

***COMPREHENSIVE
ANNUAL FINANCIAL REPORT***

of the

City of Cleveland, Texas

**For the Year Ended
September 30, 2020**

Prepared by:

Leslie Herrera
Interim Finance Director

Bobby Pennington
City Manager

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City of Cleveland, Texas

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September 30, 2020

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INTRODUCTORY SECTION

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Mayor, Richard Boyett
May Pro-Tem, Danny Lee
City Council
Carolyn McWaters
Marilyn Clay
James Franklin
Delores Terry



907 E. Houston St.
Cleveland, Texas 77327
Phone (281) 592-2667
Fax (281) 592-6624

Robert Pennington, City Manager
Angela Smith, City Secretary

January 22, 2021

The Honorable Mayor and City Council
of the City of Cleveland:

The Texas Local Government Code states that a municipality shall have its records and accounts audited annually and shall have annual financial statements prepared based on the audit. The Comprehensive Annual Financial Report (CAFR) of the City of Cleveland, Texas (the "City") for the year ended September 30, 2020, is hereby submitted to fulfill that requirement.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to gain an understanding of the City's financial affairs have been included. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

BrooksWatson & Company, PLLC, has issued an unmodified ("clean") opinion on the City of Cleveland's financial statements for the year ended September 30, 2020. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (the "MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY OF CLEVELAND

The City of Cleveland, founded in 1836, located approximately 40 miles northeast of Houston and 22 miles east of Conroe with a population of 8,396. The City is a Home Rule Charter City and operates under the "Council-Manager Government". The elected body is made up of a Mayor and five Council members who are elected at large. The length of office for all Council members and the Mayor are staggered two-year terms. The City Council appoints the City Manager, the City Attorney, and the Municipal Court Judge. All other staff members work under the direction of the City Manager with the exception of the EDC Director, who also serves at the pleasure of the corporation board.

The Combined Financial Statements of the City of Cleveland include all government activities,

organizations, and functions for which the City exercises significant oversight responsibility. The criteria considered in determining governmental activities to be reported within the City's combined financial statements are based upon and consistent with those set forth in GASB Statement No. 61, "The Financial Reporting Entity". Based on this criterion the City of Cleveland Economic Development Corporation is included in this report.

The City Council appoints several boards and commissions, which do not meet the established criteria for inclusion in the reporting entity, and are therefore excluded from this report. They are the following:

- | | |
|---------------------------------|--------------------------------------|
| 1. Library Board | 5. Charter Review Commission |
| 2. Housing Board of Adjustments | 6. Building and Standards Commission |
| 3. Zoning Commission | 7. Airport Advisory Board |
| 4. Zoning Board of Adjustments | 8. Reinvestment Zone 1/Zone 2 |

The City provides services to its citizens that are considered necessary and meaningful and that can be provided by the City at a reasonable cost. Major services provided under general government and enterprise functions are: police and fire protection, water, wastewater and solid waste, parks, library services, street upkeep and maintenance, and general administrative services. Other services include code enforcement, building inspection, animal control, cemetery, airport, civic center and economic development. The City operates a municipal court as established by the City's charter.

LOCAL ECONOMY:

The City of Cleveland have experienced steady economic growth over the last several years with continued expansion expected. Cleveland is growing into a community of opportunity and prosperity, while retaining the peacefulness of a Texas country town. Innovative businesses, including those that specialize in green energy, forestry, and manufacturing, have found Cleveland to be the ideal home for new business growth and expansion. Through the new development efforts includes, Grand Oaks Reserve, a 600-acre mixed development that began in late 2017, McKinley Development developing a 122-acre industrial warehouse development at Highway 105 & Fostoria Road and Pinewood Trails, a new single family home development by LGI Homes currently under construction on the west side of town. The City expects additional retail and commercial development once residential homes are established. The City's major sources of revenue are sales and ad valorem property taxes and have fluctuated according to prevailing business conditions.

The unemployment rate was 10.8% in Liberty County as of December 2020. Unemployment rates are high due to the COVID-19 pandemic. However, even with the global crisis, the City managed to sustain employment levels. The City as well as the area's economic development groups have combined efforts to make City of Cleveland a better place to live and work. The Economic

Development Corporation is committed to marketing the City's assets and encouraging small business and entrepreneurial activity. With such projects similar to BurgerWorks, which relocated and engineered the utilities infrastructure for an innovative Whataburger and retail space to create employment opportunities. The community of City of Cleveland is growing slowly but steadily and management sees this as a long-term trend.

