

CITY OF CLEVELAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF CLEVELAND, TEXAS
TABLE OF CONTENTS

	<u>PAGE</u>	<u>EXHIBIT</u>
INTRODUCTORY SECTION		
Principal City Officials	2	
FINANCIAL SECTION		
Independent Auditors' Report	4	
Management's Discussion and Analysis	6	
<u>Basic Financial Statements:</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	15	A-1
Statement of Activities.....	16	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	18	A-3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21	A-4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	22	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24	A-6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP Basis) and Actual - General Fund.....	25	A-7
Statement of Net Position - Proprietary Fund.....	26	A-8
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund.....	27	A-9
Statement of Cash Flows - Proprietary Fund	28	A-10
Notes to the Financial Statements	29	
<u>Required Supplementary Information:</u>		
Schedule of Funding Progress - Texas Municipal Retirement System.....	48	
COMBINING AND DISCRETELY PRESENTED COMPONENT UNIT FINANCIAL STATEMENTS SECTION		
Combining Balance Sheet - Nonmajor Governmental Funds.....	50	B-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	51	B-2
Statement of Net Position - Component Unit - Cleveland EDC.....	52	B-3
Statement of Revenues, Expenses, and Changes in Net Position - Component Unit - Cleveland EDC.....	53	B-4
<u>SCHEDULE</u>		
SUPPLEMENTARY INFORMATION		
Summary of Taxes Receivable	56	C-1
OVERALL COMPLIANCE, INTERNAL CONTROL SECTION AND FEDERAL AWARDS		
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 <i>Government Auditing Standards</i>	58	
Independents Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	60	
Schedule of Findings and Questioned Costs.....	62	
Summary Schedule of Prior Audit Findings.....	63	
Corrective Action Plan.....	65	
Schedule of Expenditures of Federal Awards.....	66	D-1
Notes to Schedule of Expenditures of Federal Awards.....	67	

(This page was intentionally left blank)

INTRODUCTORY SECTION

CITY OF CLEVELAND, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2014

Niki CoatsMayor
Mike Penry Council Member Position 1
Otis Cohn Council Member Position 2
Carolyn McWaters Council Member Position 3
James Franklin Council Member Position 4
Delores Terry..... Council Member Position 5
Kelly McDonald..... Interim City Manager
Becky Roseberry Director of Finance
Sue Daniel..... Interim City Secretary

FINANCIAL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

Conroe
1406 Wilson Rd., Suite 100
Conroe, Texas 77304
Tel 936-756-8127
Metro 936-441-1338
Fax 936-756-8132

Members of the
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
Private Companies Practice Section
of the AICPA Division for Firms

Cleveland
111 East Boothe
Cleveland, Texas 77327
Tel 281-592-6443
Fax 281-592-7706

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, 2014, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, as of September 30,

2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress for the Texas Municipal Retirement System, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland's basic financial statements. The introductory section, combining and discretely presented component unit financial statements, and supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and discretely presented component unit financial statements, supplementary information, and the schedule of expenditures of federal awards 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, supplementary information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 10, 2015, on our consideration of the City of Cleveland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cleveland's 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 10, 2015

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, 2014.

Financial Highlights

- The assets and deferred outflow of resources of the City exceeded its liabilities at the close of the fiscal year by \$21,338,188 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$15,684,939 that is net investment in capital assets.
- During the year, the City's revenues of \$11,789,677 exceeded expenses of \$9,054,698 by \$2,734,979.
- The General Fund reported a fund balance this year of \$2,368,828, of which \$2,188,473 was unassigned and approximated 41% of General Fund expenditures. Total fund balance increased \$862,419 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$265,282 which was restricted for debt service fund expenditures. Total fund balance increased \$105,258 from prior year.
- The Utility Fund reported an operating income of \$1,058,549, and an increase in net position of \$740,188.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,449,851, of which \$663,305 was unrestricted. Total net position decreased \$262,100 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 six 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 three 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 discretely presented component unit financial statements 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 for nonmajor funds and the financial statements for the Cleveland Economic Development Corporation referred to earlier are presented immediately following the required supplemental information.

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 \$21,338,188, at the close of the most recent fiscal year.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,530,617	\$ 3,554,164	\$ 5,092,980	\$ 6,454,840	\$ 9,623,597	\$ 10,009,004
Capital Assets	17,403,312	17,505,246	10,941,610	9,018,473	28,344,922	26,523,719
Total Assets	21,933,929	21,059,410	16,034,590	15,473,313	37,968,519	36,532,723
Total Deferred Outflows of Resources	115,874	129,779	-	-	115,874	129,779
Long-term Liabilities Outstanding	10,803,937	11,919,314	4,979,233	5,204,078	15,783,170	17,123,392
Other Liabilities	649,521	668,321	313,514	267,580	963,035	935,901
Total Liabilities	11,453,458	12,587,635	5,292,747	5,471,658	16,746,205	18,059,293
Net Position:						
Net Investments in Capital Assets	6,699,709	5,596,033	8,985,230	8,480,412	15,684,939	14,076,445
Restricted	1,067,370	360,818	218,270	429,909	1,285,640	790,727
Unrestricted	2,829,266	2,644,703	1,538,343	1,091,334	4,367,609	3,736,037
Total Net Position	\$ 10,596,345	\$ 8,601,554	\$ 10,741,843	\$ 10,001,655	\$ 21,338,188	\$ 18,603,209

The City's total assets of \$37,968,519 are largely comprised of capital assets, net of accumulated depreciation of \$28,344,922, or 75%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$15,783,170 comprise the largest portion of the City's total liabilities of \$16,746,205 at 94%. Of total long-term liabilities, \$1,283,616 is due within one year, with the remainder \$14,499,554 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 74% of total net position or \$15,684,939 represents investments in capital assets, net of related debt, and approximately 6% of total net position or \$1,285,640 represents restriction for debt services grants, economic development, police, and fire and ambulance. The \$4,367,609 (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 \$2,734,979 from current operations. 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	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,246,376	\$ 1,166,348	\$ 3,275,919	\$ 3,114,693	\$ 4,522,295	\$ 4,281,041
Operating Grants and Contributions	298,828	335,583	-	-	298,828	335,583
Capital Grants and Contributions	601,858	636,284	335,199	151,283	937,057	787,567
General Revenues:						
Property Taxes	2,609,697	2,618,204	-	-	2,609,697	2,618,204
Sales and Other Taxes	2,734,039	2,537,158	-	-	2,734,039	2,537,158
Franchise Taxes	529,300	489,104	-	-	529,300	489,104
Earnings on Investments	23,661	39,452	53,986	54,129	77,647	93,581
Gain on Sale of Assets	-	10,000	-	-	-	10,000
Proceeds from Insurance	32,749	39,371	7,640	500	40,389	39,871
Miscellaneous	40,425	51,030	-	-	40,425	51,030
Total Revenues	8,116,933	7,922,534	3,672,744	3,320,605	11,789,677	11,243,139
Expenses:						
General Government	1,032,297	780,377	-	-	1,032,297	780,377
Public Safety	3,338,605	3,357,473	-	-	3,338,605	3,357,473
Public Works	201,985	259,242	-	-	201,985	259,242
Transportation	555,593	687,793	-	-	555,593	687,793
Culture and Recreation	1,183,225	1,023,999	-	-	1,183,225	1,023,999
Grants	2,410	91,750	-	-	2,410	91,750
Economic Development	113,922	94,043	-	-	113,922	94,043
Debt Service	267,293	348,691	-	-	267,293	348,691
Water and Sewer	-	-	2,359,368	2,486,227	2,359,368	2,486,227
Total Expenses	6,695,330	6,643,368	2,359,368	2,486,227	9,054,698	9,129,595
Excess (Deficiency) Before Transfers	1,421,603	1,279,166	1,313,376	834,378	2,734,979	2,113,544
Transfers, net of Governmental Funds						
Capital Contributions	573,188	(2,099,040)	(573,188)	2,099,040	-	-
Change in Net Position	1,994,791	(819,874)	740,188	2,933,418	2,734,979	2,113,544
Net Position - Beginning	8,601,554	9,552,119	10,001,655	7,174,781	18,603,209	16,726,900
Prior Period Adjustment Implementing GASB 65 for Bond Issuance Costs	-	(130,691)	-	(106,544)	-	(237,235)
Net Position - Beginning, as restated	8,601,554	9,421,428	10,001,655	7,068,237	18,603,209	16,489,665
Net Position - Ending	\$ 10,596,345	\$ 8,601,554	\$ 10,741,843	\$ 10,001,655	\$ 21,338,188	\$ 18,603,209

