
Total Accumulated Depreciation	(5,875,759)	(5,510,051)	(13,484,124)	(13,013,375)	(19,359,883)	(18,523,426)
<b>Net Capital Assets</b>	<b>\$ 17,505,246</b>	<b>\$ 15,031,932</b>	<b>\$ 9,018,473</b>	<b>\$ 8,051,722</b>	<b>\$ 26,523,719</b>	<b>\$ 23,083,654</b>

Major capital asset purchases during the year included the following:

- Governmental Activities Sports Facility \$2,365,891
- Governmental Activities Airport Improvements \$598,528
- Business-type Activities Water System \$1,391,050

**Construction Commitments.** At the end of the current fiscal year, the City's commitments with construction contractors totaled \$399,897.

**Long Term Debt.** At year-end, the City had \$17,123,392 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	
	2013	2012	2013	2012	2013	2012
Certificates of Obligation (net)	\$ 11,812,932	\$ 10,771,654	\$ -	\$ -	\$ 11,812,932	\$ 10,771,654
Revenue Bonds (net)	-	-	5,204,078	4,760,000	5,204,078	4,760,000
Note Payable	106,382	201,591	-	-	106,382	201,591
<b>Total Long-term Debt</b>	<b>\$ 11,919,314</b>	<b>\$ 10,973,245</b>	<b>\$ 5,204,078</b>	<b>\$ 4,760,000</b>	<b>\$ 17,123,392</b>	<b>\$ 15,733,245</b>

## Economic Factors and Next Year's Budget

- Total tax rate \$0.78 per \$100 valuation in fiscal year 2014 (\$0.5023 for maintenance and operations and \$0.2777 for interest and sinking).
- The unemployment rate for the County is currently 8.1 percent, which is a decrease from a rate of 8.2 percent a year ago. This compares favorably to the state's average unemployment rate of 6.3 percent, which is a decrease from a rate of 6.4 percent a year ago.
- These indicators were taken into account when adopting the general fund budget for 2014. Amounts available for appropriation in the general fund budget are \$1,478,340 at September 30, 2013. The City projects to transfer \$420,800 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 \$64,485.

**Requests for Information**

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, 907 Houston, Cleveland, Texas 77327.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CLEVELAND, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2013**

EXHIBIT A-1

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
<b>ASSETS:</b>				
<i>Cash and Cash Equivalents</i>	\$ 2,627,179	\$ 942,834	\$ 3,570,013	\$ 745,419
<i>Investments</i>	375	433	808	1,798
Receivables (Net of Allowances for Uncollectibles, Where Applicable):				
<i>Property Taxes</i>	661,760	-	661,760	-
<i>Accounts</i>	11,772	464,307	476,079	-
<i>Due from Other Governments</i>	194,479	-	194,479	36,693
<i>Other</i>	2,597	-	2,597	-
<i>Internal Balances</i>	48,660	(48,660)	-	-
<i>Due from Component Unit</i>	7	-	7	-
<i>Prepaid Items</i>	7,335	-	7,335	-
Restricted Assets:				
<i>Cash - Debt Service</i>	-	429,909	429,909	-
<i>Cash - Construction</i>	-	4,666,017	4,666,017	-
Capital Assets:				
<i>Land</i>	2,068,148	178,621	2,246,769	1,228,132
<i>Buildings and Improvements</i>	17,317,154	47,997	17,365,151	-
<i>Furniture and Equipment</i>	3,995,703	716,703	4,712,406	-
<i>Water System</i>	-	5,951,449	5,951,449	-
<i>Sewer System</i>	-	15,241,198	15,241,198	-
<i>Construction in Progress</i>	-	366,629	366,629	-
<i>Accumulated Depreciation</i>	(5,875,759)	(13,484,124)	(19,359,883)	-
<b>Total Assets</b>	<b>21,059,410</b>	<b>15,473,313</b>	<b>36,532,723</b>	<b>2,012,042</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
<i>Deferred Charge on Refunding</i>	129,779	-	129,779	-
<b>Total Deferred Outflows of Resources</b>	<b>129,779</b>	<b>-</b>	<b>129,779</b>	<b>-</b>
<b>LIABILITIES:</b>				
<i>Accounts Payable</i>	627,801	70,418	698,219	21,701
<i>Accrued Liabilities</i>	-	-	-	-
<i>Refundable Deposits</i>	12,645	185,242	197,887	-
<i>Accrued Interest</i>	27,875	11,920	39,795	-
<i>Due to Component Unit</i>	-	-	-	7
Noncurrent Liabilities:				
Notes Payable - Current	84,177	-	84,177	39,428
Notes Payable - Long-term	22,205	-	22,205	238,955
Certificates of Obligation and Bonds Payable - Current	1,080,000	220,000	1,300,000	-
Certificates of Obligation and Bonds Payable - Long-term	10,732,932	4,984,078	15,717,010	-
<b>Total Liabilities</b>	<b>12,587,635</b>	<b>5,471,658</b>	<b>18,059,293</b>	<b>300,091</b>
<b>NET POSITION:</b>				
<i>Net Investment in Capital Assets</i>	5,596,033	8,480,412	14,076,445	949,749
Restricted for:				
<i>Debt Services</i>	360,818	429,909	790,727	-
<i>Unrestricted</i>	2,644,703	1,091,334	3,736,037	762,202
<b>Total Net Position</b>	<b>\$ 8,601,554</b>	<b>\$ 10,001,655</b>	<b>\$ 18,603,209</b>	<b>\$ 1,711,951</b>

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, 2013**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General Government:				
City Council	\$ 21,419	\$ -	\$ -	\$ -
City Administration	758,958	-	-	-
Public Safety:				
Municipal Court	122,392	4,836	-	-
Police Department	2,292,194	796,139	35,500	22,462
Technology	253,168	-	-	-
Animal Control	74,041	1,373	-	-
Fire and Ambulance	615,678	42,281	-	-
Public Works:				
Development Services	247,280	80,099	-	-
Garage Department	11,962	-	-	-
Transportation:				
Street Department	611,188	-	-	-
Airport Department	76,605	83,883	-	178,801
Culture and Recreation:				
Library	316,868	19,217	1,537	-
Cemetery and Parks	410,392	46,877	-	-
Civic/Community	296,739	91,643	93,171	302,327
Grants	91,750	-	-	132,694
Economic Development	94,043	-	-	-
Debt Service:				
Interest and Fiscal Charges	348,691	-	205,375	-
Total Governmental Activities	<u>6,643,368</u>	<u>1,166,348</u>	<u>335,583</u>	<u>636,284</u>
Business-type Activities:				
Water and Sewer	<u>2,486,227</u>	<u>3,114,693</u>	<u>-</u>	<u>151,283</u>
Total Business-Type Activities	<u>2,486,227</u>	<u>3,114,693</u>	<u>-</u>	<u>151,283</u>
<b>Total Primary Government</b>	<b>\$ <u>9,129,595</u></b>	<b>\$ <u>4,281,041</u></b>	<b>\$ <u>335,583</u></b>	<b>\$ <u>787,567</u></b>
<b>COMPONENT UNIT:</b>				
Cleveland Economic Development Corp.	<u>\$ 805,266</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 Position - Beginning  
Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs  
Net Position - Beginning, as restated  
**Net Position - Ending**