LONG-TERM FINANCIAL PLANNING

The City's overall financial position is very sound. The reserves in all funds are adequate and will continue to be monitored. Monitoring is accomplished through continual refinement of long-range fund projections.

Major goals for the year ending September 30, 2020, was facility improvement of the Library in order to continue to provide a reliable service to the public and the sidewalk project to revitalize downtown.

FINANCIAL PROCEDURES AND BUDGETARY CONTROLS

The City's accounting records for general government are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis. The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the City's financial management staff, and expenditure estimates by each City division. Budgets are reviewed by the City Manager who submits a recommended budget to the City Council. The City Council approves all budget amendments. The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

MAJOR INITIATIVES

Projects undertaken in this fiscal year include:

- ◆ Purchase and replacement of equipment needed for efficient operation of Fire, Police, and other departments
- ◆ Library renovations
- ◆ Repaving of selected streets:
 - ◆ North Travis
 - ◆ North Fenner
 - ◆ Vine

- ◆ New Water Well replacement at Water Plant #2
- ◆ Lift station pump replacement
- ◆ Downtown revitalization
- ◆ Capital programs and extensions to the existing water and wastewater system

Projects planned for the future include:

- ◆ Purchase and replace equipment needed for efficient operation of various departments
- ◆ Engineering and design of a new fire station
- ◆ Major restoration of the water system tanks
- ◆ Splash pad amenity for the community
- ◆ Lift station repairs and upgrades
- ◆ Automatic Meter Reading Tower and Software
- ◆ New Stancil Facility

OTHER INFORMATION

Acknowledgments:

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff. I would like to express my appreciation to all members of the departments who assisted and contributed to the preparation of this report. Due credit is also given to the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