Governmental Activities. Governmental activities increased the City's net position by \$1,994,791. The City's total revenues were \$8,116,933 from all governmental activities. A significant portion, \$2,609,697 or 32%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$2,734,039, or 34%, of total revenue for governmental activities. Charges for services accounts for \$1,246,376, or 15%, of total revenue for governmental activities. The remaining 19% is generated from grants and contributions, franchise taxes, earnings on investments, proceeds from insurance and miscellaneous revenues.

The total cost of all governmental programs and services was \$6,695,330. The public safety function accounted for \$3,338,605, or 50% of this total.

The City's net position increased primarily due to transfers in from the water and sewer fund and an increase in property tax revenue resulting from the increased property values.

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 \$740,188. 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 \$3,275,919 are utilized to provide funds for program expenses of \$2,359,368.

The increase in net position for business-type activities is due to an increase in charges for services due to an increase in rates and an increase in capital grant contributions related to Community Development Block Grant capital projects.

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 \$3,268,972, which is an increase of \$1,017,014 from last year's total of \$2,251,958.

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 \$2,188,473 and total fund balance was \$2,368,828. 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 41 percent and 44 percent of total general fund expenditures, respectively. The fund balance of the City's general fund increased by \$862,419 during the current fiscal year. For the most part, increases in sales taxes and a transfer from the water and sewer fund were the primary reason for the increase in fund balance. Such increases and transfers exceeded the increase in expenditures for police and, fire and ambulance.

The debt service fund ending fund balance was \$265,282, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$105,258 during the year, primarily due to decreased debt requirements.

The capital projects ending fund balance was \$81,268. The net increase in fund balance during the current year in the capital projects fund was \$71,167. The increase was due to a decrease in expenditures on multiple capital projects while revenues remain stable.

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 \$1,538,343. The total increase in net position for the Water and Sewer Funds was \$740,188. 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 \$218,241 primarily for capital outlay. 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 2014, the City had invested \$28,344,922 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	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,117,288	\$ 2,068,148	\$ 178,621	\$ 178,621	\$ 2,295,909	\$ 2,246,769
Buildings and Improvements	14,201,767	14,423,752	23,318	24,726	14,225,085	14,448,478
Furniture & Equipment	1,084,257	1,013,346	217,966	189,682	1,302,223	1,203,028
Water System	-	-	3,006,734	2,943,039	3,006,734	2,943,039
Sewer System	-	-	5,057,964	5,315,776	5,057,964	5,315,776
Construction in Progress	-	-	2,457,007	366,629	2,457,007	366,629
Totals	\$ 17,403,312	\$ 17,505,246	\$ 10,941,610	\$ 9,018,473	\$ 28,344,922	\$ 26,523,719

Major capital asset purchases during the year included the following:

- Business-type Activities Water and Sewer System \$2,090,378

Long Term Debt. At year-end, the City had \$15,783,170 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 LIABILITIES OUTSTANDING

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Certificates of Obligation (net)	\$ 10,700,317	\$ 11,812,932	\$ -	\$ -	\$ 10,700,317	\$ 11,812,932
Certificates of Obligation (net)	-	-	4,979,233	5,204,078	4,979,233	5,204,078
Note Payable	103,620	106,382	-	-	103,620	106,382
Total Long-term Debt	\$ 10,803,937	\$ 11,919,314	\$ 4,979,233	\$ 5,204,078	\$ 15,783,170	\$ 17,123,392

Economic Factors and Next Year's Budget

- Total tax rate \$0.78 per \$100 valuation in fiscal year 2015 (\$0.5395 for maintenance and operations and \$0.2405 for interest and sinking).
- The unemployment rate for the County is currently 8.1 percent, which is no change from a year ago. This compares favorably to the state's average unemployment rate of 5.2 percent, which is a decrease from a rate of 6.3 percent a year ago.
- These indicators were taken into account when adopting the general fund budget for 2015. Amounts available for appropriation in the general fund budget are \$2,188,473 at September 30, 2014. The City projects to transfer \$431,515 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 \$45,336.

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.

(This page was intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page was intentionally left blank)

