

# **CITY OF CLEVELAND, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**



**CITY OF CLEVELAND**  
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## INTRODUCTORY SECTION

**CITY OF CLEVELAND, TEXAS**

*PRINCIPAL CITY OFFICIALS*

*SEPTEMBER 30, 2015*

Niki Coats..... Mayor  
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 ..... City Manager  
Bobby Pennington..... Director of Finance  
Angela Smith..... City Secretary

**FINANCIAL SECTION**

# HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas (City) as of and for the year ended September 30, 2015, 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note I.E., in 2015 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was 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 Supplementary Information is 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 16, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the City'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 16, 2016**

## 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, 2015.

### Financial Highlights

- The assets and deferred outflow of resources of the City exceeded its liabilities at the close of the fiscal year by \$22,424,921 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$16,685,629 that is net investment in capital assets.
- During the year, the City's revenues of \$11,651,303 exceeded expenses of \$9,140,959 by \$2,510,344.
- The General Fund reported a fund balance this year of \$3,455,342, of which \$3,416,854 was unassigned and approximated 62% of General Fund expenditures. Total fund balance increased \$1,086,514 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$366,997 which was restricted for debt service fund expenditures. Total fund balance increased \$101,715 from prior year.
- The Utility Fund reported an operating income of \$1,060,191, and an increase in net position of \$611,530.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,754,303, of which \$926,270 was unrestricted. Total net position increased \$304,452 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.

In fiscal year 2015, the City adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the City's financial statements.

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined annually by the actuary for the TMRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2015 government-wide and proprietary fund financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of October 1, 2014 was decreased by \$1,423,611 to reflect the cumulative effect of adoption. The net pension liability of \$1,632,704 and the deferred outflows of resources of \$209,093 at September 30, 2014 were reported as a prior period adjustment to the net position on October 1, 2014. Refer to Note IV.C for more information regarding the City's pension.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements,

reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 69.

Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 70.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's fiscal year-end, the effect from the City's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position are as follows:

- TMRS – The beginning deferred outflow includes contributions from January 1, 2014 through September 30, 2014, totaling \$209,093.

**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 eight 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 five 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 \$22,424,921, at the close of the most recent fiscal year.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 5,797,075	\$ 4,530,617	\$ 4,940,284	\$ 5,092,980	\$ 10,737,359	\$ 9,623,597
Capital Assets	16,809,399	17,403,312	11,600,462	10,941,610	28,409,861	28,344,922
<b>Total Assets</b>	<b>22,606,474</b>	<b>21,933,929</b>	<b>16,540,746</b>	<b>16,034,590</b>	<b>39,147,220</b>	<b>37,968,519</b>
<b>Total Deferred Outflows of Resources</b>	<b>359,356</b>	<b>115,874</b>	<b>41,900</b>	<b>-</b>	<b>401,256</b>	<b>115,874</b>
Long-term Liabilities Outstanding	11,016,351	10,803,937	4,973,162	4,979,233	15,989,513	15,783,170
Other Liabilities	590,333	649,521	441,044	313,514	1,031,377	963,035
<b>Total Liabilities</b>	<b>11,606,684</b>	<b>11,453,458</b>	<b>5,414,206</b>	<b>5,292,747</b>	<b>17,020,890</b>	<b>16,746,205</b>
<b>Total Deferred Inflows of Resources</b>	<b>88,292</b>	<b>-</b>	<b>14,373</b>	<b>-</b>	<b>102,665</b>	<b>-</b>
<b>Net Position:</b>						
Net Investments in Capital Assets	7,323,498	6,699,709	9,362,131	8,985,230	16,685,629	15,684,939
Restricted	1,219,152	1,067,370	-	218,270	1,219,152	1,285,640
Unrestricted	2,728,204	2,829,266	1,791,936	1,538,343	4,520,140	4,367,609
<b>Total Net Position</b>	<b>\$ 11,270,854</b>	<b>\$ 10,596,345</b>	<b>\$ 11,154,067</b>	<b>\$ 10,741,843</b>	<b>\$ 22,424,921</b>	<b>\$ 21,338,188</b>

The City's total assets of \$39,147,220 are largely comprised of capital assets, net of accumulated depreciation of \$28,409,861, or 73%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$15,989,513 comprise the largest portion of the City's total liabilities of \$17,020,890 at 94%. Of total long-term liabilities, \$1,169,755 is due within one year, with the remainder \$14,819,758 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 \$16,685,629 represents investments in capital assets, net of related debt, and approximately 6% of total net position or \$1,219,152 represents restriction for debt services, economic development, police and municipal court. The \$4,520,140 (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 \$2,510,344 from current operations and decreased net position by \$1,423,611 from the implementation of new accounting standards as described in the notes to the financial statements. The elements giving rise to this change may be determined from the table below.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 1,239,578	\$ 1,246,376	\$ 3,371,678	\$ 3,275,919	\$ 4,611,256	\$ 4,522,295
Operating Grants and Contributions	329,660	298,828	-	-	329,660	298,828
Capital Grants and Contributions	358,958	601,858	23,752	335,199	382,710	937,057
General Revenues:						
Property Taxes	2,721,030	2,609,697	-	-	2,721,030	2,609,697
Sales and Other Taxes	2,858,816	2,734,039	-	-	2,858,816	2,734,039
Franchise Taxes	468,169	529,300	-	-	468,169	529,300
Earnings on Investments	33,378	23,661	43,938	53,986	77,316	77,647
Sale of Assets and Easements	79,000	-	-	-	79,000	-
Proceeds from Insurance	40,852	32,749	16,365	7,640	57,217	40,389
Miscellaneous	62,866	40,425	3,263	-	66,129	40,425
<b>Total Revenues</b>	<b>8,192,307</b>	<b>8,116,933</b>	<b>3,458,996</b>	<b>3,672,744</b>	<b>11,651,303</b>	<b>11,789,677</b>
<b>Expenses:</b>						
General Government	1,137,071	1,032,297	-	-	1,137,071	1,032,297
Public Safety	3,309,784	3,338,605	-	-	3,309,784	3,338,605
Public Works	194,942	201,985	-	-	194,942	201,985
Transportation	510,621	555,593	-	-	510,621	555,593
Culture and Recreation	1,175,514	1,183,225	-	-	1,175,514	1,183,225
Grants	4,999	2,410	-	-	4,999	2,410
Economic Development	111,417	113,922	-	-	111,417	113,922
Debt Service	245,038	267,293	-	-	245,038	267,293
Water and Sewer	-	-	2,451,573	2,359,368	2,451,573	2,359,368
<b>Total Expenses</b>	<b>6,689,386</b>	<b>6,695,330</b>	<b>2,451,573</b>	<b>2,359,368</b>	<b>9,140,959</b>	<b>9,054,698</b>
Excess (Deficiency) Before Transfers	1,502,921	1,421,603	1,007,423	1,313,376	2,510,344	2,734,979
Transfers, net of Governmental Funds						
Capital Contributions	395,893	573,188	(395,893)	(573,188)	-	-
Change in Net Position	1,898,814	1,994,791	611,530	740,188	2,510,344	2,734,979
Net Position - Beginning	10,596,345	8,601,554	10,741,843	10,001,655	21,338,188	18,603,209
Prior Period Adjustment - Implement						
GASB 68 & 71 for Pensions (a)	(1,224,305)	-	(199,306)	-	(1,423,611)	-
Net Position - Beginning, as restated	9,372,040	8,601,554	10,542,537	10,001,655	19,914,577	18,603,209
<b>Net Position - Ending</b>	<b>\$ 11,270,854</b>	<b>\$ 10,596,345</b>	<b>\$ 11,154,067</b>	<b>\$ 10,741,843</b>	<b>\$ 22,424,921</b>	<b>\$ 21,338,188</b>

(a) The restatement of the beginning net position in fiscal year 2015 is the result of the City implementing GASB Statement No. 68 and 71 in Fiscal year 2015. The implementation is discussed above in MD&A and more information is available in Note IV.C.

**Governmental Activities.** Governmental activities increased the City's net position from current operations by \$1,898,814. The City's total revenues were \$8,192,307 from all governmental activities. A significant portion, \$2,721,030 or 33%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$2,858,816, or 35%, of total revenue for governmental activities. Charges for services accounts for \$1,239,578, or 15%, of total revenue for governmental activities. The remaining 17% is generated from grants and contributions, franchise taxes, earnings on investments, proceeds from insurance and miscellaneous revenues. There were no significant changes in governmental activities revenues.

The total cost of all governmental programs and services was \$6,689,386. The public safety function accounted for \$3,309,784, or 49% of this total. The general government function accounted for \$1,137,071, or 17% of this total. The culture and recreation function accounted for \$1,175,514, or 18% of this total. There were no significant changes in governmental activities expenses.