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

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (21,419)	\$ -	\$ (21,419)	\$ -
(758,958)	-	(758,958)	-
(117,556)	-	(117,556)	-
(1,438,093)	-	(1,438,093)	-
(253,168)	-	(253,168)	-
(72,668)	-	(72,668)	-
(573,397)	-	(573,397)	-
(167,181)	-	(167,181)	-
(11,962)	-	(11,962)	-
(611,188)	-	(611,188)	-
186,079	-	186,079	-
(296,114)	-	(296,114)	-
(363,515)	-	(363,515)	-
190,402	-	190,402	-
40,944	-	40,944	-
(94,043)	-	(94,043)	-
(143,316)	-	(143,316)	-
<u>(4,505,153)</u>	<u>-</u>	<u>(4,505,153)</u>	<u>-</u>
-	779,749	779,749	-
-	<u>779,749</u>	<u>779,749</u>	-
<b>(4,505,153)</b>	<b>779,749</b>	<b>(3,725,404)</b>	
			<u>(805,266)</u>
2,618,204	-	2,618,204	-
2,537,158	-	2,537,158	458,391
489,104	-	489,104	-
39,452	54,129	93,581	10,170
10,000	-	10,000	-
39,371	500	39,871	-
51,030	-	51,030	-
(2,099,040)	2,099,040	-	-
<u>3,685,279</u>	<u>2,153,669</u>	<u>5,838,948</u>	<u>468,561</u>
<u>(819,874)</u>	<u>2,933,418</u>	<u>2,113,544</u>	<u>(336,705)</u>
9,552,119	7,174,781	16,726,900	2,048,656
(130,691)	(106,544)	(237,235)	-
<u>9,421,428</u>	<u>7,068,237</u>	<u>16,489,665</u>	<u>2,048,656</u>
<b>\$ <u>8,601,554</u></b>	<b>\$ <u>10,001,655</u></b>	<b>\$ <u>18,603,209</u></b>	<b>\$ <u>1,711,951</u></b>

**CITY OF CLEVELAND, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS:</b>		
<i>Cash and Cash Equivalents</i>	\$ 1,431,186	\$ 156,610
<i>Investments</i>	375	-
Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable):		
<i>Property Taxes</i>	436,832	224,928
<i>Accounts</i>	-	-
<i>Due from Other Governments</i>	194,479	-
<i>Other</i>	2,432	-
<i>Due from Other Funds</i>	11,894	3,414
<i>Due from Component Unit</i>	7	-
<i>Prepaid Items</i>	5,400	-
<b>Total Assets</b>	<b>\$ <u>2,082,605</u></b>	<b>\$ <u>384,952</u></b>
<b>LIABILITIES :</b>		
<i>Accounts Payable</i>	\$ 126,719	\$ -
<i>Refundable Deposits</i>	12,645	-
<b>Total Liabilities</b>	<b><u>139,364</u></b>	<b><u>-</u></b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
<i>Unavailable Revenue-Property Taxes</i>	<u>436,832</u>	<u>224,928</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>436,832</u></b>	<b><u>224,928</u></b>
<b>FUND BALANCES:</b>		
<i>Nonspendable - Prepaid Items</i>	5,400	-
<i>Restricted for Debt</i>	-	160,024
<i>Restricted for Construction</i>	-	-
<i>Restricted for Economic Development</i>	-	-
<i>Restricted for Police</i>	-	-
<i>Committed for Economic Development</i>	22,669	-
<i>Unassigned Fund Balances</i>	<u>1,478,340</u>	<u>-</u>
<b>Total Fund Balance</b>	<b><u>1,506,409</u></b>	<b><u>160,024</u></b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>2,082,605</u></b>	<b>\$ <u>384,952</u></b>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 183,114	\$ 856,269	\$ 2,627,179
-	-	375
-	-	661,760
-	11,772	11,772
-	-	194,479
-	165	2,597
-	33,352	48,660
-	-	7
-	1,935	7,335
<u>\$ 183,114</u>	<u>\$ 903,493</u>	<u>\$ 3,554,164</u>
\$ 173,013	\$ 328,069	\$ 627,801
-	-	12,645
<u>173,013</u>	<u>328,069</u>	<u>640,446</u>
-	-	661,760
<u>-</u>	<u>-</u>	<u>661,760</u>
-	1,935	7,335
-	-	160,024
10,101	-	10,101
-	325,770	325,770
-	247,719	247,719
-	-	22,669
-	-	1,478,340
<u>10,101</u>	<u>575,424</u>	<u>2,251,958</u>
<u>\$ 183,114</u>	<u>\$ 903,493</u>	<u>\$ 3,554,164</u>

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**CITY OF CLEVELAND, TEXAS**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2013*

**EXHIBIT A-4**

**Total Fund Balance - Governmental Funds (Exhibit A-3)** \$ 2,251,958

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets Costs	\$ 23,381,005	
Accumulated Depreciation of Governmental Capital Assets	<u>(5,875,759)</u>	17,505,246

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	661,760
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Bonds Payable, at Original Par	\$ (11,350,000)	
Premium on Bonds Payable	(462,932)	
Notes Payable	(106,382)	
Accrued Interest on the Bonds and Notes	<u>(27,875)</u>	(11,947,189)

Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures.	<u>129,779</u>
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**Total Net Position - Governmental Activities (Exhibit A-1)** \$ 8,601,554

