

City of Cleveland, Texas

Annual Financial Report
Year Ended September 30, 2016

TABLE OF CONTENTS

PAGE

Introductory Section

Principal City Officials	2
--------------------------------	---

Financial Section

Independent Auditor's Report	4
------------------------------------	---

Management's Discussion and Analysis	7
--	---

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Position.....	17
--------------------------------	----

Statement of Activities.....	18
------------------------------	----

Fund Financial Statements:

Balance Sheet - Governmental Funds	20
--	----

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
---	----

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
--	----

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	26
--	----

Statement of Net Position - Proprietary Fund	27
--	----

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	28
---	----

Statement of Cash Flows - Proprietary Fund	29
--	----

Notes to Financial Statements	30
-------------------------------------	----

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	56
---	----

Schedule of Changes in the City's Net Pension Liability and Related Ratios – TMRS	57
---	----

Schedule of the City's Contributions – TMRS.....	58
--	----

Notes to Required Supplementary Information.....	59
--	----

Supplementary Information

Combining and Discretely Presented Component Unit Financial Statements Section:

Combining Balance Sheet - Nonmajor Governmental Funds.....	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	64
Statement of Net Position - Component Unit - Cleveland Economic Development Corporation	66
Statement of Revenues, Expenses, and Changes in Net Position – Component Unit – Cleveland Economic Development Corporation	67
Schedule of Taxes Receivable.....	68

Overall Compliance, Internal Control Section and Federal Awards

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	70
Independent Auditor’s Report on Compliance for Each Major Federal Program And Report on Internal Control over Compliance in Accordance with the Uniform Guidance	72
Schedule of Findings and Questioned Costs	75
Summary Schedule of Prior Audit Findings	76
Corrective Action Plan	77
Schedule of Expenditures of Federal Awards	78
Notes to Schedule of Expenditures of Federal Awards.....	79

Introductory Section

City of Cleveland, Texas
Principal City Officials
September 30, 2016

Niki Coats Mayor
Mike Penry Council Member Position 1
Otis Cohn Council Member Position 2
Carolyn McWaters Council Member Position 3
Jennifer Bergman Council Member Position 4
Danny Lee Council Member Position 5
Kelly McDonald City Manager
Bobby Pennington Director of Finance
Angela Smith City Secretary

Financial Section

Independent Auditor's Report

The Honorable Mayor and Members of
City Council and Management of the
City of Cleveland, Texas
907 E. Houston St.
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, 2016, and the related notes to 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 auditor's 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.

To The Honorable Mayor and Members of
the City Council and Management of
City of Cleveland, Texas

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, 2016, 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 4. F. to the financial statements, the financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Cleveland, Texas' 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 Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are 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

To The Honorable Mayor and Members of
the City Council and Management of
City of Cleveland, Texas

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017 on our consideration of City of Cleveland, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cleveland, Texas' internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas

February 17, 2017

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, 2016.

Financial Highlights

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$26,316,901 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$19,321,411 that is net investment in capital assets.
- During the year, the City's revenues of \$13,329,816 exceeded expenses of \$9,678,670 by \$3,651,146.
- The General Fund reported a fund balance this year of \$4,412,247, of which \$4,322,500 was unassigned and approximated 53% of General Fund expenditures. Total fund balance increased \$716,071 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$537,878 which was restricted for debt service fund expenditures. Total fund balance increased \$170,881 from prior year.
- The Water and Sewer Fund reported an operating income of \$930,385, and an increase in net position of \$749,280.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,826,622, of which \$985,200 was unrestricted. Total net position increased \$24,152 from current operations.

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 financial statements. This report also includes other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

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

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

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

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

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

The City maintains 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 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 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 and deferred inflows by \$26,316,901, 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,885,771	\$ 5,797,075	\$ 3,485,908	\$ 4,940,284	\$10,371,679	\$10,737,359
Capital assets	18,676,342	16,809,399	13,666,464	11,600,462	32,342,806	28,409,861
Total assets	25,562,113	22,606,474	17,152,372	16,540,746	42,714,485	39,147,220
Total deferred outflows of Resources	761,974	359,356	109,706	41,900	871,680	401,256
Long-term liabilities outstanding	11,220,391	11,016,351	4,857,554	4,973,162	16,077,945	15,989,513
Other liabilities	566,421	590,333	481,036	441,044	1,047,457	1,031,377
Total liabilities	11,786,812	11,606,684	5,338,590	5,414,206	17,125,402	17,020,890
Total deferred inflows of resources	123,721	88,292	20,141	14,373	143,862	102,665
Net position						
Net investments in capital assets	9,300,893	7,323,498	10,020,518	9,362,131	19,321,411	16,685,629
Restricted	1,480,473	1,219,152	-	-	1,480,473	1,219,152
Unrestricted	3,632,188	2,728,204	1,882,829	1,791,936	5,515,017	4,520,140
Total net position	\$ 14,413,554	\$11,270,854	\$11,903,347	\$11,154,067	\$26,316,901	\$22,424,921

The City's total assets of \$42,714,485 are largely comprised of capital assets, net of accumulated depreciation of \$32,342,806, or 76%. 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 \$16,077,945 comprise the largest portion of the City's total liabilities of \$17,125,402 at 94%. Of total long-term liabilities, \$1,306,456 is due within one year, with the remainder \$14,771,489 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 financial statements.

Approximately 73% of total net position or \$19,321,411 represents investments in capital assets, net of related debt, and approximately 6% of total net position or \$1,480,473 represents restriction for debt services, economic development, police and municipal court. The amount of \$5,515,017 (21%) 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 \$3,651,146 from current operations and increased net position by \$240,834 to restate beginning sales tax receivable. 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	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 997,557	\$ 1,239,578	\$ 3,432,391	\$ 3,371,678	\$ 4,429,948	\$ 4,611,256
Operating grants and contributions	299,135	329,660	-	-	299,135	329,660
Capital grants and contributions	1,977,877	358,958	220,248	23,752	2,198,125	382,710
General revenues						
Property taxes	2,677,409	2,721,030	-	-	2,677,409	2,721,030
Sales and other taxes	3,096,142	2,858,816	-	-	3,096,142	2,858,816
Franchise taxes	497,207	468,169	-	-	497,207	468,169
Earnings on investments	46,808	33,378	39,255	43,938	86,063	77,316
Gain (loss) on sale of assets	2,860	79,000	-	-	2,860	79,000
Proceeds from insurance	29,941	40,852	3,310	16,365	33,251	57,217
Miscellaneous	9,676	62,866	-	3,263	9,676	66,129
Total revenues	9,634,612	8,192,307	3,695,204	3,458,996	13,329,816	11,651,303
Expenses						
General government	1,103,435	1,137,071	-	-	1,103,435	1,137,071
Public safety	3,337,458	3,309,784	-	-	3,337,458	3,309,784
Public works	216,938	194,942	-	-	216,938	194,942
Transportation	752,884	510,621	-	-	752,884	510,621
Culture and recreation	1,161,286	1,175,514	-	-	1,161,286	1,175,514
Grants	-	4,999	-	-	-	4,999
Economic development	198,116	111,417	-	-	198,116	111,417
Debt service	269,796	245,038	-	-	269,796	245,038
Water and sewer	-	-	2,638,757	2,451,573	2,638,757	2,451,573
Total expenses	7,039,913	6,689,386	2,638,757	2,451,573	9,678,670	9,140,959
Increase (decrease) in net position before transfers	2,594,699	1,502,921	1,056,447	1,007,423	3,651,146	2,510,344
Transfers, net of governmental funds capital contributions	307,167	395,893	(307,167)	(395,893)	-	-
Change in net position	2,901,866	1,898,814	749,280	611,530	3,651,146	2,510,344
Net position - beginning	11,270,854	10,596,345	11,154,067	10,741,843	22,424,921	21,338,188
Prior period adjustments	240,834	(1,224,305)	-	(199,306)	240,834	(1,423,611)
Net position - beginning, as restated	11,511,688	9,372,040	11,154,067	10,542,537	22,665,755	19,914,577
Net position - ending	\$ 14,413,554	\$ 11,270,854	\$ 11,903,347	\$ 11,154,067	\$ 26,316,901	\$ 22,424,921

(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. The restatement in the beginning net position in fiscal year 2016 was to restate beginning sales tax receivable.