The City's governmental activities net position increased primarily due to the total revenues remained greater than total expenditures and despite the implementation GASB 68 and 71 which decreased net position significantly.

**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 \$611,530 from current operations. 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 \$3,371,678 are utilized to provide funds for program expenses of \$2,451,573.

The increase in net position from current operations for business-type activities is due to the increase in charges for services exceeded expenses and the decrease in capital grants and contributions.

### **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 \$4,586,713, which is an increase of \$1,317,741 from last year's total of \$3,268,972.

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 \$3,416,854 and total fund balance was \$3,455,342. 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 62% and 63% of total general fund expenditures, respectively. The fund balance of the City's general fund increased by \$1,086,514 during the current fiscal year. For the most part, increases in property taxes and 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.

The debt service fund ending fund balance was \$366,997, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$101,715 during the year, primarily due to decreased debt requirements.

The capital projects ending fund balance was \$74,832. The net decrease in fund balance during the current year in the capital projects fund was \$6,436. Total net change in fund balance remained stable from prior year.

**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 \$1,791,936. The total increase in net position for the Water and Sewer Funds was \$611,530. 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 \$175,582 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 2015, the City had invested \$28,409,861 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'S CAPITAL ASSETS**  
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,136,352	\$ 2,117,288	\$ 178,621	\$ 178,621	\$ 2,314,973	\$ 2,295,909
Buildings and Improvements	13,720,484	14,201,767	21,910	23,318	13,742,394	14,225,085
Furniture and Equipment	843,063	1,084,257	225,088	217,966	1,068,151	1,302,223
Water System	-	-	6,094,909	3,006,734	6,094,909	3,006,734
Sewer System	-	-	4,815,182	5,057,964	4,815,182	5,057,964
Construction in Progress	109,500	-	264,752	2,457,007	374,252	2,457,007
<b>Totals</b>	<b>\$ 16,809,399</b>	<b>\$ 17,403,312</b>	<b>\$ 11,600,462</b>	<b>\$ 10,941,610</b>	<b>\$ 28,409,861</b>	<b>\$ 28,344,922</b>

Major capital asset purchases during the year included the following:

- Business-type Activities Water and Sewer System \$982,899

### Long-term Liabilities

At year-end, the City had the following long-term liabilities:

**Table A-4**  
**CITY OF CLEVELAND, TEXAS'S LONG-TERM LIABILITIES OUTSTANDING**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Certificates of Obligation (net)	\$ 9,662,702	\$ 10,700,317	\$ 4,754,388	\$ 4,979,233	\$ 14,417,090	\$ 15,679,550
Note Payable	9,755	103,620	-	-	9,755	103,620
Net Pension Liability*	1,343,894	1,404,125	218,774	228,579	1,562,668	1,632,704
<b>Totals</b>	<b>\$ 11,016,351</b>	<b>\$ 12,208,062</b>	<b>\$ 4,973,162</b>	<b>\$ 5,207,812</b>	<b>\$ 15,989,513</b>	<b>\$ 17,415,874</b>

\*2014 Net Pension Liability restated for implementation of GASB 68.

**Pension.** The adoption of Statement No. 68 resulted in the City's reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. The decrease in the City's net pension liability (NPL) to \$1,562,668 at September 30, 2015 from \$1,632,704 at September 30, 2014 was the result of a significant increase in interest on the pension liability in the TMRS plan during 2014.

The following table provides the City's key pension statistics related to the TMRS plan as of and for the fiscal year ended September 30, 2015:

**Table A-5**  
**CITY OF CLEVELAND, TEXAS'S KEY PENSION STATISTICS**

Net Pension Liability (NPL)	\$ 1,562,668
Pension Expense	\$ 236,072

Additional information on the City's net pension liability can be found in the notes to the financial statements as indicated in the table of contents of this report.

**Economic Factors and Next Year's Budget**

- Total tax rate \$0.78 per \$100 valuation in fiscal year 2016 (\$0.542 for maintenance and operations and \$0.238 for interest and sinking).
- The unemployment rate for the County is currently 6.7%, which is a decrease from a rate of 8.1 a year ago. This compares unfavorably to the state's average unemployment rate of 4.4%, which is a decrease from a rate of 5.2% 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 \$3,416,854 at September 30, 2015. The City projects to transfer \$800,000 from the Water and Sewer Fund to the General Fund which will be used to fund expenditures of the General Fund budget.
- The City's budgetary General Fund balance is not expected to increase or decrease.

**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.

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CLEVELAND, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit Cleveland EDC</u>
<b>ASSETS:</b>				
<i>Cash and Cash Equivalents</i>	\$ 4,724,844	\$ 1,937,092	\$ 6,661,936	\$ 952,314
<i>Investments</i>	375	433	808	1,798
Receivables (Net of Allowances for Uncollectibles, Where Applicable):				
<i>Property Taxes</i>	641,203	-	641,203	-
<i>Accounts</i>	19,212	514,573	533,785	-
<i>Due from Other Governments</i>	356,644	-	356,644	-
<i>Other</i>	187	-	187	-
<i>Internal Balances</i>	27,871	(27,871)	-	-
<i>Due from Component Unit</i>	2,169	-	2,169	-
<i>Prepaid Items</i>	24,570	-	24,570	-
Restricted Assets:				
<i>Cash - Construction</i>	-	2,516,057	2,516,057	-
Capital Assets:				
<i>Land and Improvements</i>	2,136,352	178,621	2,314,973	1,025,501
<i>Buildings and Improvements</i>	17,571,955	47,997	17,619,952	-
<i>Furniture and Equipment</i>	4,017,587	831,083	4,848,670	-
<i>Water System</i>	-	9,300,916	9,300,916	-
<i>Sewer System</i>	-	15,256,036	15,256,036	-
<i>Construction in Progress</i>	109,500	264,752	374,252	-
<i>Accumulated Depreciation</i>	(7,025,995)	(14,278,943)	(21,304,938)	-
<b>Total Assets</b>	<u>22,606,474</u>	<u>16,540,746</u>	<u>39,147,220</u>	<u>1,979,613</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
<i>Deferred Charge on Refunding</i>	101,969	-	101,969	-
<i>Deferred Outflows for Pensions</i>	257,387	41,900	299,287	-
<b>Total Deferred Outflows of Resources</b>	<u>359,356</u>	<u>41,900</u>	<u>401,256</u>	<u>-</u>
<b>LIABILITIES:</b>				
<i>Accounts Payable</i>	342,356	77,184	419,540	25,673
<i>Accrued Liabilities</i>	25,703	133,762	159,465	-
<i>Escrow Liability - Seizure Funds</i>	201,100	-	201,100	-
<i>Refundable Deposits</i>	-	218,682	218,682	-
<i>Accrued Interest</i>	21,174	11,416	32,590	-
<i>Due to Primary Government</i>	-	-	-	2,169
Noncurrent Liabilities:				
<i>Notes Payable - Current</i>	9,755	-	9,755	43,627
<i>Notes Payable - Long-term</i>	-	-	-	153,841
<i>Certificates of Obligation and Bonds Payable - Current</i>	930,000	230,000	1,160,000	-
<i>Certificates of Obligation and Bonds Payable - Long-term</i>	8,732,702	4,524,388	13,257,090	-
<i>Net Pension Liability - Long-term</i>	1,343,894	218,774	1,562,668	-
<b>Total Liabilities</b>	<u>11,606,684</u>	<u>5,414,206</u>	<u>17,020,890</u>	<u>225,310</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
<i>Deferred Inflows for Pensions</i>	88,292	14,373	102,665	-
<b>Total Deferred Inflows of Resources</b>	<u>88,292</u>	<u>14,373</u>	<u>102,665</u>	<u>-</u>
<b>NET POSITION:</b>				
<i>Net Investment in Capital Assets</i>	7,323,498	9,362,131	16,685,629	828,033
Restricted for:				
<i>Debt Services</i>	554,942	-	554,942	-
<i>Economic Development</i>	492,599	-	492,599	-
<i>Police</i>	163,680	-	163,680	-
<i>Municipal Court</i>	7,931	-	7,931	-
<i>Unrestricted</i>	2,728,204	1,791,936	4,520,140	926,270
<b>Total Net Position</b>	<u>\$ 11,270,854</u>	<u>\$ 11,154,067</u>	<u>\$ 22,424,921</u>	<u>\$ 1,754,303</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, 2015**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General Government:				
City Council	\$ 23,226	\$ -	\$ -	\$ -
Administration	810,001	-	-	-
Technology	303,844	-	-	-
Public Safety:				
Municipal Court	164,770	24,827	-	-
Police Department	2,401,731	770,978	33,507	-
Animal Control	51,573	617	-	-
Fire and Ambulance	691,710	95,100	-	-
Public Works:				
Development Services	182,901	51,185	-	-
Garage Department	12,041	-	-	-
Transportation:				
Street Department	392,629	-	-	-
Airport Department	117,992	102,983	-	-
Culture and Recreation:				
Library Department	332,249	21,722	8,055	-
Cemetery and Parks	476,865	42,991	62,118	-
Civic/Community	302,015	129,175	18,635	-
Sports Facilities	64,385	-	-	-
Grants	4,999	-	-	358,958
Economic Development	111,417	-	-	-
Debt Service:				
Interest and Fiscal Charges	245,038	-	207,345	-
Total Governmental Activities	<u>6,689,386</u>	<u>1,239,578</u>	<u>329,660</u>	<u>358,958</u>
Business-type Activities:				
Water and Sewer	2,451,573	3,371,678	-	23,752
Total Business-Type Activities	<u>2,451,573</u>	<u>3,371,678</u>	<u>-</u>	<u>23,752</u>
<b>Total Primary Government</b>	<b>\$ <u>9,140,959</u></b>	<b>\$ <u>4,611,256</u></b>	<b>\$ <u>329,660</u></b>	<b>\$ <u>382,710</u></b>
<b>COMPONENT UNIT:</b>				
Cleveland Economic Development Corp.	<u>\$ 433,215</u>	<u>\$ 21,876</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
 Property Taxes  
 Sales and Other Taxes  
 Franchise Taxes  
 Earnings on Investments  
 Sale of Assets and Easements  
 Proceeds from Insurance  
 Miscellaneous  
 Transfers, net of Governmental Funds Capital Contributions  
 Total General Revenues and Transfers  
 Change in Net Position  
 Net Position - Beginning  
 Prior Period Adjustment - Implement GASB 68 & 71 for Pensions  
 Net Position - Beginning, as restated  
**Net Position - Ending**