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, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUE:</b>		
Taxes:		
<i>Property Taxes</i>	\$ 1,636,017	\$ 963,244
<i>Sales and Other Taxes</i>	2,383,245	-
<i>Franchise Taxes</i>	489,104	-
<i>License and Permits</i>	80,099	-
<i>Charges for Services</i>	283,151	-
<i>Fines and Forfeitures</i>	267,574	-
<i>Intergovernmental</i>	160,381	-
<i>Earnings on Investments</i>	16,331	8,229
<i>Contributions</i>	750	205,375
<i>Miscellaneous</i>	51,030	-
Total Revenues	<u>5,367,682</u>	<u>1,176,848</u>
<b>EXPENDITURES:</b>		
<i>City Council</i>	20,750	-
<i>Administration</i>	708,666	-
<i>Civic/Community</i>	226,626	-
<i>Court</i>	122,392	-
<i>Technology</i>	252,910	-
<i>Police</i>	1,694,429	-
<i>Animal Control</i>	64,411	-
<i>Development Services</i>	247,280	-
<i>Street Department</i>	492,613	-
<i>Airport Department</i>	37,220	-
<i>Garage Department</i>	10,611	-
<i>Library Department</i>	274,439	-
<i>Cemetery and Parks</i>	343,689	-
<i>Grants</i>	91,750	-
<i>Fire and Ambulance</i>	516,391	-
<i>Economic Development</i>	-	-
Capital Outlay:		
<i>Civic/Community</i>	36,432	-
<i>Technology</i>	7,745	-
<i>Police</i>	-	-
<i>Animal Control</i>	-	-
<i>Airport Department</i>	-	-
<i>Cemetery and Parks</i>	6,500	-
<i>Fire and Ambulance</i>	5,000	-
<i>Utility Fund Industrial Park</i>	-	-
Debt Service:		
<i>Principal Retirement</i>	42,379	740,000
<i>Interest and Fiscal Charges</i>	4,394	230,567
<i>Bond Issuance Costs</i>	-	136,503
Total Expenditures	<u>5,206,627</u>	<u>1,107,070</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>161,055</u>	<u>69,778</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
<i>Proceeds from Sale of Assets</i>	10,000	-
<i>Proceeds from Insurance</i>	10,884	-
<i>Refunding Bonds Issued</i>	-	7,860,000
<i>Premium on Bonds Issued</i>	-	301,219
<i>Payment to Refunded Bond Escrow Agent</i>	-	(8,339,049)
<i>Capital Contributions from EDC</i>	-	-
<i>Transfers In (Out)</i>	414,850	163,371
Total Other Financing Sources (Uses)	<u>435,734</u>	<u>(14,459)</u>
Net Change in Fund Balances	596,789	55,319
Fund Balance - Beginning	909,620	104,705
<b>Fund Balance - Ending</b>	<u>\$ 1,506,409</u>	<u>\$ 160,024</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
\$ -	\$ -	\$ 2,599,261
-	153,913	2,537,158
-	-	489,104
-	-	80,099
-	-	283,151
-	534,774	802,348
303,784	-	464,165
10,353	4,539	39,452
-	-	206,125
-	-	51,030
<u>314,137</u>	<u>693,226</u>	<u>7,551,893</u>
-	-	20,750
-	-	708,666
-	-	226,626
-	-	122,392
-	-	252,910
-	445,736	2,140,165
3,629	-	68,040
-	-	247,280
-	-	492,613
11,740	-	48,960
-	-	10,611
-	-	274,439
39,644	-	383,333
-	-	91,750
-	-	516,391
-	94,043	94,043
-	-	36,432
-	-	7,745
-	17,930	17,930
8,596	-	8,596
598,528	-	598,528
2,388,291	-	2,394,791
-	-	5,000
840,311	-	840,311
-	52,830	835,209
-	4,811	239,772
-	-	136,503
<u>3,890,739</u>	<u>615,350</u>	<u>10,819,786</u>
<u>(3,576,602)</u>	<u>77,876</u>	<u>(3,267,893)</u>
-	-	10,000
-	28,487	39,371
-	-	7,860,000
-	-	301,219
-	-	(8,339,049)
302,327	-	302,327
-	8,050	586,271
<u>302,327</u>	<u>36,537</u>	<u>760,139</u>
(3,274,275)	114,413	(2,507,754)
3,284,376	461,011	4,759,712
<u>\$ 10,101</u>	<u>\$ 575,424</u>	<u>\$ 2,251,958</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, 2013*

**Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ (2,507,754)**

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. 18,943

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	\$ 3,069,022	
Depreciation Expense	<u>(595,708)</u>	2,473,314

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par Value	\$ (7,860,000)	
(Premium) Discount	<u>(301,219)</u>	(8,161,219)

Repayment of bond principal of is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 740,000

Repayment of note principal of is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 95,209

Payment to escrow agent to refund bonds from refunding proceeds 8,339,049

Contributions to Proprietary Fund for Defeasance of Debt (1,845,000)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The increase (decrease) in interest expense reported in the statement of activities consist of the following:

Accrued Interest on Bonds Payable <i>decreased</i>	\$ 8,083	
Accrued Interest on Notes Payable <i>decreased</i>	3,830	
Amortization of Bond Premium	24,941	
Amortization of Deferred Charge on Refunding	<u>(9,270)</u>	<u>27,584</u>