Governmental Activities. Governmental activities increased the City's net position from current operations by \$2,901,866. The City's total revenues were \$9,634,612 from all governmental activities. A significant portion, \$2,677,409 or 28%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$3,096,142, or 32%, of total revenue for governmental activities. Charges for services accounts for \$997,557, or 10%, of total revenue for governmental activities. The remaining 30% is generated from grants and contributions, franchise taxes, earnings on investments, proceeds from insurance and miscellaneous revenues. The most significant change in governmental activities revenues was the increase in capital grants for the airport and drainage projects.

The total cost of all governmental programs and services was \$7,039,913. The public safety function accounted for \$3,337,458, or 47% of this total. The general government function accounted for \$1,103,435, or 16% of this total. The culture and recreation function accounted for \$1,161,286, or 16% of this total. There were no significant changes in governmental activities expenses.

The City's governmental activities net position increased primarily due to the capital grants at the airport and drainage projects.

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 \$749,280 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 \$3,432,391 are utilized to provide funds for program expenses of \$2,638,757.

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

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 \$5,727,050, which is an increase of \$899,503 from current operations and \$240,834 to restate the beginning sales tax receivable.

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 \$4,322,500 and total fund balance was \$4,412,247. 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 53% and 54% of total general fund expenditures, respectively. The fund balance of the City's general fund increased by \$716,071 during the current fiscal year from current operations. For the most part, transfers from the water and sewer fund were the primary reason for the increase in fund balance as the increase in intergovernmental revenues was offset by increase in capital and noncapital expenditures.

The debt service fund ending fund balance was \$537,878, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$170,881 during the year, primarily due to transfers from the water and sewer fund exceeded the increase in debt requirements.

The capital projects ending fund balance was \$16,574. The net decrease in fund balance during the current year in the capital projects fund was \$58,258. Total net change in fund balance is the result of the expenditures for capital project as authorized by the tax note.

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 \$1,882,829. The total increase in net position for the Water and Sewer Funds was \$749,280. 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 as needed throughout the year. There were no significant individual variations between the original budget and final budget.

The City's actual results for the General Fund varied from the final budgeted amounts as a result of intergovernmental revenues for grant projects totaling \$1,998,995 and capital outlay for the airport totaling \$976,484 and Glen Park drainage totaling \$975,924 were approved but the budget was not amended for the respective items.

Capital Assets and Debt Administration

Capital Assets. At the end of 2016, the City had invested \$32,342,806 in a broad range of capital assets. More detailed information about the City's capital assets is presented in the notes to financial statements.

Table A-3
City of Cleveland, Texas's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,136,352	\$ 2,136,352	\$ 178,621	\$ 178,621	\$ 2,314,973	\$ 2,314,973
Buildings and improvements	14,372,143	13,720,484	20,502	21,910	14,392,645	13,742,394
Furniture and equipment	1,191,923	843,063	819,881	225,088	2,011,804	1,068,151
Water system	-	-	5,969,187	6,094,909	5,969,187	6,094,909
Sewer system	-	-	4,583,567	4,815,182	4,583,567	4,815,182
Construction in progress	975,924	109,500	2,094,706	264,752	3,070,630	374,252
Totals	<u>\$18,676,342</u>	<u>\$16,809,399</u>	<u>\$13,666,464</u>	<u>\$11,600,462</u>	<u>\$32,342,806</u>	<u>\$28,409,861</u>

Major capital asset purchases during the year included the following:

- Construction in progress for airport runway and drainage project
- Fire truck
- Gradall XL 3300 wheeled excavator
- 2017 Freightliner M2-106-60

Construction Commitment

The City has an active construction project as of September 30, 2016 with an outstanding commitment totaling \$420,548 for the construction of a water ground storage tank.

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	
	2016	2015	2016	2015	2016	2015
Tax notes, certificates, and bonds payable, net	\$ 9,480,087	\$ 9,662,702	\$ 4,519,543	\$ 4,754,388	\$ 13,999,630	\$ 14,417,090
Note payable	-	9,755	54,705	-	54,705	9,755
Net pension liability	1,740,304	1,343,894	283,306	218,774	2,023,610	1,562,668
Totals	<u>\$ 11,220,391</u>	<u>\$ 11,016,351</u>	<u>\$ 4,857,554</u>	<u>\$ 4,973,162</u>	<u>\$ 16,077,945</u>	<u>\$ 15,989,513</u>

Additional information on the City's long-term liabilities can be found in the notes to financial statements as indicated in the table of contents.

Economic Factors and Next Year's Budget

- Total tax rate \$0.77 per \$100 valuation in fiscal year 2016 (\$0.5657 for maintenance and operations and \$0.2043 for interest and sinking).
- The unemployment rate for the County is currently 8.2%, which is an increase from a rate of 6.7 a year ago. This compares unfavorably to the state's average unemployment rate of 4.9%, which is an increase from a rate of 4.4% a year ago.
- These indicators were taken into account when adopting the general fund budget for 2016. Amounts available for appropriation in the general fund budget are \$4,322,500 at September 30, 2016.

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 St., Cleveland, Texas 77327.

This Page Intentionally Left Blank

Basic Financial Statements

This Page Intentionally Left Blank

City of Cleveland, Texas
Statement of Net Position
September 30, 2016

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS				
Cash and cash equivalents	\$ 5,336,534	\$ 2,018,368	\$ 7,354,902	\$ 939,592
Investments	375	433	808	1,798
Receivables (net)				
Property taxes	613,074	-	613,074	-
Sales and other taxes	549,827	-	549,827	-
Accounts	-	533,217	533,217	-
Due from other governments	320,610	-	320,610	-
Other	364	-	364	-
Internal balances	13,246	(13,246)	-	-
Due From primary government	-	-	-	44,397
Prepaid items	51,741	18,834	70,575	-
Restricted assets				
Cash - construction	-	928,302	928,302	-
Capital assets				
Land and improvements	2,136,352	178,621	2,314,973	995,263
Buildings and improvements	18,701,820	47,997	18,749,817	-
Furniture and equipment	4,425,854	1,505,965	5,931,819	-
Water system	-	9,315,496	9,315,496	-
Sewer system	-	15,256,036	15,256,036	-
Construction in progress	975,924	2,094,706	3,070,630	-
Accumulated depreciation	(7,563,608)	(14,732,357)	(22,295,965)	-
Total assets	<u>25,562,113</u>	<u>17,152,372</u>	<u>42,714,485</u>	<u>1,981,050</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	88,064	-	88,064	-
Deferred outflows for pensions	673,910	109,706	783,616	-
Total deferred outflows of resources	<u>761,974</u>	<u>109,706</u>	<u>871,680</u>	<u>-</u>
LIABILITIES				
Accounts payable	448,053	57,112	505,165	587
Accrued liabilities	53,197	173,108	226,305	-
Refundable deposits	-	239,722	239,722	-
Accrued interest payable	20,774	11,094	31,868	-
Due to component unit	44,397	-	44,397	-
Noncurrent liabilities				
Due within one year	1,055,000	251,456	1,306,456	45,931
Due in more than one year	8,425,087	4,322,792	12,747,879	107,910
Net pension liability - long-term	1,740,304	283,306	2,023,610	-
Total liabilities	<u>11,786,812</u>	<u>5,338,590</u>	<u>17,125,402</u>	<u>154,428</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pensions	123,721	20,141	143,862	-
Total deferred inflows of resources	<u>123,721</u>	<u>20,141</u>	<u>143,862</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	9,300,893	10,020,518	19,321,411	841,422
Restricted for				
Debt services	721,372	-	721,372	-
Economic development	555,368	-	555,368	-
Police	192,446	-	192,446	-
Municipal court	11,287	-	11,287	-
Unrestricted	3,632,188	1,882,829	5,515,017	985,200
TOTAL NET POSITION	<u>\$ 14,413,554</u>	<u>\$ 11,903,347</u>	<u>\$ 26,316,901</u>	<u>\$ 1,826,622</u>

The Notes to Financial Statements are an integral part of this statement.