CITY OF CLEVELAND, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

EXHIBIT A-1

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 3,403,073	\$ 1,375,923	\$ 4,778,996	\$ 632,875
<i>Investments</i>	375	433	808	1,798
Receivables (Net of Allowances for Uncollectibles, Where Applicable):				
<i>Property Taxes</i>	636,370	-	636,370	-
<i>Accounts</i>	29,899	511,599	541,498	-
<i>Due from Other Governments</i>	281,320	-	281,320	-
<i>Other</i>	37,045	-	37,045	-
<i>Internal Balances</i>	36,098	(36,098)	-	-
<i>Due From Primary Government</i>	-	-	-	36,378
<i>Prepaid Items</i>	106,437	-	106,437	15,000
Restricted Assets:				
<i>Cash - Debt Service</i>	-	218,270	218,270	-
<i>Cash - Construction</i>	-	3,022,853	3,022,853	-
Capital Assets:				
<i>Land and Improvements</i>	2,117,288	178,621	2,295,909	1,025,501
<i>Buildings and Improvements</i>	17,571,955	47,997	17,619,952	-
<i>Furniture and Equipment</i>	4,059,257	776,966	4,836,223	-
<i>Water System</i>	-	6,125,762	6,125,762	-
<i>Sewer System</i>	-	15,256,036	15,256,036	-
<i>Construction in Progress</i>	-	2,457,007	2,457,007	-
<i>Accumulated Depreciation</i>	(6,345,188)	(13,900,779)	(20,245,967)	-
Total Assets	<u>21,933,929</u>	<u>16,034,590</u>	<u>37,968,519</u>	<u>1,711,552</u>
DEFERRED OUTFLOWS OF RESOURCES:				
<i>Deferred Charge on Refunding</i>	115,874	-	115,874	-
Total Deferred Outflows of Resources	<u>115,874</u>	<u>-</u>	<u>115,874</u>	<u>-</u>
LIABILITIES:				
<i>Accounts Payable</i>	577,297	116,021	693,318	22,746
<i>Refundable Deposits</i>	11,600	185,805	197,405	-
<i>Accrued Interest</i>	24,246	11,688	35,934	-
<i>Due to Component Unit</i>	36,378	-	36,378	-
Noncurrent Liabilities:				
Notes Payable - Current	58,616	-	58,616	41,487
Notes Payable - Long-term	45,004	-	45,004	197,468
Certificates of Obligation and Bonds Payable - Current	1,005,000	220,000	1,225,000	-
Certificates of Obligation and Bonds Payable - Long-term	9,695,317	4,759,233	14,454,550	-
Total Liabilities	<u>11,453,458</u>	<u>5,292,747</u>	<u>16,746,205</u>	<u>261,701</u>
NET POSITION:				
<i>Net Investment in Capital Assets</i>	6,699,709	8,985,230	15,684,939	786,546
Restricted for:				
<i>Debt Services</i>	457,078	218,270	675,348	-
<i>Grants</i>	81,268	-	81,268	-
<i>Economic Development</i>	398,351	-	398,351	-
<i>Police</i>	129,917	-	129,917	-
<i>Fire and Ambulance</i>	756	-	756	-
Unrestricted	2,829,266	1,538,343	4,367,609	663,305
Total Net Position	<u>\$ 10,596,345</u>	<u>\$ 10,741,843</u>	<u>\$ 21,338,188</u>	<u>\$ 1,449,851</u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government:				
<i>City Council</i>	\$ 29,650	\$ -	\$ -	\$ -
<i>Administration</i>	751,725	-	-	-
<i>Technology</i>	250,922	-	-	-
Public Safety:				
<i>Municipal Court</i>	132,054	30,393	-	-
<i>Police Department</i>	2,342,772	783,618	-	28,297
<i>Animal Control</i>	73,856	1,103	-	-
<i>Fire and Ambulance</i>	789,923	69,766	1,901	-
Public Works:				
<i>Development Services</i>	189,512	80,207	-	-
<i>Garage Department</i>	12,473	-	-	-
Transportation:				
<i>Street Department</i>	466,512	-	-	-
<i>Airport Department</i>	89,081	103,060	-	9,457
Culture and Recreation:				
<i>Library Department</i>	324,256	19,959	2,366	-
<i>Cemetery and Parks</i>	493,183	55,404	86,436	-
<i>Civic/Community</i>	280,343	102,866	-	285,213
<i>Sports Facilities</i>	85,443	-	-	-
<i>Grants</i>	2,410	-	-	278,891
<i>Economic Development</i>	113,922	-	-	-
Debt Service:				
<i>Interest and Fiscal Charges</i>	267,293	-	208,125	-
Total Governmental Activities	6,695,330	1,246,376	298,828	601,858
Business-type Activities:				
<i>Water and Sewer</i>	2,359,368	3,275,919	-	335,199
Total Business-Type Activities	2,359,368	3,275,919	-	335,199
Total Primary Government	\$ 9,054,698	\$ 4,522,295	\$ 298,828	\$ 937,057
COMPONENT UNIT:				
<i>Cleveland Economic Development Corp.</i>	\$ 800,902	\$ 831	\$ -	\$ -

General Revenues:
 Property Taxes
 Sales and Other Taxes
 Franchise Taxes
 Earnings on Investments
 Gain on Sale of Assets
 Proceeds from Insurance
 Miscellaneous
Transfers, net of Governmental Funds Capital Contributions
 Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning
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
\$ (29,650)	\$ -	\$ (29,650)	\$ -
(751,725)	-	(751,725)	-
(250,922)	-	(250,922)	-
(101,661)	-	(101,661)	-
(1,530,857)	-	(1,530,857)	-
(72,753)	-	(72,753)	-
(718,256)	-	(718,256)	-
(109,305)	-	(109,305)	-
(12,473)	-	(12,473)	-
(466,512)	-	(466,512)	-
23,436	-	23,436	-
(301,931)	-	(301,931)	-
(351,343)	-	(351,343)	-
107,736	-	107,736	-
(85,443)	-	(85,443)	-
276,481	-	276,481	-
(113,922)	-	(113,922)	-
<u>(59,168)</u>	<u>-</u>	<u>(59,168)</u>	-
<u>(4,548,268)</u>	<u>-</u>	<u>(4,548,268)</u>	-
-	1,251,750	1,251,750	-
-	1,251,750	1,251,750	-
<u>(4,548,268)</u>	<u>1,251,750</u>	<u>(3,296,518)</u>	
			<u>(800,071)</u>
2,609,697	-	2,609,697	-
2,734,039	-	2,734,039	505,138
529,300	-	529,300	-
23,661	53,986	77,647	8,637
-	-	-	24,196
32,749	7,640	40,389	-
40,425	-	40,425	-
573,188	(573,188)	-	-
<u>6,543,059</u>	<u>(511,562)</u>	<u>6,031,497</u>	<u>537,971</u>
<u>1,994,791</u>	<u>740,188</u>	<u>2,734,979</u>	<u>(262,100)</u>
<u>8,601,554</u>	<u>10,001,655</u>	<u>18,603,209</u>	<u>1,711,951</u>
<u>\$ 10,596,345</u>	<u>\$ 10,741,843</u>	<u>\$ 21,338,188</u>	<u>\$ 1,449,851</u>

CITY OF CLEVELAND, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS:		
Cash and Cash Equivalents	\$ 2,244,025	\$ 261,286
Investments	375	-
Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable):		
Property Taxes	422,214	214,156
Accounts	6,328	-
Due from Other Governments	251,723	3,152
Other	36,880	-
Due from Other Funds	39,351	844
Prepaid Items	81,867	-
Total Assets	\$ <u>3,082,763</u>	\$ <u>479,438</u>
LIABILITIES:		
Accounts Payable	\$ 215,424	\$ -
Refundable Deposits	11,600	-
Due to Other Funds	28,319	-
Due to Component Unit	36,378	-
Total Liabilities	<u>291,721</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:		
Unavailable Revenue-Property Taxes	422,214	214,156
Total Deferred Inflows of Resources	<u>422,214</u>	<u>214,156</u>
FUND BALANCES:		
Nonspendable - Prepaid Items	81,867	-
Restricted for Debt	-	265,282
Restricted for Grants	-	-
Restricted for Economic Development	-	-
Restricted for Police	-	-
Restricted for Fire and Ambulance	-	-
Committed for Airport Improvements	60,000	-
Committed for Purchase of Capital Assets	38,488	-
Unassigned Fund Balances	2,188,473	-
Total Fund Balance	<u>2,368,828</u>	<u>265,282</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>3,082,763</u>	\$ <u>479,438</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 58,573	\$ 839,189	\$ 3,403,073
-	-	375
-	-	636,370
-	23,571	29,899
26,445	-	281,320
-	165	37,045
22,695	4,780	67,670
-	24,570	106,437
\$ 107,713	\$ 892,275	\$ 4,562,189
\$ 26,445	\$ 335,428	\$ 577,297
-	-	11,600
-	3,253	31,572
-	-	36,378
<u>26,445</u>	<u>338,681</u>	<u>656,847</u>
<u>-</u>	<u>-</u>	<u>636,370</u>
<u>-</u>	<u>-</u>	<u>636,370</u>
-	24,570	106,437
-	-	265,282
81,268	-	81,268
-	398,351	398,351
-	129,917	129,917
-	756	756
-	-	60,000
-	-	38,488
-	-	2,188,473
<u>81,268</u>	<u>553,594</u>	<u>3,268,972</u>
\$ 107,713	\$ 892,275	\$ 4,562,189

(This page was intentionally left blank)

CITY OF CLEVELAND, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014****EXHIBIT A-4****Total Fund Balance - Governmental Funds (Exhibit A-3) \$ 3,268,972**