**Change in Net Position of Governmental Activities (Exhibit A-2) \$ (819,874)**

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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
Taxes:				
Property Taxes	\$ 1,606,128	\$ 1,606,128	\$ 1,636,017	\$ 29,889
Sales and Other Taxes	2,215,300	2,228,546	2,383,245	154,699
Franchise Taxes	494,000	494,000	489,104	(4,896)
License and Permits	56,000	73,676	80,099	6,423
Charges for Services	249,700	268,700	283,151	14,451
License and Permits	56,000	73,676	267,574	193,898
Intergovernmental	-	152,683	160,381	7,698
Earnings on Investments	13,500	17,100	16,331	(769)
Contributions	750	750	750	-
Miscellaneous	38,250	38,250	51,030	12,780
Total Revenues	<u>4,729,628</u>	<u>4,953,509</u>	<u>5,367,682</u>	<u>414,173</u>
<b>EXPENDITURES:</b>				
City Council	31,700	31,700	20,750	10,950
Administration	752,389	756,689	708,666	48,023
Civic/Community	273,435	237,003	226,626	10,377
Court	107,877	120,377	122,392	(2,015)
Technology	282,677	318,692	252,910	65,782
Police	1,902,197	1,909,071	1,694,429	214,642
Animal Control	73,892	73,892	64,411	9,481
Development Services	234,335	269,796	247,280	22,516
Street Department	309,364	497,680	492,613	5,067
Airport Department	129,075	129,075	37,220	91,855
Garage Department	13,188	13,188	10,611	2,577
Library Department	294,434	295,971	274,439	21,532
Cemetery and Parks	315,586	347,399	343,689	3,710
Grants	-	120,347	91,750	28,597
Fire and Ambulance	560,492	582,112	516,391	65,721
Capital Outlay:				
Civic/Community	-	36,432	36,432	-
Technology	-	7,745	7,745	-
Cemetery and Parks	-	6,500	6,500	-
Fire and Ambulance	-	5,000	5,000	-
Debt Service:				
Principal Retirement	10,284	10,284	42,379	(32,095)
Interest and Fiscal Charges	3,529	3,529	4,394	(865)
Total Expenditures	<u>5,294,454</u>	<u>5,772,482</u>	<u>5,206,627</u>	<u>565,855</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(564,826)</u>	<u>(818,973)</u>	<u>161,055</u>	<u>980,028</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Assets	1,000	7,500	10,000	2,500
Proceeds from Insurance	-	15,707	10,884	(4,823)
Transfers In (Out)	417,050	417,050	414,850	(2,200)
Total Other Financing Sources (Uses)	<u>418,050</u>	<u>440,257</u>	<u>435,734</u>	<u>(4,523)</u>
Net Change in Fund Balances	(146,776)	(378,716)	596,789	975,505
Fund Balance - Beginning	909,620	909,620	909,620	-
Fund Balance - Ending	<u>\$ 762,844</u>	<u>\$ 530,904</u>	<u>\$ 1,506,409</u>	<u>\$ 975,505</u>

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

**CITY OF CLEVELAND, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**SEPTEMBER 30, 2013**

EXHIBIT A-8

	<u>Water and Sewer Fund</u>
<b>ASSETS:</b>	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 942,834
<i>Investments</i>	433
Receivables (Net of Allowances for Uncollectibles):	
<i>Accounts - Utilities</i>	464,307
Total Current Assets	<u>1,407,574</u>
Noncurrent Assets:	
Restricted Assets:	
<i>Cash - Debt Service</i>	429,909
<i>Cash - Construction</i>	4,666,017
Capital Assets:	
<i>Land</i>	178,621
<i>Buildings &amp; Improvements</i>	47,997
<i>Furniture &amp; Equipment</i>	716,703
<i>Watery System</i>	5,951,449
<i>Sewer System</i>	15,241,198
<i>Construction in Progress</i>	366,629
<i>Accumulated Deprecitaion</i>	<u>(13,484,124)</u>
Total Noncurrent Assets	14,114,399
<b>Total Assets</b>	<b>\$ <u>15,521,973</u></b>
<b>LIABILITIES:</b>	
Current Liabilities:	
<i>Accounts Payable</i>	\$ 70,418
<i>Refundable Deposits</i>	185,242
<i>Accrued Interest Payable</i>	11,920
<i>Due to Other Funds</i>	48,660
Total Current Liabilities	<u>316,240</u>
Noncurrent Liabilities:	
<i>Bonds and Certificates of Obligation Payble - Current</i>	220,000
<i>Bonds and Certificates of Obligation Payble - Long-term</i>	4,984,078
Total Noncurrent Liabilities	<u>5,204,078</u>
Total Liabilities	<u>5,520,318</u>
<b>NET POSITION:</b>	
<i>Net Investment in Capital Assets</i>	8,480,412
Restricted for:	
<i>Debt Services - Reserve (Expendable)</i>	429,909
<i>Unrestricted</i>	<u>1,091,334</u>
Total Net Position	<u>10,001,655</u>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>15,521,973</u></b>

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 POSITION - PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

EXHIBIT A-9

	Water and Sewer Fund
<b>OPERATING REVENUES:</b>	
<i>Charges for Services</i>	\$ 3,114,693
Total Operating Revenues	<u>3,114,693</u>
<b>OPERATING EXPENSES:</b>	
<i>Administration</i>	280,416
<i>Water Production</i>	592,514
<i>Sewer Department</i>	604,093
<i>Sanitation Services</i>	295,922
<i>Depreciation</i>	470,749
Total Operating Expenses	<u>2,243,694</u>
Operating Income	<u>870,999</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
<i>Intergovernmental</i>	15,000
<i>Proceeds from Insurance</i>	500
<i>Earnings on Investments</i>	54,129
<i>Interest and Fees on Debt</i>	<u>(242,533)</u>
Total Non-Operating Revenues (Expenses)	<u>(172,904)</u>
Income before Other Financing Sources (Uses)	698,095
<b>OTHER FINANCING SOURCES (USES):</b>	
<i>Capital Contributions from Governmental Funds</i>	840,311
<i>Capital Contributions from EDC</i>	136,283
<i>Contributions from Debt Defeasance</i>	1,845,000
<i>Transfers In (Out)</i>	<u>(586,271)</u>
Total Other Financing Sources (Uses)	<u>2,235,323</u>
Change in Net Position	2,933,418
Net Position - Beginning	7,174,781
Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs	<u>(106,544)</u>
Net Position - Beginning, as restated	<u>7,068,237</u>
<b>Net Position - Ending</b>	<b><u><u>\$ 10,001,655</u></u></b>

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, 2013**

EXHIBIT A-10

Water and  
Sewer Fund

**CASH FLOWS FROM OPERATING ACTIVITIES:**

<i>Cash Received for Services</i>	\$ 3,109,231
<i>Cash Payments to Suppliers for Goods and Services</i>	(1,659,032)
Net Cash Provided (Used) by Operating Activities	<u>1,450,199</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

<i>Transfers From (To) Other Funds</i>	(586,271)
<i>Total Net Position</i>	15,000
<i>Insurance Proceeds</i>	500
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(570,771)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

<i>Purchase of Capital Assets</i>	(1,437,500)
<i>Capital Contributions</i>	976,594
<i>Contributions from Governmental Funds</i>	1,845,000
<i>Issuance of Debt</i>	2,568,116
<i>Principal Paid on Capital Debt</i>	(2,124,038)
<i>Interest and Fees Paid on Capital Debt</i>	(252,425)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>1,575,747</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

<i>Earnings on Investments</i>	54,129
<i>Sale (Purchase) of Investments</i>	2,398
Net Cash Provided (Used) for Investing Activities	<u>56,527</u>

Net Increase (Decrease) in Cash and Cash Equivalents	2,511,702
Cash and Cash Equivalents at Beginning of Year	3,527,058
Cash and Cash Equivalents at End of Year	<u>\$ 6,038,760</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

<i>Operating Income</i>	\$ 870,999
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<i>Depreciation</i>	470,749
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Accounts and Other Receivables, net</i>	(9,911)
<i>Decrease (Increase) in Due From Other Funds</i>	90,241
<i>Increase (Decrease) in Accounts Payable</i>	784
<i>Increase (Decrease) in Accrued Liabilities</i>	(23,242)
<i>Increase (Decrease) in Refundable Deposits</i>	4,449
<i>Increase (Decrease) in Due to Other Funds</i>	46,130
Total Adjustments	<u>579,200</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,450,199</u>

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

**I. Summary of Significant Accounting Policies**

**A. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**B. Reporting Entity**

The City of Cleveland, Texas (the "City") is a municipal corporation governed by an elected mayor and five-member governing council (council). The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Discretely Presented Component Unit.** The City reports the Cleveland Economic Development Corporation (CEDC) 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.