City of Cleveland, Texas
Statement of Activities
Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities				
General government				
City council	\$ 20,851	\$ -	\$ -	\$ -
Administration	790,188	-	-	-
Technology	292,396	-	-	-
Public safety				
Municipal court	189,474	21,162	-	-
Police department	2,326,102	521,028	42,072	-
Animal control	54,433	-	-	-
Fire and ambulance	757,304	113,776	5,250	-
Emergency management	10,145	-	-	-
Public works				
Development services	205,977	64,024	-	-
Garage department	10,961	-	-	-
Transportation				
Street department	664,880	-	-	-
Airport department	88,004	101,303	-	987,513
Culture and recreation				
Library department	351,511	22,048	3,052	-
Cemetery and parks	465,821	55,329	24,441	-
Civic/community	316,010	98,887	15,845	-
Sports facilities	27,944	-	-	25,000
Grants	-	-	-	965,364
Economic development	198,116	-	-	-
Debt service				
Interest and fiscal charges	269,796	-	208,475	-
Total governmental activities	<u>7,039,913</u>	<u>997,557</u>	<u>299,135</u>	<u>1,977,877</u>
Business-type activities				
Water and sewer	2,638,757	3,432,391	-	220,248
Total business-type activities	<u>2,638,757</u>	<u>3,432,391</u>	<u>-</u>	<u>220,248</u>
TOTAL PRIMARY GOVERNMENT	\$ 9,678,670	\$ 4,429,948	\$ 299,135	\$ 2,198,125
COMPONENT UNIT				
Cleveland Economic Development Corp.	<u>\$ 591,181</u>	<u>\$ 6,793</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues				
Property taxes				
Sales and other taxes				
Franchise taxes				
Earnings on investments				
Gain on sale of assets				
Proceeds from insurance				
Miscellaneous				
Transfers, net of governmental funds capital contributions				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Prior period adjustment				
Net position - beginning, as restated				
NET POSITION - ENDING				

The Notes to 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
\$ (20,851)	\$ -	\$ (20,851)	\$ -
(790,188)	-	(790,188)	-
(292,396)	-	(292,396)	-
(168,312)	-	(168,312)	-
(1,763,002)	-	(1,763,002)	-
(54,433)	-	(54,433)	-
(638,278)	-	(638,278)	-
(10,145)	-	(10,145)	-
(141,953)	-	(141,953)	-
(10,961)	-	(10,961)	-
(664,880)	-	(664,880)	-
1,000,812	-	1,000,812	-
(326,411)	-	(326,411)	-
(386,051)	-	(386,051)	-
(201,278)	-	(201,278)	-
(2,944)	-	(2,944)	-
965,364	-	965,364	-
(198,116)	-	(198,116)	-
<u>(61,321)</u>	<u>-</u>	<u>(61,321)</u>	<u>-</u>
<u>(3,765,344)</u>	<u>-</u>	<u>(3,765,344)</u>	<u>-</u>
-	1,013,882	1,013,882	-
-	1,013,882	1,013,882	-
<u>(3,765,344)</u>	<u>1,013,882</u>	<u>(2,751,462)</u>	<u>-</u>
			<u>(584,388)</u>
2,677,409	-	2,677,409	-
3,096,142	-	3,096,142	549,609
497,207	-	497,207	-
46,808	39,255	86,063	10,168
2,860	-	2,860	48,763
29,941	3,310	33,251	-
9,676	-	9,676	-
307,167	(307,167)	-	-
<u>6,667,210</u>	<u>(264,602)</u>	<u>6,402,608</u>	<u>608,540</u>
2,901,866	749,280	3,651,146	24,152
11,270,854	11,154,067	22,424,921	1,754,303
240,834	-	240,834	48,167
<u>11,511,688</u>	<u>11,154,067</u>	<u>22,665,755</u>	<u>1,802,470</u>
<u>\$ 14,413,554</u>	<u>\$ 11,903,347</u>	<u>\$ 26,316,901</u>	<u>\$ 1,826,622</u>

City of Cleveland, Texas
 Balance Sheet - Governmental Funds
 September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash and cash equivalents	\$ 4,008,906	\$ 548,167
Investments	375	-
Receivable (net)		
Property taxes	408,806	204,268
Sales and other taxes	526,687	-
Due from other governments	320,610	-
Other	364	-
Due from other funds	13,270	826
Prepaid items	51,259	-
TOTAL ASSETS	<u>\$ 5,330,277</u>	<u>\$ 753,261</u>
LIABILITIES		
Accounts payable	\$ 400,352	\$ -
Accrued liabilities	52,338	-
Due to other funds	12,137	11,115
Due to component unit	44,397	-
Total liabilities	<u>509,224</u>	<u>11,115</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	408,806	204,268
Total deferred inflows of resources	<u>408,806</u>	<u>204,268</u>
FUND BALANCES		
Nonspendable - prepaid items	51,259	-
Restricted for debt	-	537,878
Restricted for construction projects	-	-
Restricted for economic development	-	-
Restricted for police	-	-
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
Committed for purchase of capital assets	38,488	-
Unassigned fund balances	4,322,500	-
Total fund balances	<u>4,412,247</u>	<u>537,878</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 5,330,277</u>	<u>\$ 753,261</u>

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ 49,340	\$ 730,121	\$ 5,336,534
-	-	375
-	-	613,074
-	23,140	549,827
-	-	320,610
-	-	364
11,115	11,311	36,522
-	482	51,741
<u>\$ 60,455</u>	<u>\$ 765,054</u>	<u>\$ 6,909,047</u>
\$ 43,881	\$ 3,820	\$ 448,053
-	859	53,197
-	24	23,276
-	-	44,397
<u>43,881</u>	<u>4,703</u>	<u>568,923</u>
-	-	613,074
-	-	<u>613,074</u>
-	482	51,741
-	-	537,878
16,574	-	16,574
-	555,368	555,368
-	192,446	192,446
-	11,287	11,287
-	768	768
-	-	38,488
-	-	4,322,500
<u>16,574</u>	<u>760,351</u>	<u>5,727,050</u>
<u>\$ 60,455</u>	<u>\$ 765,054</u>	<u>\$ 6,909,047</u>

This Page Intentionally Left Blank

City of Cleveland, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 5,727,050

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	\$ 26,239,950	
Accumulated depreciation of governmental capital assets	<u>(7,563,608)</u>	18,676,342

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 613,074

Long-term liabilities, including tax notes, certificates of obligation, general obligation bonds 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:

Tax notes, certificate of obligations, and		
General obligation bonds payable, at original par	\$ (9,115,000)	
Premium on debt issues	(365,087)	
Accrued interest on debt	(20,774)	
Net pension liability	<u>(1,740,304)</u>	(11,241,165)

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. 88,064

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. 673,910

Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (123,721)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 14,413,554**

City of Cleveland, Texas
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
Year Ended September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Taxes		
Property taxes	\$ 1,881,496	\$ 824,042
Sales and other taxes	2,853,315	-
Franchise taxes	497,207	-
License and permits	56,771	-
Charges for services	392,993	-
Fines and forfeitures	319,382	-
Intergovernmental	1,998,995	-
Earnings on investments	35,552	3,921
Contributions	40,449	208,475
Miscellaneous	22,603	-
Total revenues	<u>8,098,763</u>	<u>1,036,438</u>
EXPENDITURES		
General government		
City council	20,182	-
Administration	726,439	-
Technology	287,856	-
Public safety		
Municipal court	179,701	-
Police department	2,060,050	-
Animal control	47,793	-
Fire and ambulance	663,664	-
Emergency management	10,145	-
Public works		
Development services	205,449	-
Garage department	9,610	-
Transportation		
Street department	562,770	-
Airport department	47,982	-
Culture and recreation		
Library department	315,745	-
Cemetery and parks	309,153	-
Civic/community	243,946	-
Sports facilities	27,944	-
Economic development	-	-
Capital outlay		
Police department	70,922	-
Airport department	976,484	-
Cemetery and parks	-	-
Fire and ambulance	370,000	-
Glen Park drainage	975,924	-
Utility fund industrial park	-	-
Water system	-	-
Debt service		
Principal retirement	-	1,080,000
Interest and fiscal charges	-	255,398
Bond issuance costs	-	-
Total expenditures	<u>8,111,759</u>	<u>1,335,398</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(12,996)</u>	<u>(298,960)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	2,860	-
Proceeds from insurance	29,941	-
Proceeds from tax notes	-	-
Transfers in (out)	696,266	469,841
Total other financing sources (uses)	<u>729,067</u>	<u>469,841</u>
NET CHANGE IN FUND BALANCES	716,071	170,881
Fund balance - beginning of year	3,455,342	366,997
Prior period adjustment	240,834	-
FUND BALANCE - END OF YEAR	<u>\$ 4,412,247</u>	<u>\$ 537,878</u>

The Notes to Financial Statements are an integral part of this statement.