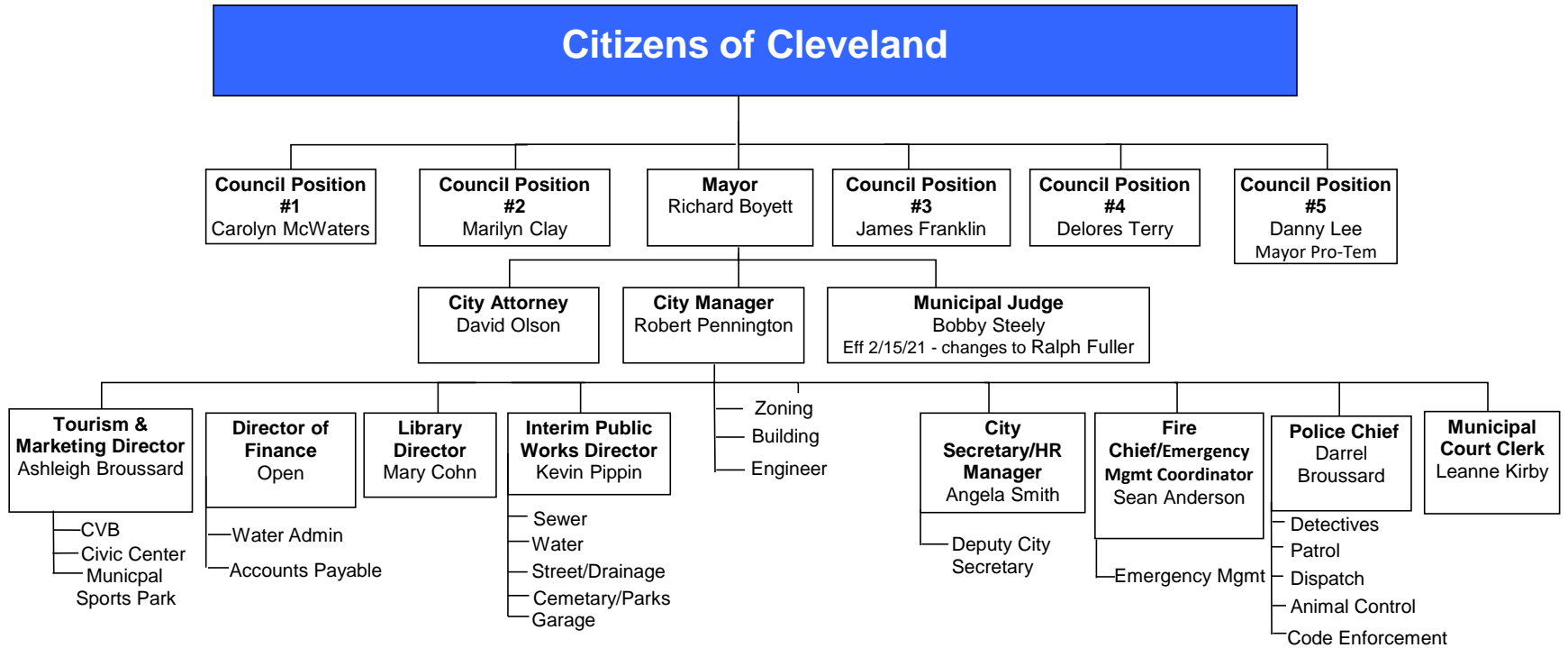
Respectfully submitted,

Robert Pennington
City Manager

Leslie Herrera
Interim Finance
Director



Organizational Chart



City of Cleveland, Texas
ELECTED AND APPOINTED OFFICIALS
September 30, 2020

City Council

Richard Boyett	Mayor
Carolyn McWaters	Mayor Pro Tem (Place 1)
Marilyn Clay	Council Member Place 2
Fred Terrell	Council Member Place 3
Jennifer Bergman	Council Member Place 4
Danny Lee	Council Member Place 5

Appointed Officials

Robert Pennington	City Manager
Leslie Herrera	Interim Finance Director
Darrel Broussard	Police Chief
Sean Anderson	Fire Chief
Angela Smith	City Secretary

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Cleveland, Texas (the "City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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. 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.

Opinion

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, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City as of September 30, 2020 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Cleveland, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare

the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
January 22, 2021

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Cleveland, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2020

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, 2020. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position was \$32,535,823 at September 30, 2020. Of this, \$7,773,019 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balance of \$7,515,499, a decrease of \$1,169,121.
- As of the end of the year, the unassigned fund balance of the general fund was \$6,420,938 or 80% of total general fund expenditures.
- The City had an overall increase in net position of \$1,863,024, which is primarily a result of water and sewer fund revenues and capital contributions exceeding current year expenses.

Overview of the 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) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide 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 information on all of the City's assets and liabilities. The difference between the two is 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. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

City of Cleveland, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

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, and economic development. The business-type activities of the City include water, sewer, and sanitation services.

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 three categories: governmental funds, proprietary funds, and fiduciary 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 a government'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 government'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 nine 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 capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

City of Cleveland, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

The City adopts an annual appropriated budget for its general, debt service, and certain special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the respective budget.

Proprietary Funds

The City's proprietary funds are all enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer and sanitation services. All activities associated with providing such services are accounted for in these funds, including administration, water production, sewer and sanitation services, and other operating costs. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements 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 and solid waste funds, all of which are considered to be major funds of the City.

Component Units

The City maintains the accounting and financial statements for two component units. The Cleveland Economic Development Corporation is a discretely presented component unit displayed on the government-wide financial statements. The Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ #1") is a blended component unit and presented as a nonmajor governmental fund.

Notes to 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.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund, schedule of the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. RSI can be found after the basic financial statements.

City of Cleveland, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Cleveland, assets exceeded liabilities by \$32,535,823 as of September 30, 2020, in the primary government.