**C. Basis of Presentation – Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary fund.

As discussed earlier, the City has a discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

**CITY OF CLEVELAND, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*SEPTEMBER 30, 2013*

The City reports the following major enterprise funds:

The *water and sewer 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.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sales taxes, franchise and similar taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the government.

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

**F. Accounting Changes**

*Governmental Activities Change in Accounting Principles* – As the result of implementing GASB Statement Nos. 63 and 65, the City has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of October 1, 2012 by \$130,691. The decrease results from no longer deferring and amortizing bond issuance costs.

*Business-type Activities* – The City has restated the beginning net position in the government-wide Statement of Net Position for business-type activities, effectively decreasing net position as of October 1, 2012 by \$106,544. The decrease results from no longer deferring and amortizing bond issuance costs.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. 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).

**2. Investments**

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net position value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**4. Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment, water system, and sewer system, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The building and improvements, furniture and equipment, water system, and sewer system of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	10-50
Furniture and Equipment	5-20
Water System	5-50
Sewer System	5-50

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue - property taxes*, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**6. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**7. Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**8. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. City council (council) is the highest level of decision-making authority for the City that can, by council action or adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by Council action or the ordinance remains in place until a similar action is taken (council action or the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Council has by policy authorized the Director of Finance to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In the general fund, the City shall maintain an unassigned fund balance equivalent to a minimum of 30 days operating expenditures of the current fiscal year expenditures less any transfers out budgeted for the fund.

**H. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. 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, 2013 was \$0.78 per \$100, allocated \$0.4831 for the General Fund and \$0.2969 for the Debt Service Fund.

**3. 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.

**4. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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 water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the operating 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.

**5. Use of Estimates**

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**II. Stewardship, Compliance, and Accountability**

**A. Budgetary Data**

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

1. 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.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. 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.
4. 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. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**C. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2013, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Court	\$ 120,377	\$ 122,392	\$ (2,015)
Debt Service:			
Principal, Interest and Fiscal Charges	13,813	46,773	(32,960)

**III. Detailed Notes on All Funds**

**A. Deposits and Investments**

**Primary Government**

As of September 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fund</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	General Fund	AAAm	\$ 375	0.20
Texpool - LGIP	Water & Sewer Fund	AAAm	433	0.20
<b>Total Fair Value</b>			<b>\$ 808</b>	
<b>Portfolio Weighted Average Maturity</b>				<b>0.20</b>

*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 2013, 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, 2013**

*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, 2013, City's bank balance of \$9,013,006 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, 2013, the Cleveland Economic Development Corporation's (CEDC) bank balance was \$746,682 and was insured and collateralized by the bank's agent in the CEDC's name.

As of September 30, 2013, the Cleveland Economic Development Corporation had the following investments:

<u>Investment Type</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	AAAm	\$ 1,798	0.20
<b>Total Fair Value</b>		<u>\$ 1,798</u>	
<b>Portfolio Weighted Average Maturity</b>			<b>0.20</b>

**B. 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>
<b>Receivables:</b>				
Property Taxes	\$ 474,817	\$ 244,487	\$ -	\$ 719,304
Accounts	-	-	496,807	496,807
Due From Other Governments	194,479	-	-	194,479
Other	2,432	-	-	2,432
Gross Receivables	<u>671,728</u>	<u>244,487</u>	<u>496,807</u>	<u>1,413,022</u>
Less: Allowance for Uncollectible	(37,985)	(19,559)	(32,500)	(90,044)
<b>Net Total Receivables</b>	<u>\$ 633,743</u>	<u>\$ 224,928</u>	<u>\$ 464,307</u>	<u>\$ 1,322,978</u>

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	\$ 1,718
Uncollectibles Related to Debt Service Property Taxes	(3,365)
Uncollectibles Related to Water and Sewer Fund Utilities	142,639
<b>Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues</b>	<u>\$ 140,992</u>

Approximately \$498,000 of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

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**C. Interfund Balances and Activity**

**Primary Government**

1. Due To and From Other Funds at September 30, 2013 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 11,894	\$ -
Debt Service Fund	3,414	-
Hotel/Motel Fund	26,919	-
Money Seizures Fund	6,433	-
Water and Sewer Fund	-	48,660
<b>Totals</b>	<b>\$ 48,660</b>	<b>\$ 48,660</b>

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.

2. Transfers To and From Other Funds

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the City's transfers for the year ended September 30, 2013.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 414,850
Water and Sewer Fund	Debt Service Fund	163,371
Water and Sewer Fund	Money Seizures Fund	8,050
		<b>\$ 586,271</b>

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund, Debt Service Fund, and Money Seizures Fund.

**Component Unit - Economic Development Corporation**

Amounts receivable and payable between the City and its component unit at September 30, 2013 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ 7	\$ -
Component Unit - EDC	-	7
<b>Totals</b>	<b>\$ 7</b>	<b>\$ 7</b>

The component unit amount for short-term lending/borrowing arrangements is included in due to primary government.