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,705,538
-	242,827	3,096,142
-	-	497,207
-	-	56,771
-	12,424	405,417
-	204,710	524,092
-	2,443	2,001,438
2,553	4,782	46,808
25,000	-	273,924
-	-	22,603
<u>27,553</u>	<u>467,186</u>	<u>9,629,940</u>
-	-	20,182
-	-	726,439
-	-	287,856
-	9,068	188,769
-	143,864	2,203,914
-	-	47,793
-	-	663,664
-	-	10,145
-	-	205,449
-	-	9,610
-	-	562,770
-	-	47,982
-	-	315,745
-	-	309,153
-	-	243,946
-	-	27,944
-	197,764	197,764
-	35,461	106,383
-	-	976,484
123,828	-	123,828
-	-	370,000
-	-	975,924
517,736	-	517,736
5,000	-	5,000
-	9,755	1,089,755
-	465	255,863
33,043	-	33,043
<u>679,607</u>	<u>396,377</u>	<u>10,523,141</u>
<u>(652,054)</u>	<u>70,809</u>	<u>(893,201)</u>
-	-	2,860
-	-	29,941
930,000	-	930,000
(336,204)	-	829,903
<u>593,796</u>	<u>-</u>	<u>1,792,704</u>
(58,258)	70,809	899,503
74,832	689,542	4,586,713
-	-	240,834
<u>\$ 16,574</u>	<u>\$ 760,351</u>	<u>\$ 5,727,050</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 Year Ended September 30, 2016

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS **\$ 899,503**

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. (28,129)

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	\$ 2,552,619	
Depreciation expense	<u>(670,117)</u>	1,882,502

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position. (15,559)

Issuance of tax notes provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (930,000)

Repayment of tax notes, certificates of obligation, bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,089,755

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 tax notes, certificates of obligation, and bonds payable increased	\$ (65)	
Accrued interest on notes payable decreased	465	
Amortization of premium	32,615	
Amortization of deferred charge on refunding	<u>(13,905)</u>	19,110

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)	\$ 416,523	
Deferred inflows (increased) decreased	(35,429)	
Net pension liability (increased) decreased	<u>(396,410)</u>	<u>(15,316)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 2,901,866**

City of Cleveland, Texas
Statement of Net Position
Proprietary Fund
September 30, 2016

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,018,368
Investments	433
Receivables (net)	
Accounts - utilities	533,217
Prepaid items	18,834
Total current assets	<u>2,570,852</u>
Noncurrent assets	
Restricted assets	
Cash - construction	928,302
Capital assets	
Land and improvements	178,621
Buildings and improvements	47,997
Furniture and equipment	1,505,965
Water system	9,315,496
Sewer system	15,256,036
Construction in progress	2,094,706
Accumulated depreciation	<u>(14,732,357)</u>
Total noncurrent assets	<u>14,594,766</u>
Total assets	<u>17,165,618</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions	<u>109,706</u>
Total deferred outflows of resources	<u>109,706</u>
LIABILITIES	
Current liabilities	
Accounts payable	57,112
Accrued liabilities	173,108
Refundable deposits	239,722
Accrued interest payable	11,094
Due to other funds	13,246
Certificates of obligation payable - current	230,000
Notes payable - current	21,456
Total current liabilities	<u>745,738</u>
Noncurrent liabilities	
Certificates of obligation payable - long-term	4,289,543
Notes payable - long-term	33,249
Net pension liability - long-term	<u>283,306</u>
Total noncurrent liabilities	<u>4,606,098</u>
Total Liabilities	<u>5,351,836</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions	<u>20,141</u>
Total deferred inflows of resources	<u>20,141</u>
NET POSITION	
Net investment in capital assets	10,020,518
Unrestricted	<u>1,882,829</u>
TOTAL NET POSITION	<u><u>\$ 11,903,347</u></u>

The Notes to Financial Statements are an integral part of this statement.

City of Cleveland, Texas

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund Year Ended September 30, 2016

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 3,432,391
Total operating revenues	<u>3,432,391</u>
OPERATING EXPENSES	
Administration	341,164
Water production	703,012
Sewer department	686,608
Sanitation services	291,672
Depreciation	<u>479,550</u>
Total operating expenses	<u>2,502,006</u>
Operating income	<u>930,385</u>
NONOPERATING REVENUES (EXPENSES)	
Proceeds from insurance	3,310
Earnings on investments	39,255
Interest and fees on debt	<u>(136,751)</u>
Total nonoperating revenues (expenses)	<u>(94,186)</u>
Income before capital contributions and transfers	836,199
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions - grants	14,450
Capital contributions from governmental funds	522,736
Capital contributions from CEDC	205,798
Transfers in (out)	<u>(829,903)</u>
Total capital contributions and transfers	<u>(86,919)</u>
Change in net position	749,280
Net position - beginning	<u>11,154,067</u>
NET POSITION - ENDING	<u><u>\$ 11,903,347</u></u>

City of Cleveland, Texas
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2016

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services	\$ 3,434,787
Cash payments to suppliers for goods and services	(1,044,500)
Cash payments to employees for salaries and benefits	(989,647)
Net cash provided (used) by operating activities	<u>1,400,640</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from (to) other funds	(829,903)
Insurance proceeds	3,310
Net cash provided (used) by noncapital financing activities	<u>(826,593)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - grants	14,450
Issuance of debt	65,257
Purchase of capital assets	(1,817,018)
Principal paid on capital debt	(245,397)
Interest and fees paid on capital debt	(137,073)
Net cash provided (used) for capital and related financing activities	<u>(2,119,781)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	39,255
Net cash provided (used) for investing activities	<u>39,255</u>
Net increase (decrease) in cash and cash equivalents	(1,506,479)
Cash and cash equivalents at beginning of year, including restricted cash	4,453,149
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH	<u>\$2,946,670</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 930,385
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	479,550
Change in assets and liabilities	
Decrease (increase) in accounts and other receivables, net	(18,644)
Decrease (Increase) in due from other funds	-
Decrease (increase) in prepaid items	(18,834)
Decrease (increase) in deferred outflows	(67,806)
Increase (decrease) in accounts payable	(20,072)
Increase (decrease) in accrued liabilities	39,346
Increase (decrease) in refundable deposits	21,040
Increase (decrease) in due to other funds	(14,625)
Increase (decrease) in net pension liability	64,532
Increase (decrease) in deferred inflows	5,768
Total adjustments	<u>470,255</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$1,400,640</u>
Schedule of non-cash capital and related financing activities:	
Contributions of capital assets from governmental funds and CEDC	\$ 728,534

The Notes to Financial Statements are an integral part of this statement.

City of Cleveland, Texas

Notes to Financial Statements

Note 1. 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.

City of Cleveland, Texas

Notes to Financial Statements

The City reports the following major governmental funds:

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

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

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

The City reports the following major enterprise funds:

The *water and sewer fund* is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed or recovered primarily through user charges or periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

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

City of Cleveland, Texas

Notes to Financial Statements

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.

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*.

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand bank demand or time deposits with original maturities of three months or less from the date of acquisition (including restricted cash).

2. Deposits and Investments

Investments for the City, except for certain investment pools and non-negotiable certificates of deposits, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. In addition, non-negotiable certificates of deposit are reported at cost.

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.

City of Cleveland, Texas

Notes to Financial Statements

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>Estimated Capital Asset Class</u>	<u>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

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	<u>Statement of</u>	<u>Statement of</u>	<u>Balance Sheet - Governmental Funds</u>	
	<u>Net Position</u>	<u>Net Position</u>	<u>General</u>	<u>Debt Service</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Fund</u>	<u>Fund</u>
	<u>Activities</u>	<u>Activities</u>		
Deferred outflows of resources				
Deferred outflows from pension activities	\$ 471,894	\$ 76,820	\$ -	\$ -
Deferred contributions after the measurement date	202,016	32,886	-	-
Deferred charge on refunding	88,064	-	-	-
Total deferred outflows of resources	<u>\$ 761,974</u>	<u>\$ 109,706</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred inflows of resources				
Deferred inflows from pension activities	\$ 123,721	\$ 20,141	\$ -	\$ -
Unavailable property taxes	-	-	408,806	204,268
Total deferred inflows of resources	<u>\$ 123,721</u>	<u>\$ 20,141</u>	<u>\$ 408,806</u>	<u>\$ 204,268</u>

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- City contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

City of Cleveland, Texas

Notes to Financial Statements

6. Net Position Flow Assumption

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

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Council has by resolution authorized the Director of Finance 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.

City of Cleveland, Texas

Notes to Financial Statements

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Liberty County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2016 was \$0.78 per \$100, allocated \$0.5420 for the General Fund and \$0.2380 for the Debt Service Fund.

3. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the individual is eligible for the benefit.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the operating cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

5. Use of Estimates

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

City of Cleveland, Texas

Notes to Financial Statements

Note 2. 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 ordinance 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. As of September 30, 2016, the City did not have any outstanding encumbrances.