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	\$ 23,748,500	
Accumulated Depreciation of Governmental Capital Assets	<u>(6,345,188)</u>	17,403,312

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.	636,370
---	---------

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	\$ (10,270,000)	
Premium on Bonds Payable	(430,317)	
Notes Payable	(103,620)	
Accrued Interest on the Bonds and Notes	<u>(24,246)</u>	(10,828,183)

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>115,874</u>
---	----------------

Total Net Position - Governmental Activities (Exhibit A-1) \$ 10,596,345

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, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUE:		
Taxes:		
<i>Property Taxes</i>	\$ 1,698,594	\$ 936,493
<i>Sales and Other Taxes</i>	2,537,825	-
<i>Franchise Taxes</i>	529,300	-
<i>License and Permits</i>	80,207	-
<i>Charges for Services</i>	350,717	-
<i>Fines and Forfeitures</i>	306,242	-
<i>Intergovernmental</i>	40,568	-
<i>Earnings on Investments</i>	16,592	1,905
<i>Contributions</i>	98,386	208,125
<i>Miscellaneous</i>	35,252	-
Total Revenues	<u>5,693,683</u>	<u>1,146,523</u>
EXPENDITURES:		
General Government:		
<i>City Council</i>	28,981	-
<i>Administration</i>	702,725	-
<i>Technology</i>	248,906	-
Public Safety:		
<i>Municipal Court</i>	132,054	-
<i>Police Department</i>	1,784,370	-
<i>Animal Control</i>	67,568	-
<i>Fire and Ambulance</i>	709,980	-
Public Works:		
<i>Development Services</i>	189,512	-
<i>Garage Department</i>	11,122	-
Transportation:		
<i>Street Department</i>	356,347	-
<i>Airport Department</i>	48,733	-
Culture and Recreation:		
<i>Library Department</i>	282,890	-
<i>Cemetery and Parks</i>	343,158	-
<i>Civic/Community</i>	208,807	-
<i>Sports Facilities</i>	85,443	-
<i>Grants</i>	2,410	-
<i>Economic Development</i>	-	-
Capital Outlay:		
<i>Administration</i>	84,055	-
<i>Technology</i>	9,343	-
<i>Police</i>	6,230	-
<i>Street Department</i>	17,990	-
<i>Cemetery and Parks</i>	-	-
<i>Glen Park Drainage</i>	-	-
<i>Utility Fund Industrial Park</i>	-	-
Debt Service:		
<i>Principal Retirement</i>	48,700	1,080,000
<i>Interest and Fiscal Charges</i>	4,283	280,509
<i>Bond Issuance Costs</i>	-	2,156
Total Expenditures	<u>5,373,607</u>	<u>1,362,665</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>320,076</u>	<u>(216,142)</u>
OTHER FINANCING SOURCES (USES):		
<i>Proceeds from Sale of Assets</i>	13,500	-
<i>Proceeds from Insurance</i>	32,749	-
<i>Proceeds from Loans</i>	82,055	-
<i>Capital Contributions from CEDC</i>	-	-
<i>Transfers In (Out)</i>	414,039	321,400
Total Other Financing Sources (Uses)	<u>542,343</u>	<u>321,400</u>
Net Change in Fund Balances	862,419	105,258
Fund Balance - Beginning	1,506,409	160,024
Fund Balance - Ending	\$ <u><u>2,368,828</u></u>	\$ <u><u>265,282</u></u>

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

EXHIBIT A-5

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,635,087
-	196,214	2,734,039
-	-	529,300
-	-	80,207
-	-	350,717
-	508,872	815,114
278,891	-	319,459
593	4,571	23,661
-	755	307,266
-	-	35,252
<u>279,484</u>	<u>710,412</u>	<u>7,830,102</u>
-	-	28,981
-	-	702,725
-	-	248,906
-	-	132,054
-	413,464	2,197,834
-	-	67,568
-	-	709,980
-	-	189,512
-	-	11,122
-	-	356,347
-	-	48,733
-	-	282,890
196	-	343,354
-	-	208,807
-	-	85,443
-	-	2,410
-	113,922	113,922
-	-	84,055
-	-	9,343
-	162,785	169,015
-	-	17,990
285,213	-	285,213
49,140	-	49,140
169,013	-	169,013
-	65,177	1,193,877
-	2,684	287,476
-	-	2,156
<u>503,562</u>	<u>758,032</u>	<u>7,997,866</u>
<u>(224,078)</u>	<u>(47,620)</u>	<u>(167,764)</u>
-	-	13,500
-	-	32,749
-	29,060	111,115
285,213	-	285,213
10,032	(3,270)	742,201
<u>295,245</u>	<u>25,790</u>	<u>1,184,778</u>
71,167	(21,830)	1,017,014
10,101	575,424	2,251,958
<u>\$ 81,268</u>	<u>\$ 553,594</u>	<u>\$ 3,268,972</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, 2014

Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ 1,017,014

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. (25,390)

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	\$ 614,756	
Depreciation Expense	<u>(697,449)</u>	(82,693)

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position. (19,241)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (111,115)

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. 1,080,000

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. 113,877

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>	\$ 1,774	
Accrued Interest on Notes Payable <i>decreased</i>	1,855	
Amortization of Bond Premium	32,615	
Amortization of Deferred Charge on Refunding	<u>(13,905)</u>	<u>22,339</u>

Change in Net Position of Governmental Activities (Exhibit A-2) \$ 1,994,791

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, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUE:				
Taxes:				
Property Taxes	\$ 1,701,419	\$ 1,701,419	\$ 1,698,594	\$ (2,825)
Sales and Other Taxes	2,271,513	2,271,513	2,537,825	266,312
Franchise Taxes	503,000	503,000	529,300	26,300
License and Permits	66,000	66,000	80,207	14,207
Charges for Services	311,732	409,818	350,717	(59,101)
Fines and Forfeitures	304,000	304,000	306,242	2,242
Intergovernmental	27,500	53,770	40,568	(13,202)
Earnings on Investments	10,000	10,000	16,592	6,592
Contributions	750	750	98,386	97,636
Miscellaneous	41,050	41,050	35,252	(5,798)
Total Revenues	<u>5,236,964</u>	<u>5,361,320</u>	<u>5,693,683</u>	<u>332,363</u>
EXPENDITURES:				
General Government:				
City Council	36,075	36,075	28,981	7,094
Administration	766,564	764,564	702,725	61,839
Technology	313,611	304,268	248,906	55,362
Public Safety:				
Municipal Court	124,159	134,159	132,054	2,105
Police Department	1,878,275	1,872,045	1,784,370	87,675
Animal Control	75,699	75,699	67,568	8,131
Fire and Ambulance	666,296	692,399	709,980	(17,581)
Public Works:				
Development Services	241,178	241,178	189,512	51,666
Garage Department	13,188	13,188	11,122	2,066
Transportation:				
Street Department	373,411	355,421	356,347	(926)
Airport Department	111,975	111,975	48,733	63,242
Culture and Recreation:				
Library Department	305,924	305,924	282,890	23,034
Cemetery and Parks	333,064	347,061	343,158	3,903
Civic/Community	271,523	271,523	208,807	62,716
Sports Facilities	-	86,086	85,443	643
Grants	27,500	27,500	2,410	25,090
Capital Outlay:				
Administration	-	84,055	84,055	-
Technology	-	9,343	9,343	-
Police	-	6,230	6,230	-
Street Department	-	17,990	17,990	-
Debt Service:				
Principal Retirement	54,564	52,554	48,700	3,854
Interest and Fiscal Charges	2,273	4,283	4,283	-
Total Expenditures	<u>5,595,279</u>	<u>5,813,520</u>	<u>5,373,607</u>	<u>439,913</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(358,315)</u>	<u>(452,200)</u>	<u>320,076</u>	<u>772,276</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Assets	-	-	13,500	13,500
Proceeds from Insurance	2,000	2,000	32,749	30,749
Proceeds from Loans	-	82,055	82,055	-
Transfers In (Out)	420,800	420,800	414,039	(6,761)
Total Other Financing Sources (Uses)	<u>422,800</u>	<u>504,855</u>	<u>542,343</u>	<u>37,488</u>
Net Change in Fund Balances	64,485	52,655	862,419	809,764
Fund Balance - Beginning	1,506,409	1,506,409	1,506,409	-
Fund Balance - Ending	\$ 1,570,894	\$ 1,559,064	\$ 2,368,828	\$ 809,764