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**D. Capital Assets**

**Primary Government**

Capital asset activity for the period ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions and Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, not being Depreciated:</b>				
Land	\$ 2,068,148	\$ -	\$ -	\$ 2,068,148
Construction in Progress	312,263	2,966,119	(3,278,382)	-
<i>Total Capital Assets, not being Depreciated</i>	<u>2,380,411</u>	<u>2,966,119</u>	<u>(3,278,382)</u>	<u>2,068,148</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings and Improvements	14,038,772	-	3,278,382	17,317,154
Furniture and Equipment	4,122,800	102,903	(230,000)	3,995,703
<i>Total Capital Assets, being Depreciated</i>	<u>18,161,572</u>	<u>102,903</u>	<u>3,048,382</u>	<u>21,312,857</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	(2,550,229)	(343,173)	-	(2,893,402)
Furniture and Equipment	(2,959,822)	(252,535)	230,000	(2,982,357)
<i>Total Accumulated Depreciation</i>	<u>(5,510,051)</u>	<u>(595,708)</u>	<u>230,000</u>	<u>(5,875,759)</u>
<i>Total Capital Assets, being Depreciated, net</i>	<u>12,651,521</u>	<u>(492,805)</u>	<u>3,278,382</u>	<u>15,437,098</u>
<b>Governmental Activities Capital Assets, net</b>	<u>\$ 15,031,932</u>	<u>\$ 2,473,314</u>	<u>\$ -</u>	<u>\$ 17,505,246</u>

Depreciation was charged to governmental-type activities as follows:

City Council	\$ 669
Administration	50,292
Civic Center	70,113
Technology	258
Police	152,029
Animal Control	6,001
Street Department	118,575
Airport Department	27,645
Garage Department	1,351
Library Department	42,429
Cemetery and Parks	27,059
Fire and Ambulance	99,287
<b>Total</b>	<u>\$ 595,708</u>

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	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
<b>Business-type Activities:</b>				
<b>Capital Assets, not being Depreciated:</b>				
Land	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in Progress	664,812	1,391,050	(1,689,233)	366,629
<i>Total Capital Assets, not being Depreciated</i>	<u>843,433</u>	<u>1,391,050</u>	<u>(1,689,233)</u>	<u>545,250</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings and Improvements	47,997	-	-	47,997
Furniture and Equipment	670,253	46,450	-	716,703
Water System	4,375,434	-	1,576,015	5,951,449
Sewer System	15,127,980	-	113,218	15,241,198
<i>Total Capital Assets, being Depreciated</i>	<u>20,221,664</u>	<u>46,450</u>	<u>1,689,233</u>	<u>21,957,347</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	(21,863)	(1,408)	-	(23,271)
Furniture and Equipment	(488,949)	(38,072)	-	(527,021)
Water System	(2,926,434)	(81,976)	-	(3,008,410)
Sewer System	(9,576,129)	(349,293)	-	(9,925,422)
<i>Total Accumulated Depreciation</i>	<u>(13,013,375)</u>	<u>(470,749)</u>	<u>-</u>	<u>(13,484,124)</u>
<i>Total Capital Assets, being Depreciated, net</i>	<u>7,208,289</u>	<u>(424,299)</u>	<u>1,689,233</u>	<u>8,473,223</u>
<b>Business-type Activities Capital Assets, net</b>	<u>\$ 8,051,722</u>	<u>\$ 966,751</u>	<u>\$ -</u>	<u>\$ 9,018,473</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 470,749
	<u>\$ 470,749</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, 2013. The Cleveland Economic Development Corporation contributed to ongoing construction projects in the amount of \$101,176 during the period ended September 30, 2013, which increased total cost to date to \$439,925. The projects were completed and contributed amount of \$439,925 was transferred to the primary government. The balance of total assets at fiscal year end was \$1,228,132.

**Construction Commitments**

The City has active construction projects as of September 30, 2013. The projects include the construction of the airport pump station. At year-end, the City's commitments with contractors are as follows:

<b>Project</b>	
Airport Pump Station	\$ 399,897
<i>Total</i>	<u>\$ 399,897</u>

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**E. Long-Term Obligations**

**Primary Government and Discretely Presented Component Unit (CEDC)**

**1. Long-term Obligation Activity**

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

Changes in long-term obligations for the period ended September 30, 2013 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Certificates of Obligation	\$ 10,585,000	\$ 7,860,000	\$ 7,095,000	\$ 11,350,000	\$ 1,080,000
Issuance Premiums	186,654	301,219	24,941	462,932	-
<b>Total Certificates</b>	<u>10,771,654</u>	<u>8,161,219</u>	<u>7,119,941</u>	<u>11,812,932</u>	<u>1,080,000</u>
Notes Payable	201,591	-	95,209	106,382	84,177
<b>Total Governmental Activities</b>	<u>\$ 10,973,245</u>	<u>\$ 8,161,219</u>	<u>\$ 7,215,150</u>	<u>\$ 11,919,314</u>	<u>\$ 1,164,177</u>
<b>Business-type Activities:</b>					
Revenue Bonds (RB)	\$ 4,760,000	\$ 2,470,000	\$ 2,120,000	\$ 5,110,000	\$ 220,000
Issuance Premiums	-	98,116	4,038	94,078	-
<b>Total Business-type Activities</b>	<u>\$ 4,760,000</u>	<u>\$ 2,568,116</u>	<u>\$ 2,124,038</u>	<u>\$ 5,204,078</u>	<u>\$ 220,000</u>
<b>Discretely Presented Component Unit (CEDC):</b>					
Notes Payable	\$ 315,855	\$ -	\$ 37,472	\$ 278,383	\$ 39,428
<b>Total Discretely Presented Component Unit</b>	<u>\$ 315,855</u>	<u>\$ -</u>	<u>\$ 37,472</u>	<u>\$ 278,383</u>	<u>\$ 39,428</u>

**2. Governmental Activities**

The City's governmental activities debt consists 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. These bonds are issued as 5-20 year current interest notes.

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 2013 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 \$2,825,000 as of September 30, 2013. 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>
2003	4.0-6.0%	2023	7,430,000	\$ 6,795,000	\$ -	\$ 6,795,000	\$ -
2011	3.15%	2016	525,000	420,000	-	105,000	315,000
2012	2.0-4.0%	2032	3,370,000	3,370,000	-	195,000	3,175,000
2013 REF	2.0-3.0%	2026	7,860,000	-	7,860,000	-	7,860,000
<b>Totals</b>				<u>\$ 10,585,000</u>	<u>\$ 7,860,000</u>	<u>\$ 7,095,000</u>	<u>\$ 11,350,000</u>

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Debt service requirements for certificates of obligation at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,080,000	\$ 280,508	\$ 1,360,508
2015	1,005,000	259,848	1,264,848
2016	930,000	240,687	1,170,687
2017	865,000	222,831	1,087,831
2018	730,000	206,881	936,881
2019	745,000	188,406	933,406
2020	760,000	165,831	925,831
2021	640,000	144,494	784,494
2022	655,000	124,393	779,393
2023	685,000	106,293	791,293
2024	700,000	89,888	789,888
2025	715,000	72,438	787,438
2026	735,000	53,828	788,828
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
<b>Totals</b>	<b>\$ 11,350,000</b>	<b>\$ 2,294,226</b>	<b>\$ 13,644,226</b>

In February 2013, the City issued \$7,860,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$8,200,000 of previously issued City bonds in order to lower its overall debt service requirements. The reacquisition price exceeded the net carrying value of the old debt by \$139,049. The City advance-refunded the bonds in order to reduce its future debt service payments by \$779,547 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$891,389.