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Primary Government

Cash Deposits. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

City of Cleveland, Texas
 Notes to Financial Statements

Investments. The City's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and City policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program as permitted by Government Code.

The City's measurements of investments are presented in the table below. The City's investment balances and weighted average maturity, and credit risk of such investments are as follows:

	September 30, 2016	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost				
Texpool - LGIP	\$ 808	100%	0.12	AAAm
Total Value	\$ 808	100%		
Portfolio Weighted Average Maturity			0.12	

Investment Pools are measured at amortized cost. Such investments are not required to be reported by levels in the table above.

The Texpool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

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.

City of Cleveland, Texas

Notes to Financial Statements

Credit risk. For fiscal year 2016, the City invested in Texpool. Texpool is duly chartered and administered by the State Comptroller's Office. The credit rating for investments is noted in the table 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, 2016, City's deposits of \$8,368,287 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, 2016, the Cleveland Economic Development Corporation bank balance of \$968,987 was covered by federal deposit insurance, or pledged collateral held by the City's agent and in the City's name.

The Cleveland Economic Development Corporation's investment balances, weighted average maturity, and credit risk of such investments are as follows:

	September 30, 2016	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost				
Texpool - LGIP	\$ 1,798	100%	0.12	AAAm
Total value	<u>\$ 1,798</u>	<u>100%</u>		
Portfolio weighted average maturity			0.12	

B. Receivables

Tax revenues of the general and debt service fund are reported net of the change in estimated uncollectible amounts. Revenues of the Water and Sewer Fund are reported net of the change in estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to General Fund property taxes	\$ 2,500
Change in uncollectibles related to Debt Service property taxes	-
Change in uncollectibles related to Water and Sewer Fund utilities	<u>(21,343)</u>
Total change in uncollectibles of the current fiscal year increased (decreased) revenues	<u>\$ (18,843)</u>

Allowances for uncollectibles September 30, 2016 for the City's individual major governmental and proprietary funds are as follows:

	General	Debt Service Fund	Water and Sewer	Total
Property taxes	\$ 35,000	\$ 18,000	\$ -	\$ 53,000
Accounts - utilities	-	-	93,000	93,000

City of Cleveland, Texas
Notes to Financial Statements

Approximately 76% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Balances and Activity

Primary Government

1. Due To and From Other Funds at September 30, 2016 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 13,270	\$ 12,137
Debt Service Fund	826	11,115
Capital Projects Fund	11,115	-
Nonmajor Funds	11,311	24
Water and Sewer Fund	-	13,246
Totals	<u>\$ 36,522</u>	<u>\$ 36,522</u>

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

2. Transfers To and From Other Funds

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the City’s transfers for the year ended September 30, 2016.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 360,062
Water and Sewer Fund	Debt Service Fund	469,841
Capital Project Fund	General Fund	336,204
		<u>\$1,166,107</u>

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

Component Unit - Economic Development Corporation

Amounts receivable and payable between the City and its component unit at September 30, 2016 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ -	\$ 44,397
Component unit - EDC	44,397	-
Totals	<u>\$ 44,397</u>	<u>\$ 44,397</u>

The component unit amount consist of allocation of sales tax due to EDC, net of short-term lending/borrowing arrangements with the primary government.

City of Cleveland, Texas
Notes to Financial Statements

D. Capital Assets

Primary Government

Capital asset activity for the period ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions and Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 2,136,352	\$ -	\$ -	\$ 2,136,352
Construction in progress	109,500	1,952,408	(1,085,984)	975,924
Total capital assets, not being depreciated	<u>2,245,852</u>	<u>1,952,408</u>	<u>(1,085,984)</u>	<u>3,112,276</u>
Capital assets, being depreciated				
Buildings and improvements	17,571,955	43,881	1,085,984	18,701,820
Furniture and equipment	4,017,587	556,330	(148,063)	4,425,854
Total capital assets, being depreciated	<u>21,589,542</u>	<u>600,211</u>	<u>937,921</u>	<u>23,127,674</u>
Less accumulated depreciation for				
Buildings and improvements	(3,851,471)	(478,206)	-	(4,329,677)
Furniture and equipment	(3,174,524)	(191,911)	132,504	(3,233,931)
Total accumulated depreciation	<u>(7,025,995)</u>	<u>(670,117)</u>	<u>132,504</u>	<u>(7,563,608)</u>
Total capital assets, being depreciated, net	<u>14,563,547</u>	<u>(69,906)</u>	<u>1,070,425</u>	<u>15,564,066</u>
Governmental activities capital assets, net	<u>\$ 16,809,399</u>	<u>\$ 1,882,502</u>	<u>\$ (15,559)</u>	<u>\$ 18,676,342</u>

Depreciation was charged to governmental-type activities as follows:

Governmental activities	
City council	\$ 669
Administration	47,133
Technology	4,540
Police	116,732
Animal control	6,288
Fire and ambulance	90,471
Garage department	1,351
Street department	101,230
Airport department	40,022
Library department	34,709
Cemetery and parks	155,436
Civic center	71,536
Total depreciation expense	<u>\$ 670,117</u>

City of Cleveland, Texas
Notes to Financial Statements

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land and improvements	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in progress	264,752	1,829,954	-	2,094,706
Total capital assets, not being depreciated	443,373	1,829,954	-	2,273,327
Capital assets, being depreciated				
Buildings and improvements	47,997	-	-	47,997
Furniture and equipment	831,083	701,018	(26,136)	1,505,965
Water system	9,300,916	14,580	-	9,315,496
Sewer system	15,256,036	-	-	15,256,036
Total capital assets, being depreciated	25,436,032	715,598	(26,136)	26,125,494
Less accumulated depreciation for				
Buildings and improvements	(26,087)	(1,408)	-	(27,495)
Furniture and equipment	(605,995)	(106,225)	26,136	(686,084)
Water system	(3,206,007)	(140,302)	-	(3,346,309)
Sewer system	(10,440,854)	(231,615)	-	(10,672,469)
Total accumulated depreciation	(14,278,943)	(479,550)	26,136	(14,732,357)
Total capital assets, being depreciated, net	11,157,089	236,048	-	11,393,137
Business-type activities capital assets, net	<u>\$ 11,600,462</u>	<u>\$ 2,066,002</u>	<u>\$ -</u>	<u>\$ 13,666,464</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 479,550
Total depreciation expense	<u>\$ 479,550</u>

Construction Commitment

The City has an active construction project as of September 30, 2016 with an outstanding commitment totaling \$420,548 for the construction of a water ground storage tank.

Discretely Presented Component Unit - CEDC

Land owned by the Cleveland Economic Development Corporation decreased by \$30,238 due to a sale of land. The ending balance of land and total assets was \$995,263 at September 30, 2016.

E. Long-Term Obligations

Primary Government and Discretely Presented Component Unit (CEDC)

1. Long-term Obligation Activity

Long-term obligations include tax notes, certificates of obligation, a general obligation refunding bond, notes payable, and net pension liabilities. The requirements for the general obligation refunding bond and the tax notes principal and interest payments are accounted for in the Debt Service Fund. 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 Money Seizures Fund, the Water and Sewer 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.

City of Cleveland, Texas

Notes to Financial Statements

Changes in long-term obligations for the period ended September 30, 2016 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Tax notes	\$ 105,000	\$ 930,000	\$ (255,000)	\$ 780,000	\$ 190,000
Certificates of obligation	2,775,000	-	(210,000)	2,565,000	210,000
General obligation refunding bond	6,385,000	-	(615,000)	5,770,000	655,000
Issuance premiums	397,702	-	(32,615)	365,087	-
Total tax notes, certificates, and bonds payable, net	9,662,702	930,000	(1,112,615)	9,480,087	1,055,000
Notes payable	9,755	-	(9,755)	-	-
Net pension liability	1,343,894	1,185,407	(788,997)	1,740,304	-
Total governmental activities	<u>\$11,016,351</u>	<u>\$ 2,115,407</u>	<u>\$ (1,911,367)</u>	<u>\$11,220,391</u>	<u>\$ 1,055,000</u>
Business-type activities					
Certificates of obligation	\$ 4,670,000	\$ -	\$ (230,000)	\$ 4,440,000	\$ 230,000
Issuance premiums	84,388	-	(4,845)	79,543	-
Total certificates	4,754,388	-	(234,845)	4,519,543	230,000
Notes payable	-	65,257	(10,552)	54,705	21,456
Net pension liability	218,774	192,973	(128,441)	283,306	-
Total business-type activities	<u>\$ 4,973,162</u>	<u>\$ 258,230</u>	<u>\$ (373,838)</u>	<u>\$ 4,857,554</u>	<u>\$ 251,456</u>
Discretely presented component unit (CEDC)					
Notes payable	\$ 197,468	\$ -	\$ (43,627)	\$ 153,841	\$ 45,931
Total discretely presented component unit	<u>\$ 197,468</u>	<u>\$ -</u>	<u>\$ (43,627)</u>	<u>\$ 153,841</u>	<u>\$ 45,931</u>

2. Governmental Activities

The City's governmental activities debt consists of tax notes, a certificate of obligation, a general obligation refunding bond, a note payable and net pension liability. The City issues debt to provide funds for the construction and improvement of the airport, law enforcement center, civic center, city hall, animal center, parks, equipment 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 and tax notes are issued as 5-20 year current interest notes.