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, 2014

EXHIBIT A-8

	<u>Water and Sewer Fund</u>
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 1,375,923
<i>Investments</i>	433
Receivables (Net of Allowances for Uncollectibles):	
<i>Accounts - Utilities</i>	<u>511,599</u>
Total Current Assets	<u>1,887,955</u>
Noncurrent Assets:	
Restricted Assets:	
<i>Cash - Debt Service</i>	218,270
<i>Cash - Construction</i>	3,022,853
Capital Assets:	
<i>Land and Improvements</i>	178,621
<i>Buildings and Improvements</i>	47,997
<i>Furniture and Equipment</i>	776,966
<i>Water System</i>	6,125,762
<i>Sewer System</i>	15,256,036
<i>Construction in Progress</i>	2,457,007
<i>Accumulated Deprecitaion</i>	<u>(13,900,779)</u>
Total Noncurrent Assets	<u>14,182,733</u>
Total Assets	\$ <u>16,070,688</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts Payable</i>	\$ 116,021
<i>Refundable Deposits</i>	185,805
<i>Accrued Interest Payable</i>	11,688
<i>Due to Other Funds</i>	<u>36,098</u>
Total Current Liabilities	<u>349,612</u>
Noncurrent Liabilities:	
<i>Certificates of Obligation Payable - Current</i>	220,000
<i>Certificates of Obligation Payable - Long-term</i>	<u>4,759,233</u>
Total Noncurrent Liabilities	<u>4,979,233</u>
Total Liabilities	<u>5,328,845</u>
NET POSITION:	
<i>Net Investment in Capital Assets</i>	8,985,230
Restricted for:	
<i>Debt Services - Reserve (Expendable)</i>	218,270
<i>Unrestricted</i>	<u>1,538,343</u>
Total Net Position	<u>10,741,843</u>
Total Liabilities and Fund Balance	\$ <u>16,070,688</u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT A-9

	<u>Water and Sewer Fund</u>
OPERATING REVENUES:	
<i>Charges for Services</i>	\$ 3,275,919
Total Operating Revenues	<u>3,275,919</u>
OPERATING EXPENSES:	
<i>Administration</i>	312,547
<i>Water Production</i>	584,363
<i>Sewer Department</i>	640,190
<i>Sanitation Services</i>	255,790
<i>Depreciation</i>	424,480
Total Operating Expenses	<u>2,217,370</u>
Operating Income	<u>1,058,549</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Proceeds from Insurance</i>	7,640
<i>Earnings on Investments</i>	53,986
<i>Interest and Fees on Debt</i>	(138,323)
<i>Gain (Loss) on Sale of Assets</i>	(3,675)
Total Non-Operating Revenues (Expenses)	<u>(80,372)</u>
Income before Other Financing Sources (Uses)	978,177
OTHER FINANCING SOURCES (USES):	
<i>Capital Contributions - Grants</i>	329,899
<i>Capital Contributions from Governmental Funds</i>	169,013
<i>Capital Contributions from CEDC</i>	5,300
<i>Transfers In (Out)</i>	(742,201)
Total Other Financing Sources (Uses)	<u>(237,989)</u>
Change in Net Position	740,188
Net Position - Beginning	10,001,655
Net Position - Ending	\$ <u><u>10,741,843</u></u>

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

CITY OF CLEVELAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT A-10

Water and
Sewer Fund

CASH FLOWS FROM OPERATING ACTIVITIES:

<i>Cash Received for Services</i>	\$ 3,229,190
<i>Cash Payments to Suppliers for Goods and Services</i>	<u>(1,759,849)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,469,341</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

<i>Transfers From (To) Other Funds</i>	(742,201)
<i>Insurance Proceeds</i>	<u>7,640</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(734,561)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

<i>Purchase of Capital Assets</i>	(2,351,292)
<i>Capital Contributions - Grants</i>	329,899
<i>Contributions from Governmental Funds and CEDC</i>	174,313
<i>Principal Paid on Capital Debt</i>	(224,845)
<i>Interest and Fees Paid on Capital Debt</i>	<u>(138,555)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(2,210,480)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

<i>Earnings on Investments</i>	<u>53,986</u>
Net Cash Provided (Used) for Investing Activities	<u>53,986</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(1,421,714)
Cash and Cash Equivalents at Beginning of Year	<u>6,038,760</u>
Cash and Cash Equivalents at End of Year, including Restricted Cash	<u>\$ 4,617,046</u>

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

<i>Operating Income</i>	\$ 1,058,549
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<i>Depreciation</i>	424,480
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Accounts and Other Receivables, net</i>	(47,292)
<i>Increase (Decrease) in Accounts Payable</i>	45,603
<i>Increase (Decrease) in Refundable Deposits</i>	563
<i>Increase (Decrease) in Due to Other Funds</i>	<u>(12,562)</u>
Total Adjustments	<u>410,792</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,469,341</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. The City does not have fiduciary activities. *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. An exception to this general rule is charges between the government’s water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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

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, as well as expenditures related to claims and judgements, 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).

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the government.

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

F. 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 and improvements, 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 improvements 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

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 resolution 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.

G. 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, 2014 was \$0.78 per \$100, allocated \$0.5023 for the General Fund and \$0.2777 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.

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 the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

4. 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.
5. 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.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. All budget appropriations lapse at year end.

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, 2014, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Fire and Ambulance	\$ 692,399	\$ 709,980	\$ (17,581)
Street Department	355,421	356,347	(926)

III. Detailed Notes on All Funds

A. Deposits and Investments

Primary Government

At September 30, 2014 the carrying amount of the City’s deposits (cash, interest-bearing savings accounts, and money market accounts) was \$8,020,119 and the bank’s balances totaled \$8,336,196. At September 30, 2014, all bank balances were covered by federal deposit insurance, or pledged collateral held by the financial institution in the City’s name. The City’s investments consisted of local investment pools and certificates of deposit at fiscal year end.

The City is required by the Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investment, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

As of September 30, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Fund</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	General Fund	AAAm	\$ 375	0.21
Texpool - LGIP	Water & Sewer Fund	AAAm	433	0.21
Total Fair Value			\$ 808	
Portfolio Weighted Average Maturity				0.21

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 2014, 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.

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, 2014, City's deposits at the depository banks were 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

At September 30, 2014, the carrying amount of the Cleveland Economic Development Corporation's (CEDC) deposits (cash, interest-bearing savings accounts, and money market accounts) was \$632,875 and the bank balance was \$632,975. At September 30, 2014, all bank balances were covered by federal deposit insurance, or pledged collateral held by the financial institution in the City's name.