**Notes Payable**

The City issued notes payable to provide funds for the purchase of equipment. The notes payable are secured by the equipment purchased. The notes are issued as 1-4 year current interest notes.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2009 Police Vehicle Computers	5.97%	2012	\$ 14,642	\$ -	\$ 14,642	\$ -
2011 Tractor & Security System	4.53%	2015	78,936	-	27,737	51,199
2012 Police Vehicles	4.45%	2013	108,013	-	52,830	55,183
<b>Totals</b>			<b>\$ 201,591</b>	<b>\$ -</b>	<b>\$ 95,209</b>	<b>\$ 106,382</b>

Debt service requirements for notes payable at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 84,177	\$ 4,731	\$ 88,908
2015	22,205	960	23,165
<b>Totals</b>	<b>\$ 106,382</b>	<b>\$ 5,691</b>	<b>\$ 112,073</b>

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**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. These bonds are issued as 20-21 year current interest notes.

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

Series	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
1997 RB	2.65-4.45%	2017	\$ 2,250,000	\$ 825,000	-	\$ 825,000	\$ -
2000 RB	5.10-4.80%	2020	1,960,000	1,175,000	-	1,175,000	-
2009 TRB	0.345-4.3%	2029	555,000	495,000	-	20,000	475,000
2011 TRB	0.100-3.90%	2031	2,360,000	2,265,000	-	100,000	2,165,000
2012A	2.00-3.25%	2033	2,470,000	-	2,470,000	-	2,470,000
<b>Totals</b>				<b>\$ 4,760,000</b>	<b>\$ 2,470,000</b>	<b>\$ 2,120,000</b>	<b>\$ 5,110,000</b>

Debt service requirements for revenue bonds at September 30, 2013 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2014	\$ 220,000	\$ 141,650	\$ 361,650
2015	220,000	138,630	358,630
2016	230,000	135,069	365,069
2017	230,000	130,950	360,950
2018	235,000	126,299	361,299
2019	240,000	121,139	361,139
2020	245,000	115,500	360,500
2021	255,000	109,316	364,316
2022	260,000	102,564	362,564
2023	270,000	95,305	365,305
2024	275,000	87,342	362,342
2025	285,000	78,669	363,669
2026	290,000	69,301	359,301
2027	300,000	59,244	359,244
2028	315,000	48,585	363,585
2029	325,000	37,360	362,360
2030	295,000	26,401	321,401
2031	305,000	15,698	320,698
2032	155,000	7,719	162,719
2033	160,000	2,600	162,600
<b>Totals</b>	<b>\$ 5,110,000</b>	<b>\$ 1,649,341</b>	<b>\$ 6,759,341</b>

**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.

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

Description	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2010 Land	5.10%	2020	\$ 315,855	\$ -	\$ 37,472	\$ 278,383
<b>Totals</b>			<b>\$ 315,855</b>	<b>\$ -</b>	<b>\$ 37,472</b>	<b>\$ 278,383</b>

**Discretely Presented Component Unit**

Year Ending September 30,	Principal	Interest	Total
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
<b>Totals</b>	<b>\$ 278,383</b>	<b>\$ 46,659</b>	<b>\$ 325,042</b>

**F. 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 2013, 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.

**G. 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.

**H. 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.

**I. Litigation and Contingencies**

The City is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the governments legal counsel, the City has a defensible position in the case.

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**J. 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](http://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 2012	Plan Year 2013
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 \$259,238 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)
2013	259,238	259,238	100%	-
2012	283,110	283,110	100%	-
2011	292,035	292,035	100%	-

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**SEPTEMBER 30, 2013**

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
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	27.2 years; closed period	26.1 years; closed period	25.1 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*	7.0%	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, 2012, 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)
12/31/2012	7,000,743	8,419,947	83.10%	1,419,204	2,888,169	49.10%

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, 2013**

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)
12/31/2010	6,066,467	7,735,708	78.40%	1,669,241	3,071,804	54.30%
12/31/2011	6,570,103	8,173,202	80.40%	1,603,099	3,050,049	52.60%
12/31/2012	7,000,743	8,419,947	83.10%	1,419,204	2,888,169	49.10%

**K. 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 2012	Plan Year 2013
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, 2013**

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$6,097, \$7,100, and \$6,821, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates:**

**(RETIREE-only portion of the rate)**

<b>Plan/ Calendar Year</b>	<b>Annual Required Contribution (Rate)</b>	<b>Actual Contribution Made (Rate)</b>	<b>Percentage of ARC Contributed</b>
2014	0.11%	0.11%	100.00%
2013	0.09%	0.09%	100.00%
2012	0.08%	0.08%	100.00%
2011	0.07%	0.07%	100.00%
2010	0.07%	0.07%	100.00%

**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)
12/31/2010	6,066,467	7,735,708	78.40%	1,669,241	3,071,804	54.30%
12/31/2011	6,570,103	8,173,202	80.40%	1,603,099	3,050,049	52.60%
12/31/2012	7,000,743	8,419,947	83.10%	1,419,204	2,888,169	49.10%

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

**CITY OF CLEVELAND, TEXAS**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

EXHIBIT B-1

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS:</b>			
<i>Cash and Cash Equivalents</i>	\$ 288,224	\$ 568,045	\$ 856,269
Receivable:			
<i>Accounts</i>	11,772	-	11,772
<i>Other</i>	-	165	165
<i>Due from Other Funds</i>	26,919	6,433	33,352
<i>Prepaid Items</i>	1,935	-	1,935
<b>Total Assets</b>	<b><u>\$ 328,850</u></b>	<b><u>\$ 574,643</u></b>	<b><u>\$ 903,493</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
<i>Accounts Payable</i>	\$ 1,145	\$ 326,924	\$ 328,069
<b>Total Liabilities</b>	<b><u>1,145</u></b>	<b><u>326,924</u></b>	<b><u>328,069</u></b>
<b>FUND BALANCES:</b>			
<i>Nonspendable - Prepaid Items</i>	1,935	-	1,935
<i>Restricted for Economic Development</i>	325,770	-	325,770
<i>Restricted for Police</i>	-	247,719	247,719
<b>Total Fund Balance</b>	<b><u>327,705</u></b>	<b><u>247,719</u></b>	<b><u>575,424</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 328,850</u></b>	<b><u>\$ 574,643</u></b>	<b><u>\$ 903,493</u></b>