Tax Notes, Certificates of Obligation, and General Obligation Bond

The following is a summary of changes in the tax notes, certificate of obligation, and the general obligation refunding bond for the fiscal year:

Series	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
Tax Notes							
2011	3.15%	2016	\$ 525,000	\$ 105,000	\$ -	\$ (105,000)	\$ -
2015	1.64%	2020	930,000	-	930,000	(150,000)	780,000
Certificates of obligation							
2012	2.00-4.00%	2032	3,370,000	2,775,000	-	(210,000)	2,565,000
General obligation bond							
2013 REF	2.00-3.00%	2026	7,860,000	6,385,000	-	(615,000)	5,770,000
Totals				<u>\$ 9,265,000</u>	<u>\$ 930,000</u>	<u>\$ (1,080,000)</u>	<u>\$ 9,115,000</u>

City of Cleveland, Texas

Notes to Financial Statements

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 preceding table for a total original issue of \$3,370,000. The CEDC portion of such debt had a balance of \$2,475,000 as of September 30, 2016. The CEDC is pledging sales tax revenue to fund the debt requirements.

Debt service requirements for tax notes, certificate of obligation, and the general obligation refunding bond at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,055,000	\$ 235,623	\$ 1,290,623
2018	925,000	216,557	1,141,557
2019	940,000	194,884	1,134,884
2020	960,000	169,111	1,129,111
2021	640,000	144,494	784,494
2022	655,000	124,393	779,393
2023	685,000	106,293	791,293
2024	700,000	89,888	789,888
2025	715,000	72,438	787,438
2026	735,000	53,828	788,828
2027	165,000	40,900	205,900
2028	175,000	34,100	209,100
2029	180,000	27,000	207,000
2030	185,000	19,700	204,700
2031	195,000	12,100	207,100
2032	205,000	4,100	209,100
Totals	<u>\$ 9,115,000</u>	<u>\$ 1,545,409</u>	<u>\$10,660,409</u>

Notes Payable

The City issued a note payable to provide funds for the purchase of equipment. The note payable is secured by the equipment purchased. The note is issued as a 3 year current interest note.

The following is a summary of changes in the note 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>
2013 Computers	4.67%	2016	\$ 9,755	\$ -	\$ (9,755)	\$ -
Totals			<u>\$ 9,755</u>	<u>\$ -</u>	<u>\$ (9,755)</u>	<u>\$ -</u>

City of Cleveland, Texas
Notes to Financial Statements

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 certificates of obligation for the fiscal year:

Series	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
2009	0.345-4.30%	2029	\$ 555,000	\$ 435,000	\$ -	\$ (25,000)	\$ 410,000
2011	0.100-3.90%	2031	2,360,000	1,965,000	-	(100,000)	1,865,000
2012A	2.000-3.25%	2033	2,470,000	2,270,000	-	(105,000)	2,165,000
Totals				<u>\$ 4,670,000</u>	<u>\$ -</u>	<u>\$ (230,000)</u>	<u>\$ 4,440,000</u>

Debt service requirements for revenue bonds at September 30, 2016 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
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
Totals	<u>\$4,440,000</u>	<u>\$1,233,989</u>	<u>\$5,673,989</u>

City of Cleveland, Texas

Notes to Financial Statements

Note Payable

The City issued a note payable to provide funds for the purchase of equipment. The note payable is secured by the equipment purchased. The note is issued as a 3 year current interest note.

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

Description	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Case 580N 4WD Backhoe	2.69%	2019	\$ -	\$ 65,257	\$ (10,552)	\$ 54,705
Totals			\$ -	\$ 65,257	\$ (10,552)	\$ 54,705

Debt service requirements for the note payable at September 30, 2016 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2017	\$ 21,456	\$ 1,263	\$ 22,719
2018	22,042	677	22,719
2019	11,207	114	11,321
Totals	\$ 54,705	\$ 2,054	\$ 56,759

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.

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

Description	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2009 Land	5.10%	2019	\$ 197,468	\$ -	\$ (43,627)	\$ 153,841
Totals			\$ 197,468	\$ -	\$ (43,627)	\$ 153,841

Debt service requirements for notes payable at September 30, 2016 are as follows:

Year Ending September 30,	Discretely Presented Component Unit		
	Principal	Interest	Total
2017	\$ 45,931	\$ 6,779	\$ 52,710
2018	48,328	4,381	52,709
2019	50,852	1,857	52,709
2020	8,730	56	8,786
Totals	\$ 153,841	\$ 13,073	\$ 166,914

City of Cleveland, Texas

Notes to Financial Statements

Note 4. 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 2016, 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 866 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.tmr.com.

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

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.

City of Cleveland, Texas
Notes to Financial Statements

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 2015	Plan Year 2014
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
Supplemental Death Benefit to Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

Employees Covered by Benefit Terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	48
Inactive employees entitled to but not yet receiving benefits	63
Active employees	78
	<u>189</u>

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 10.67% and 9.86% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$323,843, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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 Financial Statements

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, 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 Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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.

City of Cleveland, Texas

Notes to Financial Statements

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.55%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.65%
Real return	10.0%	4.03%
Real estate	10.0%	5.00%
Absolute return	10.0%	4.00%
Private equity	5.0%	8.00%
Total	100%	

City of Cleveland, Texas
Notes to Financial Statements

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. 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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2014	\$ 9,993,951	\$ 8,431,283	\$ 1,562,668
Changes for the year			
Service cost	310,615	-	310,615
Interest	693,226	-	693,226
Change of benefit terms	-	-	-
Difference between expected and actual experience	(125,466)	-	(125,466)
Changes of assumptions	36,902	-	36,902
Contributions - employer	-	306,308	(306,308)
Contributions - employee	-	143,537	(143,537)
Net investment income	-	12,441	(12,441)
Benefit payments, including refunds of employee contributions	(492,054)	(492,054)	-
Administrative expense	-	(7,578)	7,578
Other changes	-	(373)	373
Net changes	423,223	(37,719)	460,942
Balance at December 31, 2015	<u>\$ 10,417,174</u>	<u>\$ 8,393,564</u>	<u>\$ 2,023,610</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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 3,573,319	\$ 2,023,610	\$ 767,159

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.

City of Cleveland, Texas
Notes to Financial Statements

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

For the year ended September 30, 2016, the City recognized pension expense of \$341,655.

At September 30, 2016, 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	\$ -	\$ 143,862
Changes in actuarial assumptions	25,074	-
Difference between projected and actual investment earnings	523,640	-
Contributions subsequent to the measurement date	234,902	-
Totals	<u>\$ 783,616</u>	<u>\$ 143,862</u>

\$234,902 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 fiscal year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2017	\$ 63,589
2018	93,095
2019	132,620
2020	115,548
Thereafter	<u>-</u>
Totals	<u>\$ 404,852</u>

City of Cleveland, Texas
Notes to Financial Statements

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 2015	Plan Year 2016
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the fiscal years ended 2016, 2015, and 2014 were \$8,933, \$8,333, and \$7,817, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.23%	0.23%	100.00%
2014	0.29%	0.29%	100.00%
2015	0.30%	0.30%	100.00%

E. Pending Litigation and Contingencies

The City is a defendant in legal claims. Although the outcome of the claims is not presently determinable, in the opinion of the City, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City received a grant from Texas Department of Agriculture (TDA) and issued bonds to construct a water plant at the industrial park. Such grant included a performance clause for an entity to build a plant and hire 28 employees by December 2014. TDA has extended the performance requirement to June 2017. If the performance requirement is not met, the City will be responsible for repayment of the grant received totaling \$730,000. The CEDC has guaranteed the performance and if the City is charged with repayment to TDA, then CEDC will be required to reimburse the City.