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

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (23,226)	\$ -	\$ (23,226)	\$ -
(810,001)	-	(810,001)	-
(303,844)	-	(303,844)	-
(139,943)	-	(139,943)	-
(1,597,246)	-	(1,597,246)	-
(50,956)	-	(50,956)	-
(596,610)	-	(596,610)	-
(131,716)	-	(131,716)	-
(12,041)	-	(12,041)	-
(392,629)	-	(392,629)	-
(15,009)	-	(15,009)	-
(302,472)	-	(302,472)	-
(371,756)	-	(371,756)	-
(154,205)	-	(154,205)	-
(64,385)	-	(64,385)	-
353,959	-	353,959	-
(111,417)	-	(111,417)	-
(37,693)	-	(37,693)	-
<u>(4,761,190)</u>	<u>-</u>	<u>(4,761,190)</u>	<u>-</u>
-	943,857	943,857	-
-	943,857	943,857	-
<u>(4,761,190)</u>	<u>943,857</u>	<u>(3,817,333)</u>	<u>-</u>
			<u>(411,339)</u>
2,721,030	-	2,721,030	-
2,858,816	-	2,858,816	508,384
468,169	-	468,169	-
33,378	43,938	77,316	7,407
79,000	-	79,000	200,000
40,852	16,365	57,217	-
62,866	3,263	66,129	-
395,893	(395,893)	-	-
<u>6,660,004</u>	<u>(332,327)</u>	<u>6,327,677</u>	<u>715,791</u>
<u>1,898,814</u>	<u>611,530</u>	<u>2,510,344</u>	<u>304,452</u>
<u>10,596,345</u>	<u>10,741,843</u>	<u>21,338,188</u>	<u>1,449,851</u>
<u>(1,224,305)</u>	<u>(199,306)</u>	<u>(1,423,611)</u>	<u>-</u>
<u>9,372,040</u>	<u>10,542,537</u>	<u>19,914,577</u>	<u>1,449,851</u>
<u>\$ 11,270,854</u>	<u>\$ 11,154,067</u>	<u>\$ 22,424,921</u>	<u>\$ 1,754,303</u>

**CITY OF CLEVELAND, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS:</b>		
<i>Cash and Cash Equivalents</i>	\$ 3,331,207	\$ 357,692
<i>Investments</i>	375	-
<i>Receivable (Net of Allowances for Uncollectible Accounts, Where Applicable):</i>		
<i>Property Taxes</i>	432,549	208,654
<i>Accounts</i>	-	-
<i>Due from Other Governments</i>	279,027	-
<i>Other</i>	187	-
<i>Due from Other Funds</i>	27,959	9,305
<i>Due from Component Unit</i>	2,169	-
<i>Prepaid Items</i>	-	-
<b>Total Assets</b>	<b>\$ 4,073,473</b>	<b>\$ 575,651</b>
<b>LIABILITIES:</b>		
<i>Accounts Payable</i>	\$ 142,643	\$ -
<i>Accrued Liabilities</i>	25,703	-
<i>Escrow Liability - Seizure Funds</i>	-	-
<i>Due to Other Funds</i>	17,236	-
<b>Total Liabilities</b>	<b>185,582</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
<i>Unavailable Revenue - Property Taxes</i>	432,549	208,654
<b>Total Deferred Inflows of Resources</b>	<b>432,549</b>	<b>208,654</b>
<b>FUND BALANCES:</b>		
<i>Nonspendable - Prepaid Items</i>	-	-
<i>Restricted for Debt</i>	-	366,997
<i>Restricted for Capital Projects</i>	-	-
<i>Restricted for Economic Development</i>	-	-
<i>Restricted for Police</i>	-	-
<i>Restricted for Municipal Court</i>	-	-
<i>Committed for Fire and Ambulance</i>	-	-
<i>Committed for Purchase of Capital Assets</i>	38,488	-
<i>Unassigned Fund Balances</i>	3,416,854	-
<b>Total Fund Balances</b>	<b>3,455,342</b>	<b>366,997</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 4,073,473</b>	<b>\$ 575,651</b>

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

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ 79,028	\$ 956,917	\$ 4,724,844
-	-	375
-	-	641,203
-	19,212	19,212
77,617	-	356,644
-	-	187
-	7,931	45,195
-	-	2,169
-	24,570	24,570
<u>\$ 156,645</u>	<u>\$ 1,008,630</u>	<u>\$ 5,814,399</u>
\$ 81,813	\$ 117,900	\$ 342,356
-	-	25,703
-	201,100	201,100
-	88	17,324
<u>81,813</u>	<u>319,088</u>	<u>586,483</u>
-	-	641,203
<u>-</u>	<u>-</u>	<u>641,203</u>
-	24,570	24,570
-	-	366,997
74,832	-	74,832
-	492,599	492,599
-	163,680	163,680
-	7,931	7,931
-	762	762
-	-	38,488
-	-	3,416,854
<u>74,832</u>	<u>689,542</u>	<u>4,586,713</u>
<u>\$ 156,645</u>	<u>\$ 1,008,630</u>	<u>\$ 5,814,399</u>

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**CITY OF CLEVELAND, TEXAS***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015*

**Total Fund Balance - Governmental Funds** **\$ 4,586,713**

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	\$ 23,835,394	
Accumulated Depreciation of Governmental Capital Assets	<u>(7,025,995)</u>	16,809,399

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.		641,203
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Long-term liabilities, including bonds payable, notes payable, and net pension liability, 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	\$ (9,265,000)	
Premium on Bonds Payable	(397,702)	
Notes Payable	(9,755)	
Accrued Interest on the Bonds and Notes	(21,174)	
Net Pension Liability	<u>(1,343,894)</u>	(11,037,525)

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.		101,969
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Deferred outflows for pension are included in the statement of net position and are not reported in the funds due to they are not a current financial resource available to pay for current expenditures.		257,387
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Deferred inflows for pension are included in the statement of net position and are not reported in the funds due to they are not current financial resources available to pay for current expenditures.		<u>(88,292)</u>
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**Total Net Position - Governmental Activities** **\$ 11,270,854**