As of September 30, 2014, the Cleveland Economic Development Corporation had the following investments:

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	AAAm	\$ 1,798	0.21
Total Fair Value		\$ 1,798	
Portfolio Weighted Average Maturity			0.21

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>Capital Projects Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:					
Property Taxes	\$ 464,214	\$ 235,156	\$ -	\$ -	\$ 699,370
Accounts	6,328	-	-	562,160	568,488
Due From Other Governments	251,723	3,152	26,445	-	281,320
Other	36,880	-	-	-	36,880
Gross Receivables	759,145	238,308	26,445	562,160	1,586,058
Less: Allowance for Uncollectible	(42,000)	(21,000)	-	(50,561)	(113,561)
Net Total Receivables	\$ 717,145	\$ 217,308	\$ 26,445	\$ 511,599	\$ 1,472,497

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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	\$ (4,015)
Uncollectibles Related to Debt Service Property Taxes	(1,441)
Uncollectibles Related to Water and Sewer Fund Utilities	(18,000)
Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues	\$ <u>(23,456)</u>

Approximately 75% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Balances and Activity

Primary Government

1. Due To and From Other Funds at September 30, 2014 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 39,351	\$ 28,319
Debt Service Fund	844	-
Capital Projects Fund	22,695	-
Hotel/Motel Fund	-	1,700
Money Seizures Fund	4,780	1,553
Water and Sewer Fund	-	36,098
Totals	\$ <u>67,670</u>	\$ <u>67,670</u>

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

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, 2014.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 414,039
Water and Sewer Fund	Debt Service Fund	321,400
Water and Sewer Fund	Capital Projects Fund	10,032
Money Seizures Fund	Water and Sewer Fund	(3,270)
		\$ <u>742,201</u>

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund, Debt Service Fund, and Capital Projects Fund. Transfers from the Money Seizures Fund were reimbursements for expenditures paid by the Water and Sewer Fund.

Component Unit - Economic Development Corporation

Amounts receivable and payable between the City and its component unit at September 30, 2014 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ -	\$ 36,378
Component Unit - EDC	36,378	-
Totals	\$ <u>36,378</u>	\$ <u>36,378</u>

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

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

D. Capital Assets

Primary Government

Capital asset activity for the period ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions and Transfers</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land and Improvements	\$ 2,068,148	\$ 49,140	\$ -	\$ 2,117,288
Total Capital Assets, not being Depreciated	<u>2,068,148</u>	<u>49,140</u>	<u>-</u>	<u>2,117,288</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	17,317,154	254,801	-	17,571,955
Furniture and Equipment	3,995,703	310,815	(247,261)	4,059,257
Total Capital Assets, being Depreciated	<u>21,312,857</u>	<u>565,616</u>	<u>(247,261)</u>	<u>21,631,212</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(2,893,402)	(476,786)	-	(3,370,188)
Furniture and Equipment	(2,982,357)	(220,663)	228,020	(2,975,000)
Total Accumulated Depreciation	<u>(5,875,759)</u>	<u>(697,449)</u>	<u>228,020</u>	<u>(6,345,188)</u>
Total Capital Assets, being Depreciated, net	<u>15,437,098</u>	<u>(131,833)</u>	<u>(19,241)</u>	<u>15,286,024</u>
Governmental Activities Capital Assets, net	<u>\$ 17,505,246</u>	<u>\$ (82,693)</u>	<u>\$ (19,241)</u>	<u>\$ 17,403,312</u>

Depreciation was charged to governmental-type activities as follows:

City Council	\$ 669
Administration	49,000
Technology	2,016
Police	144,938
Animal Control	6,288
Fire and Ambulance	79,943
Garage Department	1,351
Street Department	110,165
Airport Department	40,348
Library Department	41,366
Cemetery and Parks	149,829
Civic Center	71,536
Total	<u>\$ 697,449</u>

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions and Transfers</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land and Improvements	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in Progress	366,629	2,090,378	-	2,457,007
Total Capital Assets, not being Depreciated	<u>545,250</u>	<u>2,090,378</u>	<u>-</u>	<u>2,635,628</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	47,997	-	-	47,997
Furniture and Equipment	716,703	71,763	(11,500)	776,966
Water System	5,951,449	174,313	-	6,125,762
Sewer System	15,241,198	14,838	-	15,256,036
Total Capital Assets, being Depreciated	<u>21,957,347</u>	<u>260,914</u>	<u>(11,500)</u>	<u>22,206,761</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(23,271)	(1,408)	-	(24,679)
Furniture and Equipment	(527,021)	(39,804)	7,825	(559,000)
Water System	(3,008,410)	(110,618)	-	(3,119,028)
Sewer System	(9,925,422)	(272,650)	-	(10,198,072)
Total Accumulated Depreciation	<u>(13,484,124)</u>	<u>(424,480)</u>	<u>7,825</u>	<u>(13,900,779)</u>
Total Capital Assets, being Depreciated, net	<u>8,473,223</u>	<u>(163,566)</u>	<u>(3,675)</u>	<u>8,305,982</u>
Business-type Activities Capital Assets, net	<u>\$ 9,018,473</u>	<u>\$ 1,926,812</u>	<u>\$ (3,675)</u>	<u>\$ 10,941,610</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 424,480
	<u>\$ 424,480</u>

Discretely Presented Component Unit - CEDC

Land owned by the Cleveland Economic Development Corporation was sold in the current fiscal year. Cost basis of land sold totaled \$202,631. The ending balance of land is \$1,025,501 at September 30, 2014.

E. Long-Term Obligations

Primary Government and Discretely Presented Component Unit (CEDC)

1. Long-term Obligation Activity

Long-term obligations include certificates of obligation and notes payable. The requirements for the certificates of obligation principal and interest payments are accounted for in the Debt Service Fund and Water and Sewer 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).

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

Changes in long-term obligations for the period ended September 30, 2014 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Certificates of Obligation	\$ 11,350,000	\$ -	\$ 1,080,000	\$ 10,270,000	\$ 1,005,000
Issuance Premiums	462,932	-	32,615	430,317	-
Total Certificates	<u>11,812,932</u>	<u>-</u>	<u>1,112,615</u>	<u>10,700,317</u>	<u>1,005,000</u>
Notes Payable	106,382	111,115	113,877	103,620	58,616
Total Governmental Activities	<u>\$ 11,919,314</u>	<u>\$ 111,115</u>	<u>\$ 1,226,492</u>	<u>\$ 10,803,937</u>	<u>\$ 1,063,616</u>
Business-type Activities:					
Certificates of Obligation	\$ 5,110,000	\$ -	\$ 220,000	\$ 4,890,000	\$ 220,000
Issuance Premiums	94,078	-	4,845	89,233	-
Total Business-type Activities	<u>\$ 5,204,078</u>	<u>\$ -</u>	<u>\$ 224,845</u>	<u>\$ 4,979,233</u>	<u>\$ 220,000</u>
Discretely Presented Component Unit (CEDC):					
Notes Payable	\$ 278,383	\$ -	\$ 39,428	\$ 238,955	\$ 41,487
Total Discretely Presented Component Unit	<u>\$ 278,383</u>	<u>\$ -</u>	<u>\$ 39,428</u>	<u>\$ 238,955</u>	<u>\$ 41,487</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 2012 Series as noted in the following table for a total original issue of \$3,370,000. The CEDC portion of such debt had a balance of \$2,710,000 as of September 30, 2014. 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>
2011	3.15%	2016	525,000	\$ 315,000	\$ -	\$ 105,000	\$ 210,000
2012	2.0-4.0%	2032	3,370,000	3,175,000	-	200,000	2,975,000
2013 REF	2.0-3.0%	2026	7,860,000	7,860,000	-	775,000	7,085,000
Totals				<u>\$ 11,350,000</u>	<u>\$ -</u>	<u>\$ 1,080,000</u>	<u>\$ 10,270,000</u>