City of Cleveland, Texas
Notes to Financial Statements

F. Prior Period Adjustment

Governmental activities and CEDC beginning net position and General Fund beginning fund balance at October 1, 2015, were restated to accrue an additional month of sales tax due to the amounts received in October and November are earned in the months of August and September and the City had only accrued the sales tax funds received in October in prior years. The effect of the restatements of beginning net position and fund balance is reflected in the following table:

	Governmental Activities <u>Net Position</u>	Component Unit - CEDC <u>Net Position</u>	General Fund <u>Fund Balance</u>
Beginning balance, as previously reported	\$ 11,270,854	\$ 1,754,303	\$ 3,455,342
Restate beginning sales tax receivable	<u>240,834</u>	<u>48,167</u>	<u>240,834</u>
Beginning balance, restated	<u>\$ 11,511,688</u>	<u>\$ 1,802,470</u>	<u>\$ 3,696,176</u>

G. Fund Balance Deficit

The Court Technology reported a deficit fund balance of \$24 at September 30, 2016. The deficit will be funded with future fees from fines and transfers from the general fund.

This Page Intentionally Left Blank

Required Supplementary Information

City of Cleveland, Texas
 Required Supplementary Information
 General Fund
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance – Budget and Actual
 Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property taxes	\$1,877,671	\$1,877,671	\$1,881,496	\$ 3,825
Sales and other taxes	2,615,664	2,615,664	2,853,315	237,651
Franchise taxes	517,428	517,428	497,207	(20,221)
License and permits	64,700	64,700	56,771	(7,929)
Charges for services	326,250	326,250	392,993	66,743
Fines and forfeitures	325,200	325,200	319,382	(5,818)
Intergovernmental	-	-	1,998,995	1,998,995
Earnings on investments	23,000	23,000	35,552	12,552
Contributions	76,150	76,150	40,449	(35,701)
Miscellaneous	43,950	43,950	22,603	(21,347)
Total Revenues	<u>5,870,013</u>	<u>5,870,013</u>	<u>8,098,763</u>	<u>2,228,750</u>
EXPENDITURES				
General Government				
City council	32,335	32,335	20,182	12,153
Administration	769,366	769,366	726,439	42,927
Technology	343,579	343,579	287,856	55,723
Public Safety				
Municipal court	187,431	187,431	179,701	7,730
Police department	2,106,137	2,106,137	2,060,050	46,087
Animal control	63,119	63,119	47,793	15,326
Fire and ambulance	746,131	746,131	663,664	82,467
Emergency management	14,778	14,778	10,145	4,633
Public Works				
Development services	218,898	218,898	205,449	13,449
Garage department	10,926	10,926	9,610	1,316
Transportation				
Street department	507,410	567,410	562,770	4,640
Airport department	49,100	49,100	47,982	1,118
Culture and Recreation				
Library department	367,034	367,034	315,745	51,289
Cemetery and parks	412,903	412,903	309,153	103,750
Civic/community	243,786	243,786	243,946	(160)
Sports facilities	102,820	102,820	27,944	74,876
Capital Outlay				
Police department	70,922	70,922	70,922	-
Airport department	-	-	976,484	(976,484)
Fire and ambulance	370,000	370,000	370,000	-
Glen Park drainage	-	-	975,924	(975,924)
Debt Service				
Principal retirement	65,417	65,417	-	65,417
Interest and fiscal charges	20,421	20,421	-	20,421
Total Expenditures	<u>6,702,513</u>	<u>6,762,513</u>	<u>8,111,759</u>	<u>(1,349,246)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(832,500)</u>	<u>(892,500)</u>	<u>(12,996)</u>	<u>879,504</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	10,000	10,000	2,860	(7,140)
Proceeds from insurance	22,500	22,500	29,941	7,441
Transfers in (out)	800,000	800,000	696,266	(103,734)
Total Other Financing Sources (Uses)	<u>832,500</u>	<u>832,500</u>	<u>729,067</u>	<u>(103,433)</u>
NET CHANGE IN FUND BALANCE	-	(60,000)	716,071	776,071
Fund Balance - Beginning	3,455,342	3,455,342	3,455,342	-
Prior Period Adjustment	-	-	240,834	240,834
FUND BALANCE - ENDING	<u>\$3,455,342</u>	<u>\$3,395,342</u>	<u>\$4,412,247</u>	<u>\$ 1,016,905</u>

The Notes to Required Supplementary Information are an integral part of this statement.

City of Cleveland, Texas

Required Supplementary Information

Schedule of Changes in the City's Net Pension Liability and Related Ratios -

Texas Municipal Retirement System

Last Two Fiscal Years*

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 310,615	\$ 289,352
Interest	693,226	668,798
Differences between expected and actual experience	(125,466)	(146,722)
Changes of assumptions	36,902	-
Benefit payments, including refunds of employee contributions	<u>(492,054)</u>	<u>(454,110)</u>
Net change in total pension liability	423,223	357,318
Total pension liability - beginning	<u>9,993,951</u>	<u>9,636,633</u>
Total pension liability - ending (a)	<u><u>\$ 10,417,174</u></u>	<u><u>\$ 9,993,951</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 306,308	\$ 285,365
Contributions - employee	143,537	143,400
Net investment income	12,441	457,872
Benefits payments, including refunds of employee contributions	(492,054)	(454,110)
Administrative expense	(7,578)	(4,780)
Other	<u>(373)</u>	<u>(393)</u>
Net change in plan fiduciary net position	(37,719)	427,354
Plan fiduciary net position - beginning	<u>8,431,283</u>	<u>8,003,929</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 8,393,564</u></u>	<u><u>\$ 8,431,283</u></u>
Net pension liability - ending (a)-(b)	<u><u>\$ 2,023,610</u></u>	<u><u>\$ 1,562,668</u></u>
Plan fiduciary net position as a percentage of total pension liability	80.57%	84.36%
Covered employee payroll	\$ 2,870,749	\$ 2,868,009
Net pension liability as a percentage of covered employee payroll	70.49%	54.49%

*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 has provided two years of results. The employer will be required to build this schedule over the next 10-year period.

City of Cleveland, Texas
 Required Supplementary Information
 Schedule of the City's Contributions
 Texas Municipal Retirement System
 Last Two Fiscal Years*

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 323,843	\$ 293,516
Contributions in relation to the actuarially determined contribution	<u>(323,843)</u>	<u>(293,516)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,215,934	\$ 2,803,135
Contributions as a percentage of covered employee payroll	10.07%	10.47%

*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. GASB 68 was implemented at the beginning of fiscal year 2015 and the City will be required to build this schedule over the next 10-year period.

City of Cleveland, Texas

Notes to Required Supplementary Information

Note 1. 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 ordinance 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, 2016, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund			
Civic/community	\$ 243,786	\$ 243,946	\$ (160)
Capital outlay			
Airport department	-	976,484	(976,484)
Glen Park drainage	-	975,924	(975,924)

City of Cleveland, Texas

Notes to Required Supplementary Information

Note 2. Pension

TMRS

The Schedule of Changes in the City's Net Pension Liability and Related Ratios shows the changes in total pension liability less the changes in fiduciary net position, resulting in the net pension liability calculation for the City for the Plan's fiscal year-end December 31. Note that this is a 10-year schedule, to be created by the City prospectively, over the next 10-year period. This schedule is provided by the actuary, GRS, for the current period.