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, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES:</b>		
Taxes:		
<i>Property Taxes</i>	\$ 1,870,963	\$ 845,234
<i>Sales and Other Taxes</i>	2,655,345	-
<i>Franchise Taxes</i>	468,169	-
<i>License and Permits</i>	51,185	-
<i>Charges for Services</i>	391,971	-
<i>Fines and Forfeitures</i>	367,758	-
<i>Intergovernmental</i>	40,311	-
<i>Earnings on Investments</i>	24,631	2,870
<i>Contributions</i>	83,387	207,345
<i>Miscellaneous</i>	62,866	-
Total Revenues	<u>6,016,586</u>	<u>1,055,449</u>
<b>EXPENDITURES:</b>		
General Government:		
<i>City Council</i>	22,557	-
<i>Administration</i>	683,285	-
<i>Technology</i>	300,426	-
Public Safety:		
<i>Municipal Court</i>	161,012	-
<i>Police Department</i>	1,943,205	-
<i>Animal Control</i>	46,423	-
<i>Fire and Ambulance</i>	631,802	-
Public Works:		
<i>Development Services</i>	184,608	-
<i>Garage Department</i>	10,690	-
Transportation:		
<i>Street Department</i>	293,051	-
<i>Airport Department</i>	77,645	-
Culture and Recreation:		
<i>Library Department</i>	296,423	-
<i>Cemetery and Parks</i>	323,066	-
<i>Civic/Community</i>	232,186	-
<i>Sports Facilities</i>	64,385	-
<i>Grants</i>	4,999	-
<i>Economic Development</i>	-	-
Capital Outlay:		
<i>Technology</i>	5,610	-
<i>Police</i>	-	-
<i>Airport Department</i>	109,500	-
<i>Glen Park Drainage</i>	-	-
<i>Utility Fund Industrial Park</i>	-	-
Debt Service:		
<i>Principal Retirement</i>	84,554	1,005,000
<i>Interest and Fiscal Charges</i>	1,577	264,334
Total Expenditures	<u>5,477,004</u>	<u>1,269,334</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>539,582</u>	<u>(213,885)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
<i>Proceeds from Sale of Assets and Easements</i>	79,000	-
<i>Proceeds from Insurance</i>	40,852	-
<i>Transfers In (Out)</i>	427,080	315,600
Total Other Financing Sources (Uses)	<u>546,932</u>	<u>315,600</u>
Net Change in Fund Balances	1,086,514	101,715
Fund Balances - Beginning	2,368,828	265,282
<b>Fund Balances - Ending</b>	<u><u>\$ 3,455,342</u></u>	<u><u>\$ 366,997</u></u>

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

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,716,197
-	203,471	2,858,816
-	-	468,169
-	-	51,185
-	13,965	405,936
-	414,699	782,457
355,782	1,793	397,886
599	5,278	33,378
-	-	290,732
-	-	62,866
<u>356,381</u>	<u>639,206</u>	<u>8,067,622</u>
-	-	22,557
-	-	683,285
-	-	300,426
-	6,034	167,046
-	334,894	2,278,099
-	-	46,423
-	-	631,802
-	-	184,608
-	-	10,690
-	-	293,051
-	-	77,645
-	-	296,423
1,746	-	324,812
-	-	232,186
-	-	64,385
-	-	4,999
-	112,555	112,555
-	-	5,610
-	34,775	34,775
-	-	109,500
19,064	-	19,064
342,007	-	342,007
-	9,311	1,098,865
-	909	266,820
<u>362,817</u>	<u>498,478</u>	<u>7,607,633</u>
<u>(6,436)</u>	<u>140,728</u>	<u>459,989</u>
-	-	79,000
-	-	40,852
-	(4,780)	737,900
-	(4,780)	857,752
(6,436)	135,948	1,317,741
81,268	553,594	3,268,972
<u>\$ 74,832</u>	<u>\$ 689,542</u>	<u>\$ 4,586,713</u>

**CITY OF CLEVELAND, TEXAS**

*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, 2015*

**Total Net Change in Fund Balance - Governmental Funds** **\$ 1,317,741**

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

Some property taxes will not be collected for several months after the City's fiscal year end and are not considered "available" revenues and, therefore, are deferred in the governmental funds. Deferred tax revenues increased by this amount this year. 4,833

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	\$	168,949	
Depreciation Expense		<u>(680,807)</u>	(511,858)

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position. (82,055)

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. 1,005,000

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. 93,865

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 consists of the following:

Accrued Interest on Bonds Payable decreased	\$	1,651	
Accrued Interest on Notes Payable decreased		1,421	
Amortization of Bond Premium		32,615	
Amortization of Deferred Charge on Refunding		<u>(13,905)</u>	21,782

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred Outflows Increased (Decreased)	\$	77,567	
Deferred Inflows (Increased) Decreased		(88,292)	
Net Pension Liability (Increased) Decreased		<u>60,231</u>	<u>49,506</u>

**Change in Net Position of Governmental Activities** **\$ 1,898,814**

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, 2015**

	<u>Water and Sewer Fund</u>
<b>ASSETS:</b>	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 1,937,092
<i>Investments</i>	433
Receivables (Net of Allowances for Uncollectibles):	
<i>Accounts - Utilities</i>	514,573
Total Current Assets	<u>2,452,098</u>
Noncurrent Assets:	
Restricted Assets:	
<i>Cash - Construction</i>	2,516,057
Capital Assets:	
<i>Land and Improvements</i>	178,621
<i>Buildings and Improvements</i>	47,997
<i>Furniture and Equipment</i>	831,083
<i>Water System</i>	9,300,916
<i>Sewer System</i>	15,256,036
<i>Construction in Progress</i>	264,752
<i>Accumulated Depreciation</i>	(14,278,943)
Total Noncurrent Assets	<u>14,116,519</u>
Total Assets	<u>16,568,617</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
<i>Deferred Outflows for Pensions</i>	41,900
Total Deferred Outflows of Resources	<u>41,900</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
<i>Accounts Payable</i>	77,184
<i>Accrued Liabilities</i>	133,762
<i>Refundable Deposits</i>	218,682
<i>Accrued Interest Payable</i>	11,416
<i>Due to Other Funds</i>	27,871
<i>Certificates of Obligation Payable - Current</i>	230,000
Total Current Liabilities	<u>698,915</u>
Noncurrent Liabilities:	
<i>Certificates of Obligation Payable - Long-term</i>	4,524,388
<i>Net Pension Liability - Long-term</i>	218,774
Total Noncurrent Liabilities	<u>4,743,162</u>
Total Liabilities	<u>5,442,077</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
<i>Deferred Inflows for Pensions</i>	14,373
Total Deferred Inflows of Resources	<u>14,373</u>
<b>NET POSITION:</b>	
<i>Net Investment in Capital Assets</i>	9,362,131
<i>Unrestricted</i>	1,791,936
Total Net Position	<u>\$ 11,154,067</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, 2015

	<u>Water and Sewer Fund</u>
<b>OPERATING REVENUES:</b>	
<i>Charges for Services</i>	\$ 3,371,678
<i>Miscellaneous</i>	3,263
Total Operating Revenues	<u>3,374,941</u>
<b>OPERATING EXPENSES:</b>	
<i>Administration</i>	313,620
<i>Water Production</i>	616,340
<i>Sewer Department</i>	697,556
<i>Sanitation Services</i>	309,070
<i>Depreciation</i>	378,164
Total Operating Expenses	<u>2,314,750</u>
Operating Income	<u>1,060,191</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
<i>Proceeds from Insurance</i>	16,365
<i>Earnings on Investments</i>	43,938
<i>Interest and Fees on Debt</i>	(136,823)
Total Non-Operating Revenues (Expenses)	<u>(76,520)</u>
Income before Other Financing Sources (Uses)	983,671
<b>OTHER FINANCING SOURCES (USES):</b>	
<i>Capital Contributions from Governmental Funds</i>	342,007
<i>Capital Contributions from CEDC</i>	23,752
<i>Transfers In (Out)</i>	(737,900)
Total Other Financing Sources (Uses)	<u>(372,141)</u>
Change in Net Position	611,530
Net Position - Beginning	10,741,843
Prior Period Adjustment - Implement GASB 68 & 71 for Pensions	(199,306)
Net Position - Beginning, as restated	<u>10,542,537</u>
<b>Net Position - Ending</b>	<b>\$ <u><u>11,154,067</u></u></b>

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

**CITY OF CLEVELAND, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Water and  
Sewer Fund**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

<i>Cash Received for Services</i>	\$ 3,404,844
<i>Cash Payments to Suppliers for Goods and Services</i>	(1,065,817)
<i>Cash Payments to Employees for Salaries and Benefits</i>	<u>(792,130)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,546,897</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

<i>Transfers From (To) Other Funds</i>	(737,900)
<i>Insurance Proceeds</i>	<u>16,365</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(721,535)</u>

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

<i>Purchase of Capital Assets</i>	(671,257)
<i>Principal Paid on Capital Debt</i>	(224,845)
<i>Interest and Fees Paid on Capital Debt</i>	<u>(137,095)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(1,033,197)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

<i>Earnings on Investments</i>	<u>43,938</u>
Net Cash Provided (Used) for Investing Activities	<u>43,938</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(163,897)
Cash and Cash Equivalents at Beginning of Year	<u>4,617,046</u>
<b>Cash and Cash Equivalents at End of Year, including Restricted Cash</b>	<b>\$ <u>4,453,149</u></b>