**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, 2013**

	Hotel/Motel Fund	Money Seizures Fund	Total Nonmajor Governmental Funds
<b>REVENUE:</b>			
<i>Sales and Other Taxes</i>	\$ 153,913	\$ -	\$ 153,913
<i>Fines and Forfeitures</i>	-	534,774	534,774
<i>Earnings on Investments</i>	2,142	2,397	4,539
<b>Total Revenues</b>	<u>156,055</u>	<u>537,171</u>	<u>693,226</u>
<b>EXPENDITURES:</b>			
<i>Economic Development</i>	94,043	-	94,043
<i>Police</i>	-	445,736	445,736
<i>Capital Outlay</i>	-	17,930	17,930
Debt Service:			
<i>Principal Retirement</i>	-	52,830	52,830
<i>Interest and Fiscal Charges</i>	-	4,811	4,811
<b>Total Expenditures</b>	<u>94,043</u>	<u>521,307</u>	<u>615,350</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>62,012</u>	<u>15,864</u>	<u>77,876</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
<i>Proceeds from Insurance</i>	-	28,487	28,487
<i>Transfers In (Out)</i>	-	8,050	8,050
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>36,537</u>	<u>36,537</u>
<b>Net Change in Fund Balances</b>	62,012	52,401	114,413
Fund Balances, Beginning of Year	265,693	195,318	461,011
<b>Fund Balances, End of Year</b>	<u>\$ 327,705</u>	<u>\$ 247,719</u>	<u>\$ 575,424</u>

**CITY OF CLEVELAND, TEXAS**  
**STATEMENT OF NET POSITION - COMPONENT UNIT**  
**CLEVELAND ECONOMIC DEVELOPMENT CORPORATION**  
**SEPTEMBER 30, 2013**

**EXHIBIT B-3**

	Component Unit
	<u>Cleveland EDC</u>
<b>ASSETS:</b>	
<i>Cash and Cash Equivalents</i>	\$ 745,419
<i>Investments</i>	1,798
<i>Due from Other Governments</i>	36,693
Capital Assets:	
<i>Land</i>	1,228,132
<b>Total Assets</b>	<b>\$ <u>2,012,042</u></b>
<b>LIABILITIES:</b>	
<i>Accounts Payable</i>	\$ 21,701
<i>Due to Primary Government</i>	7
<b>Total Current Liabilities</b>	<b><u>21,708</u></b>
Noncurrent Liabilities:	
<i>Note Payable - Current</i>	39,428
<i>Note Payable - Long-term</i>	238,955
<b>Total Noncurrent Liabilities</b>	<b><u>278,383</u></b>
<b>Total Liabilities</b>	<b><u>300,091</u></b>
<b>NET POSITION:</b>	
<i>Net Investment in Capital Assets</i>	949,749
<i>Unrestricted</i>	762,202
<b>Total Net Position</b>	<b><u>1,711,951</u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>2,012,042</u></b>

**CITY OF CLEVELAND, TEXAS**

EXHIBIT B-4

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - COMPONENT UNIT  
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Component Unit</u>
	<u>Cleveland EDC</u>
<b>OPERATING REVENUES:</b>	
Taxes:	
<i>Sales Tax</i>	\$ 458,391
Total Revenues	<u>458,391</u>
<b>OPERATING EXPENSES:</b>	
<i>Economic Development</i>	<u>790,029</u>
Total Expenses	<u>790,029</u>
Operating Income	<u>(331,638)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
<i>Earnings on Investments</i>	10,170
<i>Interest and Fees on Debt</i>	<u>(15,237)</u>
Total Non-Operating Revenues (Expenses)	<u>(5,067)</u>
Change in Net Position	(336,705)
Net Position - Beginning	2,048,656
<b>Net Position - Ending</b>	<b>\$ <u><u>1,711,951</u></u></b>

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**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF CLEVELAND, TEXAS**  
 SUMMARY OF TAXES RECEIVABLE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

**SCHEDULE C-1**

<u>Tax Year</u>	<u>Balance 9/30/2012</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2013</u>
2012	\$ -	\$ 2,491,150	\$ 2,263,557	\$ 24,894	\$ 252,487
2011	180,566	-	82,944	(6,553)	91,069
2010	143,503	-	65,658	(6,498)	71,347
2009	107,125	-	40,546	(1,925)	64,654
2008	63,810	-	7,822	(1,508)	54,480
2007	52,233	-	5,359	(20)	46,854
2006	36,939	-	5,095	(91)	31,753
2005	27,029	-	2,737	(88)	24,204
2004	19,533	-	1,425	(78)	18,030
2003 & Prior	67,976	-	3,559	9	64,426
<b>Total</b>	<b>\$ 698,714</b>	<b>\$ 2,491,150</b>	<b>\$ 2,478,702</b>	<b>\$ 8,142</b>	<b>\$ 719,304</b>
Less Allowance for Uncollectible Accounts					57,544
					<b>\$ 661,760</b>

**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>
2012	\$ 319,378,205	\$ 0.4831	\$ 0.2969	\$ 0.7800
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

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

# HLSK

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## INDEPENDENT AUDITORS' 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 the City Council and Management of the  
City of Cleveland, Texas  
907 E. Houston  
Cleveland, Texas 77327

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise City of Cleveland, Texas' basic financial statements and have issued our report thereon dated February 11, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cleveland, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Cleveland, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Cleveland, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

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

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

**Conroe, Texas**  
**February 11, 2014**

**CITY OF CLEVELAND, TEXAS**  
*SCHEDULE OF FINDINGS AND RESPONSES*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

<b>SECTION I – SUMMARY OF AUDITORS' RESULTS</b>	
<b>FINANCIAL STATEMENTS</b>	
1. Type of auditors' report issued	Unmodified
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
<b>SECTION II – FINANCIAL STATEMENT FINDINGS</b>	
<b>1. FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING</b>	
None reported	
<b>2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS</b>	
None reported	

**CITY OF CLEVELAND, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

**PRIOR YEAR FINDINGS**

None reported

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**CITY OF CLEVELAND, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

**CURRENT YEAR FINDINGS**

None reported