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

Debt service requirements for certificates of obligation at September 30, 2014 are as follows:

Governmental Activities			
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
Totals	\$ <u>10,270,000</u>	\$ <u>2,013,718</u>	\$ <u>12,283,718</u>

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>
2011 Tractor & Security System	4.53%	2015	\$ 51,199	\$ -	\$ 28,994	\$ 22,205
2012 Police Vehicles	4.45%	2013	55,183	-	55,183	-
2013 Computers	4.67%	2016	-	29,060	9,994	19,066
2013 Computer Software	3.50%	2016	-	82,055	19,706	62,349
Totals			\$ <u>106,382</u>	\$ <u>111,115</u>	\$ <u>113,877</u>	\$ <u>103,620</u>

Debt service requirements for notes payable at September 30, 2014 are as follows:

Governmental Activities			
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 58,616	\$ 3,724	\$ 62,340
2016	37,829	1,345	39,174
2017	7,175	64	7,239
Totals	\$ <u>103,620</u>	\$ <u>5,133</u>	\$ <u>108,753</u>

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

3. Business-Type Activities

Certificates of Obligation

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

The City pledges maintenance tax collections and the net revenues of the waterworks and sanitary sewer system for payment of principal and interest on the certificates of obligation. These certificates 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
2009 TRB	0.345-4.3%	2029	555,000	\$ 475,000	\$ -	\$ 20,000	\$ 455,000
2011 TRB	0.100-3.90%	2031	2,360,000	2,165,000	-	100,000	2,065,000
2012A	2.00-3.25%	2033	2,470,000	2,470,000	-	100,000	2,370,000
Totals				\$ 5,110,000	\$ -	\$ 220,000	\$ 4,890,000

Debt service requirements for revenue bonds at September 30, 2014 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
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
Totals	\$ 4,890,000	\$ 1,507,691	\$ 6,397,691

4. Discretely Presented Component Unit - CEDC

Notes Payable

The Cleveland Economic Development Corporation (CEDC) issued a note payable to provide funds for the purchase of land. The note payable is secured by CEDC sales tax and the land purchased. The note was issued as a 10 year current interest note.

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2009 Land	5.10%	2019	\$ 278,383	\$ -	\$ 39,428	\$ 238,955
Totals			\$ 278,383	\$ -	\$ 39,428	\$ 238,955

Discretely Presented Component Unit

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 41,487	\$ 11,223	\$ 52,710
2016	43,627	9,082	52,709
2017	45,931	6,779	52,710
2018	48,328	4,381	52,709
2019	50,852	1,857	52,709
2020	8,730	56	8,786
Totals	\$ 238,955	\$ 33,378	\$ 272,333

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 2014, 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. 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 5-year contract with Liberty County EMS to provide 911 services for the City of Cleveland. Liberty County EMS leased the City's equipment and building for that term. The City can either extend the contract with Liberty EMS or take back the 911 service.

H. 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 of 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.

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

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 2013	Plan Year 2014
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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously the Projected Unity Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015). The annual pension cost was \$286,581 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)
2014	286,581	286,581	100%	-
2013	259,238	259,238	100%	-
2012	283,110	283,110	100%	-

CITY OF CLEVELAND, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.1 years; closed period	25.1 years; closed period	26.0 years; closed period
Amortization 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

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, 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)
12/31/2013	7,537,292	9,636,633	78.20%	2,099,341	2,727,486	77.00%

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.

CITY OF CLEVELAND, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2014

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.

I. 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.

The City offers supplemental death to:	Plan Year 2013	Plan Year 2014
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.

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$7,817, \$6,097, and \$7,100, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.07%	0.07%	100.00%
2012	0.08%	0.08%	100.00%
2013	0.09%	0.09%	100.00%
2014	0.11%	0.11%	100.00%
2015	0.12%	0.12%	100.00%

J. Pending Litigation

The City is a defendant in a lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the City's legal counsel, the resolution of this matter will not have a material adverse effect on the financial condition of the City.

(This page was intentionally left blank)

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)
12/31/2011	\$ 6,570,103	\$ 8,173,202	80.4%	\$ 1,603,099	\$ 3,050,049	52.6%
12/31/2012	\$ 7,000,743	\$ 8,419,947	83.1%	\$ 1,419,204	\$ 2,888,169	49.1%
12/31/2013	\$ 7,537,292	\$ 9,636,633	78.2%	\$ 2,099,341	\$ 2,727,486	77.0%

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

CITY OF CLEVELAND, TEXAS
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

EXHIBIT B-1

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>	<u>Fire Department</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 385,129	\$ 453,304	\$ 756	\$ 839,189
Receivable:				
<i>Accounts</i>	23,571	-	-	23,571
<i>Other</i>	-	165	-	165
<i>Due from Other Funds</i>	-	4,780	-	4,780
<i>Prepaid Items</i>	14,350	10,220	-	24,570
Total Assets	<u>\$ 423,050</u>	<u>\$ 468,469</u>	<u>\$ 756</u>	<u>\$ 892,275</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
<i>Accounts Payable</i>	\$ 8,649	\$ 326,779	\$ -	\$ 335,428
<i>Due to Other Funds</i>	1,700	1,553	-	3,253
Total Liabilities	<u>10,349</u>	<u>328,332</u>	<u>-</u>	<u>338,681</u>
 FUND BALANCES:				
<i>Nonspendable - Prepaid Items</i>	14,350	10,220	-	24,570
<i>Restricted for Economic Development</i>	398,351	-	-	398,351
<i>Restricted for Police</i>	-	129,917	-	129,917
<i>Restricted for Fire and Ambulance</i>	-	-	756	756
Total Fund Balance	<u>412,701</u>	<u>140,137</u>	<u>756</u>	<u>553,594</u>
 Total Liabilities and Fund Balance	 <u>\$ 423,050</u>	 <u>\$ 468,469</u>	 <u>\$ 756</u>	 <u>\$ 892,275</u>

CITY OF CLEVELAND, TEXAS

EXHIBIT B-2

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

	Hotel/Motel Fund	Money Seizures Fund	Fire Department	Total Nonmajor Governmental Funds
REVENUE:				
<i>Sales and Other Taxes</i>	\$ 196,214	\$ -	\$ -	\$ 196,214
<i>Fines and Forfeitures</i>	-	508,872	-	508,872
<i>Earnings on Investments</i>	2,704	1,866	1	4,571
<i>Contributions</i>	-	-	755	755
Total Revenues	<u>198,918</u>	<u>510,738</u>	<u>756</u>	<u>710,412</u>
EXPENDITURES:				
<i>Police Department</i>	-	413,464	-	413,464
<i>Economic Development</i>	113,922	-	-	113,922
<i>Capital Outlay</i>	-	162,785	-	162,785
Debt Service:				
<i>Principal Retirement</i>	-	65,177	-	65,177
<i>Interest and Fiscal Charges</i>	-	2,684	-	2,684
Total Expenditures	<u>113,922</u>	<u>644,110</u>	<u>-</u>	<u>758,032</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>84,996</u>	<u>(133,372)</u>	<u>756</u>	<u>(47,620)</u>
OTHER FINANCING SOURCES (USES):				
<i>Proceeds from Loans</i>	-	29,060	-	29,060
<i>Transfers In (Out)</i>	-	(3,270)	-	(3,270)
Total Other Financing Sources (Uses)	<u>-</u>	<u>25,790</u>	<u>-</u>	<u>25,790</u>
Net Change in Fund Balances	84,996	(107,582)	756	(21,830)
Fund Balances, Beginning of Year	<u>327,705</u>	<u>247,719</u>	<u>-</u>	<u>575,424</u>
Fund Balances, End of Year	<u>\$ 412,701</u>	<u>\$ 140,137</u>	<u>\$ 756</u>	<u>\$ 553,594</u>