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

<i>Operating Income</i>	\$ 1,060,191
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<i>Depreciation</i>	378,164
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Accounts and Other Receivables, net</i>	(2,974)
<i>Decrease (Increase) in Deferred Outflows</i>	(12,627)
<i>Increase (Decrease) in Accounts Payable</i>	(38,837)
<i>Increase (Decrease) in Accrued Liabilities</i>	133,762
<i>Increase (Decrease) in Refundable Deposits</i>	32,877
<i>Increase (Decrease) in Due to Other Funds</i>	(8,227)
<i>Increase (Decrease) in Net Pension Liability</i>	(9,805)
<i>Increase (Decrease) in Deferred Inflows</i>	<u>14,373</u>
Total Adjustments	<u>486,706</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ <u>1,546,897</u></b>

**Schedule of non-cash capital and related financing activities:**

<i>Contributions of capital assets from Governmental Funds and CEDC</i>	\$ 365,759
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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 unit. 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 unit, an entity for which the City is considered to be financially accountable. The 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, 2015*

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. New Accounting Standards Adopted**

In fiscal year 2015, the City adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

1. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
2. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

**CITY OF CLEVELAND, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*SEPTEMBER 30, 2015*

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the City's financial statements.

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined annually by the actuary for TMRS. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2015 government-wide and proprietary fund financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of October 1, 2014, was decreased by \$1,423,611 to reflect the cumulative effect of adoption. The net pension liability of \$1,632,704 and the deferred outflows of resources of \$209,093 at September 30, 2014, were reported as a prior period adjustment to the net position on October 1, 2014. Refer to Note IV.C for more information regarding the City's pensions.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 69.

Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 70.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's fiscal year-end, the effects from the City's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position are as follows:

- TMRS – The beginning deferred outflow includes contributions from January 1, 2014, through September 30, 2014, totaling \$209,093.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**F. 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 required under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, 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.

**CITY OF CLEVELAND, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015

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

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

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

**1. Cash and Cash Equivalents**

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

**2. Investments**

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

**3. Prepaid Items**

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

**4. Capital Assets**

Capital assets, which include land 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 net 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 two items that qualify for reporting in this category. They are the deferred outflows for pensions and 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. The deferred outflow for pensions results from the difference in projected and actual earnings on plan investments and the effects of actuarial differences and changes in assumptions. The plan's investment earnings difference is amortized over 5 years and the actuarial differences and changes in assumptions is amortized over a period equal to the average of the expected remaining service lives of all employees.

In addition to liabilities, the statement of net position and the balance sheet – governmental funds 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 or fund balance 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 two items that qualifies for reporting in this category, unavailable property tax revenue and deferred inflows for pensions, which arises under the modified accrual basis of accounting and the accrual basis of accounting, respectively. Accordingly, the item, *unavailable revenue - property taxes*, is reported only in the governmental funds balance sheet under the modified accrual basis of accounting. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred inflow for pensions arises only under the accrual basis of accounting and results from the difference in projected and actual earnings on plan investments and the effects of actuarial differences and changes in assumptions. The plan's investment earnings difference is amortized over 5 years and the actuarial differences and changes in assumptions is amortized over a period equal to the average of the expected remaining service lives of all employees.

**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.

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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 and City Manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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

**H. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Liberty County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2015 was \$0.78 per \$100, allocated \$0.5395 for the General Fund and \$0.2405 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.

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**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.
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.

**III. Detailed Notes on All Funds**

**A. Deposits and Investments**

**Primary Government**

At September 30, 2015 the carrying amount of the City's deposits (cash, interest-bearing savings accounts, and money market accounts) was \$9,177,993 and the bank's balances totaled \$9,348,775. At September 30, 2015, 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 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)

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bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fund</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	General Fund	AAAm	\$ 375	0.11
Texpool - LGIP	Water & Sewer Fund	AAAm	433	0.11
<b>Total Fair Value</b>			<b>\$ 808</b>	
<b>Portfolio Weighted Average Maturity</b>				<b>0.11</b>

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

*Credit risk.* For fiscal year 2015, 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, 2015, 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, 2015, the carrying amount of the Cleveland Economic Development Corporation's (CEDC) deposits (cash, interest-bearing savings accounts, and money market accounts) was \$952,314 and the bank balance was \$963,930. At September 30, 2015, 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, 2015, the Cleveland Economic Development Corporation had the following investments:

<u>Investment Type</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texpool - LGIP	AAAm	\$ 1,798	0.11
<b>Total Fair Value</b>		<b>\$ 1,798</b>	
<b>Portfolio Weighted Average Maturity</b>			<b>0.11</b>

**B. Receivables**

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	\$ 4,500
Uncollectibles Related to Debt Service Property Taxes	3,000
Uncollectibles Related to Water and Sewer Fund Utilities	(21,157)
<b>Total Uncollectibles of the Current Fiscal Year Increased (Decreased) Revenues</b>	<b>\$ (13,657)</b>

Approximately 72% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

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**C. Interfund Balances and Activity**

**Primary Government**

1. Due To and From Other Funds at September 30, 2015 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 27,959	\$ 17,236
Debt Service Fund	9,305	-
Nonmajor Funds	7,931	88
Water and Sewer Fund	-	27,871
<b>Totals</b>	<b>\$ 45,195</b>	<b>\$ 45,195</b>

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

2. Transfers To and From Other Funds

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the City’s transfers for the year ended September 30, 2015.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 427,080
Water and Sewer Fund	Debt Service Fund	315,600
Nonmajor Funds	Water and Sewer Fund	(4,780)
		<b>\$ 737,900</b>

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund and Debt Service Fund. Transfers from Nonmajor Funds 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, 2015 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ 2,169	\$ -
Component Unit - EDC	-	2,169
<b>Totals</b>	<b>\$ 2,169</b>	<b>\$ 2,169</b>

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

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**D. Capital Assets**

**Primary Government**

Capital asset activity for the period ended September 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions and Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, not being Depreciated:</b>				
Land and Improvements	\$ 2,117,288	\$ 19,064	\$ -	\$ 2,136,352
Construction in Progress	-	109,500	-	109,500
<b>Total Capital Assets, not being Depreciated</b>	<u>2,117,288</u>	<u>128,564</u>	<u>-</u>	<u>2,245,852</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings and Improvements	17,571,955	-	-	17,571,955
Furniture and Equipment	4,059,257	40,385	(82,055)	4,017,587
<b>Total Capital Assets, being Depreciated</b>	<u>21,631,212</u>	<u>40,385</u>	<u>(82,055)</u>	<u>21,589,542</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	(3,370,188)	(481,283)	-	(3,851,471)
Furniture and Equipment	(2,975,000)	(199,524)	-	(3,174,524)
<b>Total Accumulated Depreciation</b>	<u>(6,345,188)</u>	<u>(680,807)</u>	<u>-</u>	<u>(7,025,995)</u>
<b>Total Capital Assets, being Depreciated, net</b>	<u>15,286,024</u>	<u>(640,422)</u>	<u>(82,055)</u>	<u>14,563,547</u>
<b>Governmental Activities Capital Assets, net</b>	<u>\$ 17,403,312</u>	<u>\$ (511,858)</u>	<u>\$ (82,055)</u>	<u>\$ 16,809,399</u>

Depreciation was charged to governmental-type activities as follows:

<b>Governmental Activities:</b>	
City Council	\$ 669
Administration	48,075
Technology	3,418
Police	141,273
Animal Control	6,288
Fire and Ambulance	70,150
Garage Department	1,351
Street Department	102,423
Airport Department	40,347
Library Department	39,240
Cemetery and Parks	156,037
Civic Center	71,536
<b>Total Depreciation Expense</b>	<u>\$ 680,807</u>

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	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
<b>Business-type Activities:</b>				
<b>Capital Assets, not being Depreciated:</b>				
Land and Improvements	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in Progress	2,457,007	631,451	(2,823,706)	264,752
<b>Total Capital Assets, not being Depreciated</b>	<u>2,635,628</u>	<u>631,451</u>	<u>(2,823,706)</u>	<u>443,373</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings and Improvements	47,997	-	-	47,997
Furniture and Equipment	776,966	54,117	-	831,083
Water System	6,125,762	351,448	2,823,706	9,300,916
Sewer System	15,256,036	-	-	15,256,036
<b>Total Capital Assets, being Depreciated</b>	<u>22,206,761</u>	<u>405,565</u>	<u>2,823,706</u>	<u>25,436,032</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	(24,679)	(1,408)	-	(26,087)
Furniture and Equipment	(559,000)	(46,995)	-	(605,995)
Water System	(3,119,028)	(86,979)	-	(3,206,007)
Sewer System	(10,198,072)	(242,782)	-	(10,440,854)
<b>Total Accumulated Depreciation</b>	<u>(13,900,779)</u>	<u>(378,164)</u>	<u>-</u>	<u>(14,278,943)</u>
<b>Total Capital Assets, being Depreciated, net</b>	<u>8,305,982</u>	<u>27,401</u>	<u>2,823,706</u>	<u>11,157,089</u>
<b>Business-type Activities Capital Assets, net</b>	<u>\$ 10,941,610</u>	<u>\$ 658,852</u>	<u>\$ -</u>	<u>\$ 11,600,462</u>

Depreciation was charged to business-type activities as follows:

<b>Governmental Activities:</b>	
Water and Sewer Fund	\$ 378,164
<b>Total Depreciation Expense</b>	<u>\$ 378,164</u>

**Discretely Presented Component Unit - CEDC**

Land owned by the Cleveland Economic Development Corporation did not incur any changes in the current fiscal year. The ending balance of land and total assets was \$1,025,501 at September 30, 2015.