The Schedule of Employer Contributions shows the City's required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the City's respective fiscal year-end, and is created by the City, and built prospectively over the next 10-year period. The City provides the following notes to Schedule of the City's Contributions, including the methods and assumptions used to determine the contribution rates and information about benefit changes during the year as follows:

Actuarial Assumptions

Valuation date	December 31, 2015
Notes	Actuarially determined contribution rates are calculated as of December 31, 2015 and become effective in January, 13 months later.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
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 generated basis with scale BB

Other information

Notes	There were no benefit changes during the year.
-------	--

Supplementary Information

City of Cleveland, Texas
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 September 30, 2016

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
ASSETS		
Cash and cash equivalents	\$ 534,217	\$ 195,136
Receivable		
Sales and other taxes	23,140	-
Due from other funds	-	-
Prepaid items	482	-
TOTAL ASSETS	<u>\$ 557,839</u>	<u>\$ 195,136</u>
LIABILITIES		
Accounts payable	\$ 1,130	\$ 2,690
Accrued liabilities	859	-
Due to other funds	-	-
Total Liabilities	<u>1,989</u>	<u>2,690</u>
FUND BALANCES		
Nonspendable - prepaid items	482	-
Restricted for economic development	555,368	-
Restricted for police	-	192,446
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
Total fund balances	<u>555,850</u>	<u>192,446</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 557,839</u>	<u>\$ 195,136</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ 768	\$ -	\$ -	\$ 730,121
-	-	-	23,140
-	-	11,311	11,311
-	-	-	482
<u>\$ 768</u>	<u>\$ -</u>	<u>\$ 11,311</u>	<u>\$ 765,054</u>
\$ -	\$ -	\$ -	\$ 3,820
-	-	-	859
-	24	-	24
<u>-</u>	<u>24</u>	<u>-</u>	<u>4,703</u>
-	-	-	482
-	-	-	555,368
-	-	-	192,446
-	(24)	11,311	11,287
768	-	-	768
<u>768</u>	<u>(24)</u>	<u>11,311</u>	<u>760,351</u>
<u>\$ 768</u>	<u>\$ -</u>	<u>\$ 11,311</u>	<u>\$ 765,054</u>

City of Cleveland, Texas

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended September 30, 2016

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
REVENUES		
Sales and other taxes	\$ 242,827	\$ -
Charges for services	-	-
Fines and forfeitures	-	204,710
Intergovernmental	-	2,443
Earnings on investments	3,838	938
Total revenues	<u>246,665</u>	<u>208,091</u>
EXPENDITURES		
Municipal court	-	-
Police department	-	143,864
Economic development	197,764	-
Capital outlay	-	35,461
Debt Service		
Principal retirement	-	9,755
Interest and fiscal charges	-	465
Total expenditures	<u>197,764</u>	<u>189,545</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>48,901</u>	<u>18,546</u>
Fund balances, beginning of year	<u>506,949</u>	<u>173,900</u>
FUND BALANCES, END OF YEAR	<u>\$ 555,850</u>	<u>\$ 192,446</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ -	\$ 242,827
-	7,098	5,326	12,424
-	-	-	204,710
-	-	-	2,443
6	-	-	4,782
<u>6</u>	<u>7,098</u>	<u>5,326</u>	<u>467,186</u>
-	9,068	-	9,068
-	-	-	143,864
-	-	-	197,764
-	-	-	35,461
-	-	-	9,755
-	-	-	465
<u>-</u>	<u>9,068</u>	<u>-</u>	<u>396,377</u>
<u>6</u>	<u>(1,970)</u>	<u>5,326</u>	<u>70,809</u>
762	1,946	5,985	689,542
<u>\$ 768</u>	<u>\$ (24)</u>	<u>\$ 11,311</u>	<u>\$ 760,351</u>

City of Cleveland, Texas

Statement of Net Position - Component Unit
Cleveland Economic Development Corporation
September 30, 2016

	<u>Component Unit CEDC</u>
ASSETS	
Cash and cash equivalents	\$ 939,592
Investments	1,798
Due from primary government	44,397
Capital Assets	
Land and improvements	995,263
TOTAL ASSETS	<u>\$ 1,981,050</u>
LIABILITIES	
Accounts payable	\$ 587
Notes payable - current	45,931
Total Current Liabilities	<u>46,518</u>
Noncurrent Liabilities	
Notes payable - long-term	107,910
Total Noncurrent Liabilities	<u>107,910</u>
Total Liabilities	<u>154,428</u>
NET POSITION	
Net Investment in Capital Assets	841,422
Unrestricted	985,200
Total Net Position	<u>1,826,622</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,981,050</u>

City of Cleveland, Texas

Statement of Revenues, Expenses, and Changes
in Net Position - Component Unit
Cleveland Economic Development Corporation
Year Ended September 30, 2016

	<u>Component Unit CEDC</u>
OPERATING REVENUES	
Taxes	
Sales tax	\$ 549,609
Charges for services	6,793
Total revenues	<u>556,402</u>
OPERATING EXPENSES	
Economic development	
Professional services	43,255
Other services	13,786
Supplies	1,061
Utilities	7,182
Affordable housing	7,481
Contributions to city	509,334
Total expenses	<u>582,099</u>
Operating income (loss)	<u>(25,697)</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	10,168
Gain on sale of assets	48,763
Interest and fiscal charges	(9,082)
Total nonoperating revenues (expenses)	<u>49,849</u>
Change in net position	24,152
Net position - beginning	1,754,303
Prior Period Adjustment	48,167
NET POSITION - ENDING	<u><u>\$ 1,826,622</u></u>

City of Cleveland, Texas
 Schedule of Taxes Receivable
 Year Ended September 30, 2016

<u>Tax Year</u>	<u>Balance 9/30/2015</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2016</u>
2015	\$ -	\$2,602,727	\$2,463,440	\$ -	\$ 139,287
2014	195,347	-	110,323	(3,228)	81,796
2013	78,920	-	16,093	(1,608)	61,219
2012	66,498	-	8,681	(1,558)	56,259
2011	62,232	-	5,734	(1,536)	54,962
2010	49,044	-	2,971	(300)	45,773
2009	47,401	-	1,703	(85)	45,613
2008	43,098	-	2,097	(27)	40,974
2007	38,161	-	1,162	(115)	36,884
2006 & Prior	116,002	-	5,038	(7,657)	103,307
Total	\$ 696,703	\$2,602,727	\$2,617,242	\$ (16,114)	\$ 666,074
Less allowance for uncollectible accounts					53,000
					\$ 613,074

ASSESSED VALUATION AND RATE SUMMARY

<u>Tax Year</u>	<u>Property Valuations</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
2015	\$333,682,949	\$ 0.5420	\$ 0.2380	\$0.7800
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
2006	251,406,314	0.4441	0.2908	0.7349

**Overall Compliance, Internal Control Section
and Federal Awards**

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

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

We have audited, 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, 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, 2016, and the related Notes to financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 17, 2017.

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

To The Honorable Mayor and Members of
the City Council and Management of
City of Cleveland, Texas

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.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

February 17, 2017



**Independent Auditor's Report on Compliance for Each Major Federal
Program and Report on Internal Control over Compliance
in Accordance with the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited City of Cleveland, Texas (City) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

To The Honorable Mayor and Members of
the City Council and Management of
City of Cleveland, Texas

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

February 17, 2017

This Page Intentionally Left Blank

City of Cleveland, Texas

Schedule of Findings and Questioned Costs

Year Ended September 30, 2016

Section 1 – Summary of Auditor’s Results	
Financial Statements	
1. Type of auditor’s report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
Federal Awards	
4. Internal Control over Major Programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditor’s report issued on compliance with major programs	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Uniform Guidance?	No
7. Identification of Major Programs	14.228 Community Development Block Grant
8. Dollar Threshold used to Distinguish Between Type A and Type B Federal Programs	\$750,000
9. Auditee Qualified as a Low-Risk Auditee	No
Section 2 – Financial Statements Findings	
None reported	
Section 3 – Federal Award Findings and Questioned Costs	
None reported	

City of Cleveland, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2016

Prior Year Findings
None reported

City of Cleveland, Texas
Corrective Action Plan
Year Ended September 30, 2016

Current Year Findings
None reported

City of Cleveland, Texas

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)</u>			
Passed Through Texas Department of Agriculture:			
<i>Community Development Block Grant</i>	14.228	7215080	\$ 14,450
Passed Through Texas General Land Office:			
<i>Community Development Block Grant / Disaster Recovery Program</i>	14.228	DRS220028	965,364
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)			<u>979,814</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Texas Department of Public Safety's Division of Emergency Management:			
<i>Emergency Management Performance Grant</i>	97.042	16TX-EMPG-0400	25,417
<i>Emergency Management Performance Grant</i>	97.042	15TX-EMPG-0400	14,212
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>39,629</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,019,443</u>

City of Cleveland, Texas

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2016

1. General

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

2. Basis of Accounting

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

3. Relationship to Financial Statements

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

Total expenditures of federal awards per SEFA	\$ 1,019,443
State funding received and included in intergovernmental revenues	<u>996,445</u>
Total intergovernmental revenues per basic financial statements	<u><u>\$ 2,015,888</u></u>
Intergovernmental revenues	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Intergovernmental revenues	\$ 2,001,438
Statement of Revenues, Expenses, and Changes in Net Position - Water and Sewer Fund-Capital contributions-grant revenue	<u>14,450</u>
Total intergovernmental revenues per basic financial statements	<u><u>\$ 2,015,888</u></u>