CITY OF CLEVELAND, TEXAS
STATEMENT OF NET POSITION - COMPONENT UNIT
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2014

EXHIBIT B-3

	Component Unit
	<u>Cleveland EDC</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 632,875
<i>Investments</i>	1,798
<i>Due from Primary Government</i>	36,378
<i>Prepaid Items</i>	15,000
Capital Assets:	
<i>Land and Improvements</i>	1,025,501
Total Assets	\$ <u><u>1,711,552</u></u>
LIABILITIES:	
<i>Accounts Payable</i>	\$ <u>22,746</u>
Total Current Liabilities	<u>22,746</u>
Noncurrent Liabilities:	
<i>Note Payable - Current</i>	41,487
<i>Note Payable - Long-term</i>	197,468
Total Noncurrent Liabilities	<u>238,955</u>
Total Liabilities	<u>261,701</u>
NET POSITION:	
<i>Net Investment in Capital Assets</i>	786,546
<i>Unrestricted</i>	663,305
Total Net Position	<u>1,449,851</u>
Total Liabilities and Net Position	\$ <u><u>1,711,552</u></u>

CITY OF CLEVELAND, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - COMPONENT UNIT
CLEVELAND ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-4

	Component Unit
	<u>Cleveland EDC</u>
OPERATING REVENUES:	
Taxes:	
<i>Sales Tax</i>	\$ 505,138
<i>Charges for Services</i>	831
Total Revenues	<u>505,969</u>
OPERATING EXPENSES:	
Economic Development:	
<i>Professional Service</i>	35,255
<i>Other Services</i>	12,328
<i>Supplies</i>	631
<i>Infrastructure</i>	142,701
<i>Manufacturing/Industrial</i>	22,400
<i>Contributions to City</i>	573,096
Total Expenses	<u>786,411</u>
Operating Income	<u>(280,442)</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Earnings on Investments</i>	8,637
<i>Gain (Loss) on Sale of Assets</i>	24,196
<i>Interest and Fees on Debt</i>	(14,491)
Total Non-Operating Revenues (Expenses)	<u>18,342</u>
Change in Net Position	(262,100)
Net Position - Beginning	1,711,951
Net Position - Ending	<u>\$ 1,449,851</u>

(This page was intentionally left blank)

OTHER SUPPLEMENTARY INFORMATION

CITY OF CLEVELAND, TEXAS
SUMMARY OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

SCHEDULE C-1

<u>Tax Year</u>	<u>Balance 9/30/2013</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2014</u>
2013	\$ -	\$ 2,535,139	\$ 2,343,473	\$ (30,248)	\$ 161,418
2012	252,487	-	117,229	(1,499)	133,759
2011	91,069	-	17,322	(543)	73,204
2010	71,347	-	11,951	(423)	58,973
2009	64,654	-	9,337	(171)	55,146
2008	54,480	-	5,630	(322)	48,528
2007	46,854	-	4,791	(321)	41,742
2006	31,753	-	3,988	(132)	27,633
2005	24,204	-	2,082	(203)	21,919
2004 & Prior	82,456	-	4,362	(1,046)	77,048
Total	\$ 719,304	\$ 2,535,139	\$ 2,520,165	\$ (34,908)	\$ 699,370
Less Allowance for Uncollectible Accounts					63,000
					\$ 636,370

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>
2013	\$ 325,017,821	\$ 0.5023	\$ 0.2777	\$ 0.7800
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, INTERNAL CONTROL SECTION AND FEDERAL AWARDS

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

Conroe
1406 Wilson Rd., Suite 100
Conroe, Texas 77304
Tel 936-756-8127
Metro 936-441-1338
Fax 936-756-8132

Members of the
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
Private Companies Practice Section
of the AICPA Division for Firms

Cleveland
111 East Boothe
Cleveland, Texas 77327
Tel 281-592-6443
Fax 281-592-7706

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 10, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that 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 10, 2015

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

Conroe
1406 Wilson Rd., Suite 100
Conroe, Texas 77304
Tel 936-756-8127
Metro 936-441-1338
Fax 936-756-8132

Members of the
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
Private Companies Practice Section
of the AICPA Division for Firms

Cleveland
111 East Boothe
Cleveland, Texas 77327
Tel 281-592-6443
Fax 281-592-7706

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Cleveland, Texas' (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Cleveland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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 10, 2015

CITY OF CLEVELAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS	
FINANCIAL STATEMENTS	
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
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Types of auditors’ report issued on compliance with major programs?	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?	No
7. Identification of Major Programs	14.228 CDBG
8. Dollar Threshold used to Distinguish Between Type A and Type B Federal Programs	\$300,000
9. Auditee Qualified as a Low-Risk Auditee	No
SECTION II – FINANCIAL STATEMENTS FINDINGS	
None Reported	
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None Reported	

CITY OF CLEVELAND, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

PRIOR YEAR FINDINGS

None reported

(This page was intentionally left blank)

CITY OF CLEVELAND, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CURRENT YEAR FINDINGS

None reported

CITY OF CLEVELAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-1

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors' Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</u>			
Passed Through Texas Department of Agriculture:			
<i>Community Development Block Grant</i>	14.228	712061	\$ 335,000
<i>Community Development Block Grant</i>	14.228	712012	224,650
Passed Through Texas General Land Office:			
<i>Community Development Block Grant / Disaster Recovery Program</i>	14.228	DRS220028	49,140
Total U.S. Department of Housing and Urban Development (HUD)			<u>608,790</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Texas Department of Public Safety's Division of Emergency Management:			
<i>Emergency Management Performance Grant</i>	97.042	13TX-EMPG-0400	28,297
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 637,087</u>

CITY OF CLEVELAND, TEXAS

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*

(1) General

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of City of Cleveland, Texas (City). The City’s reporting entity is defined in Note A. 1. of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

(2) Basis of Accounting

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

(3) Relationship to Financial Statements

Federal award programs are reported in the City’s basic financial statements in the governmental funds and the proprietary fund, Water and Sewer Fund. Total federal awards per the accompanying Schedule of Expenditures of Federal Awards include all federal revenues as noted below.

Total Expenditures of Federal Awards per Exhibit D-1	\$ 637,087
States Funding Received and Included in Intergovernmental Revenues	12,271
Total Intergovernmental Revenues per Basic Financial Statements	\$ <u>649,358</u>
Intergovernmental Revenues:	
Exhibit A-5 Governmental Funds Intergovernmental Revenues	\$ 319,459
Exhibit A-8 Water and Sewer Fund Capital Contributions-Grants Revenues	329,899
Schedule of Federal Awards Total Expenditures	\$ <u>649,358</u>