**E. Long-Term Obligations**

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

**1. Long-term Obligation Activity**

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

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Changes in long-term obligations for the period ended September 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Certificates of Obligation	\$ 10,270,000	\$ -	\$ (1,005,000)	\$ 9,265,000	\$ 930,000
Issuance Premiums	430,317	-	(32,615)	397,702	-
<b>Total Certificates</b>	<u>10,700,317</u>	<u>-</u>	<u>(1,037,615)</u>	<u>9,662,702</u>	<u>930,000</u>
Notes Payable	103,620	-	(93,865)	9,755	9,755
Net Pension Liability*	1,404,125	1,218,992	(1,279,223)	1,343,894	-
<b>Total Governmental Activities</b>	<u>\$ 12,208,062</u>	<u>\$ 1,218,992</u>	<u>\$ (2,410,703)</u>	<u>\$ 11,016,351</u>	<u>\$ 939,755</u>
<b>Business-type Activities:</b>					
Certificates of Obligation	\$ 4,890,000	\$ -	\$ (220,000)	\$ 4,670,000	\$ 230,000
Issuance Premiums	89,233	-	(4,845)	84,388	-
<b>Total Certificates</b>	<u>4,979,233</u>	<u>-</u>	<u>(224,845)</u>	<u>4,754,388</u>	<u>230,000</u>
Net Pension Liability*	228,579	198,441	(208,246)	218,774	-
<b>Total Business-type Activities</b>	<u>\$ 5,207,812</u>	<u>\$ 198,441</u>	<u>\$ (433,091)</u>	<u>\$ 4,973,162</u>	<u>\$ 230,000</u>
<b>Discretely Presented Component Unit (CEDC):</b>					
Notes Payable	\$ 238,955	\$ -	\$ (41,487)	\$ 197,468	\$ 43,627
<b>Total Discretely Presented Component Unit</b>	<u>\$ 238,955</u>	<u>\$ -</u>	<u>\$ (41,487)</u>	<u>\$ 197,468</u>	<u>\$ 43,627</u>

\*Per Gasb 68, beginning balance for net pension liability includes the restatement of net pension liability at October 1, 2014.

**2. Governmental Activities**

The City's governmental activities debt consists of certificates of obligation, notes payable and net pension liability.

**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 \$2,595,000 as of September 30, 2015. 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	\$ 210,000	\$ -	\$ (105,000)	\$ 105,000
2012	2.00-4.00%	2032	3,370,000	2,975,000	-	(200,000)	2,775,000
2013 REF	2.00-3.00%	2026	7,860,000	7,085,000	-	(700,000)	6,385,000
<b>Totals</b>				<u>\$ 10,270,000</u>	<u>\$ -</u>	<u>\$ (1,005,000)</u>	<u>\$ 9,265,000</u>

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Debt service requirements for certificates of obligation at September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 930,000	\$ 240,687	\$ 1,170,687
2017	865,000	222,831	1,087,831
2018	730,000	206,881	936,881
2019	745,000	188,406	933,406
2020	760,000	165,831	925,831
2021	640,000	144,494	784,494
2022	655,000	124,393	779,393
2023	685,000	106,293	791,293
2024	700,000	89,888	789,888
2025	715,000	72,438	787,438
2026	735,000	53,828	788,828
2027	165,000	40,900	205,900
2028	175,000	34,100	209,100
2029	180,000	27,000	207,000
2030	185,000	19,700	204,700
2031	195,000	12,100	207,100
2032	205,000	4,100	209,100
<b>Totals</b>	<b>\$ 9,265,000</b>	<b>\$ 1,753,870</b>	<b>\$ 11,018,870</b>

**Notes Payable**

The City issued notes payable to provide funds for the purchase of equipment. The notes payable are secured by the equipment purchased. The notes are issued as 3-4 year current interest notes.

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	\$ 22,205	\$ -	\$ (22,205)	\$ -
2013 Computers	4.67%	2016	19,066	-	(9,311)	9,755
2013 Computer Software	3.50%	2016	62,349	-	(62,349)	-
<b>Totals</b>			<b>\$ 103,620</b>	<b>\$ -</b>	<b>\$ (93,865)</b>	<b>\$ 9,755</b>

Debt service requirements for notes payable at September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 9,755	\$ 465	\$ 10,220
<b>Totals</b>	<b>\$ 9,755</b>	<b>\$ 465</b>	<b>\$ 10,220</b>

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**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	0.345-4.30%	2029	555,000	\$ 455,000	\$ -	\$ (20,000)	\$ 435,000
2011 TRB	0.100-3.90%	2031	2,360,000	2,065,000	-	(100,000)	1,965,000
2012A	2.000-3.25%	2033	2,470,000	2,370,000	-	(100,000)	2,270,000
<b>Totals</b>				<b>\$ 4,890,000</b>	<b>\$ -</b>	<b>\$ (220,000)</b>	<b>\$ 4,670,000</b>

Debt service requirements for revenue bonds at September 30, 2015 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2016	\$ 230,000	\$ 135,069	\$ 365,069
2017	230,000	130,950	360,950
2018	235,000	126,299	361,299
2019	240,000	121,138	361,138
2020	245,000	115,500	360,500
2021	255,000	109,316	364,316
2022	260,000	102,563	362,563
2023	270,000	95,305	365,305
2024	275,000	87,341	362,341
2025	285,000	78,669	363,669
2026	290,000	69,301	359,301
2027	300,000	59,244	359,244
2028	315,000	48,585	363,585
2029	325,000	37,360	362,360
2030	295,000	26,401	321,401
2031	305,000	15,698	320,698
2032	155,000	7,719	162,719
2033	160,000	2,600	162,600
<b>Totals</b>	<b>\$ 4,670,000</b>	<b>\$ 1,369,058</b>	<b>\$ 6,039,058</b>

**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, 2015**

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	\$ 238,955	\$ -	\$ (41,487)	\$ 197,468
<b>Totals</b>			<b>\$ 238,955</b>	<b>\$ -</b>	<b>\$ (41,487)</b>	<b>\$ 197,468</b>

**Discretely Presented Component Unit**

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 43,627	\$ 9,082	\$ 52,709
2017	45,931	6,779	52,710
2018	48,328	4,381	52,709
2019	50,852	1,857	52,709
2020	8,730	56	8,786
<b>Totals</b>	<b>\$ 197,468</b>	<b>\$ 22,155</b>	<b>\$ 219,623</b>

**IV. Other Information**

**A. 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 2015, 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.

**B. Emergency Management Services Contract (EMS) Commitment**

The City signed a 5-year contract effective September 1, 2014 with Liberty County EMS, Inc. to provide emergency medical services (EMS) for the City of Cleveland. The City agrees to pay \$59,000 per year for services less rent of \$9,000 for use of the City's building for that term. The agreement is cancellable with just cause and prior notice by either party.

**C. Pension Information**

**Plan Description**

The City of Cleveland participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the City are required to participate in TMRS.

**CITY OF CLEVELAND, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015

**Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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 2014	Plan Year 2013
Employee Deposit Rate	5%	5%
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

**Employees Covered by Benefit Terms**

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	61
Active employees	72
	<b>178</b>

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Cleveland were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Cleveland were 9.95% and 10.67% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$293,516, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**Actuarial assumptions:**

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
<b>Total</b>	<b>100%</b>	

**CITY OF CLEVELAND, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at December 31, 2013</b>	\$ 9,636,633	\$ 8,003,929	\$ 1,632,704
Changes for the year:			
Service cost	289,352	-	289,352
Interest	668,798	-	668,798
Difference between expected and actual experience	(146,722)	-	(146,722)
Contributions - employer	-	285,365	(285,365)
Contributions - employee	-	143,400	(143,400)
Net investment income	-	457,872	(457,872)
Benefit payments, including refunds of employee contributions	(454,110)	(454,110)	-
Administrative expense	-	(4,780)	4,780
Other changes	-	(393)	393
<b>Net changes</b>	<u>357,318</u>	<u>427,354</u>	<u>(70,036)</u>
<b>Balance at December 31, 2014</b>	<u>\$ 9,993,951</u>	<u>\$ 8,431,283</u>	<u>\$ 1,562,668</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Net Pension Liability	\$ 3,036,939	\$ 1,562,668	\$ 366,547

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**CITY OF CLEVELAND, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2015, the City recognized pension expense of \$236,072.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 102,665
Difference between projected and actual investment earnings	81,922	-
Contributions subsequent to the measurement date	217,365	-
<b>Totals</b>	<b>\$ <u>299,287</u></b>	<b>\$ <u>102,665</u></b>

\$217,365 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended December 31:**

2016	\$ (23,576)
2017	(23,576)
2018	5,930
2019	20,479
2020	-
Thereafter	-
<b>Totals</b>	<b>\$ <u>(20,743)</u></b>

**D. 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 2014	Plan Year 2015
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

**CITY OF CLEVELAND, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2015

**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 fiscal years ended 2015, 2014, and 2013 were \$3,083, \$2,565, and \$2,172, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates**

(RETIREE-only portion of the rate)

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

**E. 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.

**F. Prior Period Adjustment**

Net position at October 1, 2014, was restated per the following table for the implementation of GASB 68 and 71 for pensions as follows:

	Governmental Activities	Business-type Activities
Beginning Net Position, as Previously Reported	\$ 10,596,345	\$ 10,741,843
Implementation of GASB 68 and 71 for Pensions	(1,224,305)	(199,306)
<b>Beginning Net Position, Restated</b>	<b>\$ 9,372,040</b>	<b>\$ 10,542,537</b>

**G. Subsequent Events**

In November 2015, the City issued Tax Notes, Series 2015. The Tax Note will allow for the purchase of capital equipment.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CLEVELAND, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE – BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,834,218	\$ 1,834,218	\$ 1,870,963	\$ 36,745
Sales and Other Taxes	2,442,179	2,442,179	2,655,345	213,166
Franchise Taxes	488,000	488,000	468,169	(19,831)
License and Permits	71,700	71,700	51,185	(20,515)
Charges for Services	343,050	343,050	391,971	48,921
Fines and Forfeitures	306,850	306,850	367,758	60,908
Intergovernmental	20,500	25,499	40,311	14,812
Earnings on Investments	17,000	17,000	24,631	7,631
Contributions	100,250	100,250	83,387	(16,863)
Miscellaneous	44,300	80,531	62,866	(17,665)
Total Revenues	<u>5,668,047</u>	<u>5,709,277</u>	<u>6,016,586</u>	<u>307,309</u>
<b>EXPENDITURES:</b>				
General Government:				
City Council	32,075	32,075	22,557	9,518
Administration	840,519	840,519	683,285	157,234
Technology	365,179	359,569	300,426	59,143
Public Safety:				
Municipal Court	167,018	167,018	161,012	6,006
Police Department	2,016,584	2,016,584	1,943,205	73,379
Animal Control	79,339	79,339	46,423	32,916
Fire and Ambulance	754,430	754,430	631,802	122,628
Public Works:				
Development Services	228,111	228,111	184,608	43,503
Garage Department	12,988	12,988	10,690	2,298
Transportation:				
Street Department	351,825	351,825	293,051	58,774
Airport Department	82,900	82,900	77,645	5,255
Culture and Recreation:				
Library Department	331,835	334,536	296,423	38,113
Cemetery and Parks	408,777	408,777	323,066	85,711
Civic/Community	253,538	253,538	232,186	21,352
Sports Facilities	129,204	129,204	64,385	64,819
Grants	-	4,999	4,999	-
Capital Outlay:				
Technology	-	5,610	5,610	-
Airport Department	-	109,500	109,500	-
Debt Service:				
Principal Retirement	18,667	74,292	84,554	(10,262)
Interest and Fiscal Charges	1,237	3,994	1,577	2,417
Total Expenditures	<u>6,074,226</u>	<u>6,249,808</u>	<u>5,477,004</u>	<u>772,804</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(406,179)</u>	<u>(540,531)</u>	<u>539,582</u>	<u>1,080,113</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Assets and Easements	-	-	79,000	79,000
Proceeds from Insurance	20,000	20,000	40,852	20,852
Transfers In (Out)	431,515	431,515	427,080	(4,435)
Total Other Financing Sources (Uses)	<u>451,515</u>	<u>451,515</u>	<u>546,932</u>	<u>95,417</u>
Net Change in Fund Balance	45,336	(89,016)	1,086,514	1,175,530
Fund Balance - Beginning	2,368,828	2,368,828	2,368,828	-
Fund Balance - Ending	<u>\$ 2,414,164</u>	<u>\$ 2,279,812</u>	<u>\$ 3,455,342</u>	<u>\$ 1,175,530</u>

See accompanying notes to the required supplementary information.

**CITY OF CLEVELAND, TEXAS**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -

TEXAS MUNICIPAL RETIREMENT SYSTEM

LAST TEN FISCAL YEARS\*

	<u>2015</u>
<b>Total Pension Liability</b>	
Service cost	\$ 289,352
Interest	668,798
Differences between expected and actual experience	(146,722)
Benefit payments, including refunds of employee contributions	<u>(454,110)</u>
<b>Net change in total pension liability</b>	<b>357,318</b>
Total pension liability - beginning	9,636,633
<b>Total pension liability - ending (a)</b>	<b>\$ <u>9,993,951</u></b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 285,365
Contributions - employee	143,400
Net investment income	457,872
Benefits payments, including refunds of employee contributions	(454,110)
Administrative expense	(4,780)
Other	<u>(393)</u>
<b>Net change in plan fiduciary net position</b>	<b>427,354</b>
Plan fiduciary net position - beginning	8,003,929
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ <u>8,431,283</u></b>
<b>Net pension liability - ending (a)-(b)</b>	<b>\$ <u>1,562,668</u></b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>84.36%</b>
<b>Covered employee payroll</b>	<b>\$ 2,868,009</b>
<b>Net pension liability as a percentage of covered employee payroll</b>	<b>54.49%</b>

\*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end December 31. GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this schedule over the next 10-year period.

See accompanying notes to the required supplementary information.

**CITY OF CLEVELAND, TEXAS**  
*REQUIRED SUPPLEMENTARY INFORMATION*  
*SCHEDULE OF CITY CONTRIBUTIONS*  
*TEXAS MUNICIPAL RETIREMENT SYSTEM*  
*LAST TEN FISCAL YEARS\**

	<u>2015</u>
Actuarially determined contribution	\$ <u>293,516</u>
Contributions in relation to the actuarially determined contribution	<u>(293,516)</u>
<b>Contribution deficiency (excess)</b>	<b>\$ <u><u>-</u></u></b>
Covered employee payroll	\$ 2,803,135
Contributions as a percentage of covered employee payroll	<b>10.47%</b>

\*The amounts presented for the fiscal year were determined as of the City's fiscal year end September 30. GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this schedule over the next 10-year period.

See accompanying notes to the required supplementary information.

**CITY OF CLEVELAND, TEXAS**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2015

**I. Budget**

**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.
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. Variances with Final Budget**

The City's general fund budget differs from the original budget due to budget revisions that were made during the fiscal period.

There were no significant variances between original and final budget.

**C. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2015, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Debt Service - Principal Retirement	\$ 74,292	\$ 84,554	\$ (10,262)

# CITY OF CLEVELAND, TEXAS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2015

## II. Pension

### TMRS

Actuarial Assumptions – The Information presented in the required supplementary schedules was used in the actuarial valuation for determining the actuarially determined contribution rates as of December 31, 2014, which became effective in January (thirteen months later), and the Net Pension Liability in accordance with GASB 67. The GASB 67 assumptions are as follows:

Valuation Date	December 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Actuarial Assumptions:	
Discount Rate	7.00%
Long-term Expected Investment Rate of Return	7.00%
Inflation	3.00%
Salary Increases	3.50% to 12.00%, including Inflation
Retirement Age	Experience based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Changes in Assumptions - There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Benefit Changes - There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**SUPPLEMENTARY INFORMATION**

**CITY OF CLEVELAND, TEXAS**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2015**

	<u>Hotel/Motel Fund</u>	<u>Money Seizures</u>
<b>ASSETS:</b>		
<i>Cash and Cash Equivalents</i>	\$ 474,565	\$ 481,590
Receivable:		
<i>Accounts</i>	19,212	-
<i>Due from Other Funds</i>	-	-
<i>Prepaid Items</i>	14,350	10,220
<b>Total Assets</b>	<b>\$ <u>508,127</u></b>	<b>\$ <u>491,810</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
<i>Accounts Payable</i>	\$ 1,128	\$ 116,772
<i>Escrow Liability - Seizure Funds</i>	-	201,100
<i>Due to Other Funds</i>	50	38
<b>Total Liabilities</b>	<b><u>1,178</u></b>	<b><u>317,910</u></b>
 <b>FUND BALANCES:</b>		
<i>Nonspendable - Prepaid Items</i>	14,350	10,220
<i>Restricted for Economic Development</i>	492,599	-
<i>Restricted for Police</i>	-	163,680
<i>Restricted for Municipal Court</i>	-	-
<i>Committed for Fire and Ambulance</i>	-	-
<b>Total Fund Balances</b>	<b><u>506,949</u></b>	<b><u>173,900</u></b>
 <b>Total Liabilities and Fund Balances</b>	<b>\$ <u>508,127</u></b>	<b>\$ <u>491,810</u></b>

<u>Fire Department</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ 762	\$ -	\$ -	\$ 956,917
-	-	-	19,212
-	1,946	5,985	7,931
-	-	-	24,570
<u>\$ 762</u>	<u>\$ 1,946</u>	<u>\$ 5,985</u>	<u>\$ 1,008,630</u>
\$ -	\$ -	\$ -	\$ 117,900
-	-	-	201,100
-	-	-	88
<u>-</u>	<u>-</u>	<u>-</u>	<u>319,088</u>
-	-	-	24,570
-	-	-	492,599
-	-	-	163,680
-	1,946	5,985	7,931
762	-	-	762
<u>762</u>	<u>1,946</u>	<u>5,985</u>	<u>689,542</u>
<u>\$ 762</u>	<u>\$ 1,946</u>	<u>\$ 5,985</u>	<u>\$ 1,008,630</u>

**CITY OF CLEVELAND, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Hotel/Motel Fund</u>	<u>Money Seizures</u>
<b>REVENUES:</b>		
<i>Sales and Other Taxes</i>	\$ 203,471	\$ -
<i>Charges for Services</i>	-	-
<i>Fines and Forfeitures</i>	-	414,699
<i>Intergovernmental</i>	-	1,793
<i>Earnings on Investments</i>	3,332	1,940
Total Revenues	<u>206,803</u>	<u>418,432</u>
<b>EXPENDITURES:</b>		
<i>Municipal Court</i>	-	-
<i>Police Department</i>	-	334,894
<i>Economic Development</i>	112,555	-
<i>Capital Outlay</i>	-	34,775
Debt Service:		
<i>Principal Retirement</i>	-	9,311
<i>Interest and Fiscal Charges</i>	-	909
Total Expenditures	<u>112,555</u>	<u>379,889</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>94,248</u>	<u>38,543</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
<i>Transfers In (Out)</i>	-	(4,780)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(4,780)</u>
Net Change in Fund Balances	94,248	33,763
Fund Balances, Beginning of Year	412,701	140,137
<b>Fund Balances, End of Year</b>	<u><u>\$ 506,949</u></u>	<u><u>\$ 173,900</u></u>

<u>Fire Department</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ -	\$ 203,471
-	7,980	5,985	13,965
-	-	-	414,699
-	-	-	1,793
6	-	-	5,278
<u>6</u>	<u>7,980</u>	<u>5,985</u>	<u>639,206</u>
-	6,034	-	6,034
-	-	-	334,894
-	-	-	112,555
-	-	-	34,775
-	-	-	9,311
-	-	-	909
<u>-</u>	<u>6,034</u>	<u>-</u>	<u>498,478</u>
<u>6</u>	<u>1,946</u>	<u>5,985</u>	<u>140,728</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,780)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,780)</u>
6	1,946	5,985	135,948
756	-	-	553,594
<u>\$ 762</u>	<u>\$ 1,946</u>	<u>\$ 5,985</u>	<u>\$ 689,542</u>

**CITY OF CLEVELAND, TEXAS**  
 STATEMENT OF NET POSITION - COMPONENT UNIT  
 CLEVELAND ECONOMIC DEVELOPMENT CORPORATION  
 SEPTEMBER 30, 2015

	<u>Component Unit</u>
	<u>Cleveland EDC</u>
<b>ASSETS:</b>	
<i>Cash and Cash Equivalents</i>	\$ 952,314
<i>Investments</i>	1,798
Capital Assets:	
<i>Land and Improvements</i>	1,025,501
Total Assets	<u>\$ 1,979,613</u>
<b>LIABILITIES:</b>	
<i>Accounts Payable</i>	\$ 25,673
<i>Due to Primary Government</i>	2,169
<i>Note Payable - Current</i>	43,627
Total Current Liabilities	<u>71,469</u>
Noncurrent Liabilities:	
<i>Note Payable - Long-term</i>	153,841
Total Noncurrent Liabilities	<u>153,841</u>
Total Liabilities	<u>225,310</u>
<b>NET POSITION:</b>	
<i>Net Investment in Capital Assets</i>	828,033
<i>Unrestricted</i>	926,270
Total Net Position	<u>1,754,303</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,979,613</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, 2015

	<u>Component Unit</u>
	<u>Cleveland EDC</u>
<b>OPERATING REVENUES:</b>	
Taxes:	
<i>Sales Tax</i>	\$ 508,384
<i>Charges for Services</i>	21,876
Total Revenues	<u>530,260</u>
<b>OPERATING EXPENSES:</b>	
Economic Development:	
<i>Professional Service</i>	37,178
<i>Other Services</i>	21,554
<i>Supplies</i>	1,512
<i>Infrastructure</i>	17,287
<i>Affordable Housing</i>	4,381
<i>Manufacturing/Industrial</i>	15,000
<i>Contributions to City</i>	325,080
Total Expenses	<u>421,992</u>
Operating Income	<u>108,268</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
<i>Earnings on Investments</i>	7,407
<i>Proceeds from Sale of Assets and Easements</i>	200,000
<i>Interest and Fees on Debt</i>	(11,223)
Total Nonoperating Revenues (Expenses)	<u>196,184</u>
Change in Net Position	304,452
Net Position - Beginning	1,449,851
<b>Net Position - Ending</b>	<b>\$ <u><u>1,754,303</u></u></b>

**CITY OF CLEVELAND, TEXAS**  
**SCHEDULE OF TAXES RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<u>Tax Year</u>	<u>Balance 9/30/2014</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2015</u>
2014	\$ -	\$ 2,578,404	\$ 2,383,057	\$ -	\$ 195,347
2013	161,418	-	87,288	4,790	78,920
2012	133,759	-	69,768	2,507	66,498
2011	73,204	-	9,414	(1,558)	62,232
2010	58,973	-	8,491	(1,438)	49,044
2009	55,146	-	7,379	(366)	47,401
2008	48,528	-	5,171	(259)	43,098
2007	41,742	-	3,411	(170)	38,161
2006	27,633	-	3,737	(211)	23,685
2005 & Prior	98,967	-	6,047	(603)	92,317
<b>Total</b>	<b>\$ 699,370</b>	<b>\$ 2,578,404</b>	<b>\$ 2,583,763</b>	<b>\$ 2,692</b>	<b>\$ 696,703</b>
Less Allowance for Uncollectible Accounts					55,500
					<b>\$ 641,203</b>

**ASSESSED VALUATION SUMMARY**

<u>Tax Year</u>	<u>Property Valuations</u>	<u>Tax Rate Per \$100 Valuation</u>		
		<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
2014	\$ 330,564,615	\$ 0.5395	\$ 0.2405	\$ 0.7800
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

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

# HLSK

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas (City), as of and for the year ended September 30, 2015, 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 16, 2016.

### 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 16, 2016**

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**CITY OF CLEVELAND, TEXAS**  
*SCHEDULE OF FINDINGS AND RESPONSES*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2015*

<b>SECTION I – SUMMARY OF AUDITORS’ RESULTS</b>	
<b>FINANCIAL STATEMENTS</b>	
1. Type of auditors’ report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
<b>SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS</b>	
<b>1. FINANCIAL STATEMENTS FINDINGS</b>	
None Reported	
<b>2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS</b>	
None Reported	

**CITY OF CLEVELAND, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2015*

**PRIOR YEAR FINDINGS**

None reported

**CITY OF CLEVELAND, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2015*

**CURRENT YEAR FINDINGS**

None reported