The largest portion of the City's net position, \$24,631,373, reflects its investments in capital assets (e.g., land, municipal buildings, streets, and water/sewer systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 8,845,620	\$ 2,707,935	\$ 11,553,555	\$ 9,987,808	\$ 2,251,297	\$ 12,239,105
Internal balances	25,064	(25,064)	-	7,390	(7,390)	-
Capital assets, net	19,287,103	17,070,580	36,357,683	19,155,795	16,124,063	35,279,858
Total Assets	28,157,787	19,753,451	47,911,238	29,150,993	18,367,970	47,518,963
Deferred Outflows of Resources	397,003	87,656	484,659	808,367	124,049	932,416
Other liabilities	1,500,160	1,019,067	2,519,227	1,660,074	1,239,950	2,900,024
Long-term liabilities	9,525,185	3,433,093	12,958,278	11,170,997	3,593,355	14,764,352
Total Liabilities	11,025,345	4,452,160	15,477,505	12,831,071	4,833,305	17,664,376
Deferred Inflows of Resources	303,195	79,374	382,569	98,216	15,988	114,204
Net Position:						
Net investment in capital assets	10,492,601	13,830,573	24,323,174	10,618,793	12,736,499	23,355,292
Restricted	439,630	-	439,630	1,019,640	-	1,019,640
Unrestricted	6,294,019	1,479,000	7,773,019	5,391,640	906,227	6,297,867
Total Net Position	\$ 17,226,250	\$ 15,309,573	\$ 32,535,823	\$ 17,030,073	\$ 13,642,726	\$ 30,672,799

City of Cleveland, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Activities:

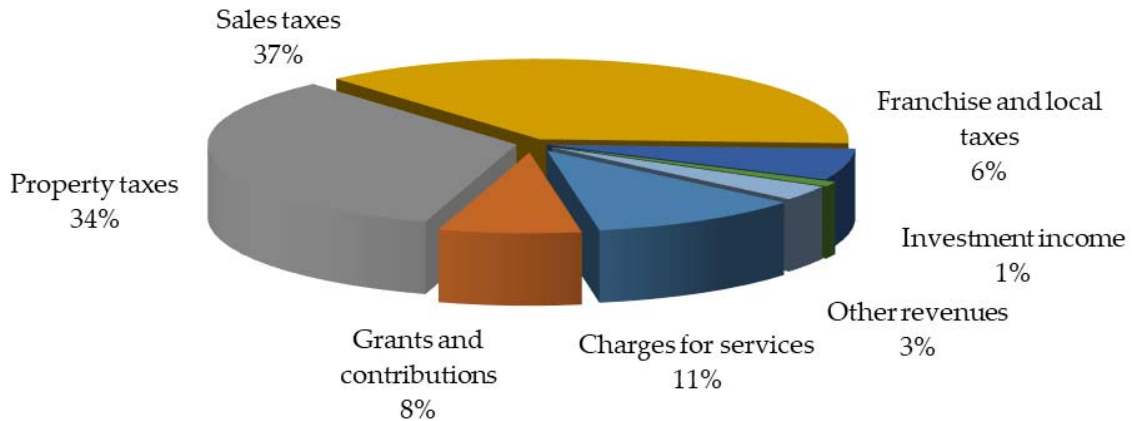
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2020			For the Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,055,052	\$ 3,528,833	\$ 4,583,885	\$ 1,039,000	\$ 3,545,253	\$ 4,584,253
Grants and contributions	703,201	272,676	975,877	618,160	43,882	662,042
General revenues:						
Property taxes	3,188,794	-	3,188,794	3,063,702	-	3,063,702
Sales taxes	3,513,801	-	3,513,801	4,236,146	-	4,236,146
Franchise and local taxes	597,880	-	597,880	587,857	-	587,857
Investment income	92,382	15,517	107,899	119,109	33,129	152,238
Other revenues	284,478	61,817	346,295	31,755	3,309	35,064
Total Revenues	9,435,588	3,878,843	13,314,431	9,695,729	3,625,573	13,321,302
Expenses						
General government	1,416,600	-	1,416,600	1,447,736	-	1,447,736
Public safety	3,982,270	-	3,982,270	3,703,467	-	3,703,467
Public works	459,795	-	459,795	461,180	-	461,180
Transportation	761,901	-	761,901	757,647	-	757,647
Culture and recreation	1,316,044	-	1,316,044	1,395,381	-	1,395,381
Economic development	144,123	-	144,123	202,728	-	202,728
Interest and fiscal charges	267,390	98,924	366,314	286,837	117,427	404,264
Water & sewer	-	3,004,360	3,004,360	-	2,883,233	2,883,233
Total Expenses	8,348,123	3,103,284	11,451,407	8,254,976	3,000,660	11,255,636
Change in Net Position						
Before Transfers	1,087,465	775,559	1,863,024	1,440,753	624,913	2,065,666
Transfers	(891,288)	891,288	-	473,947	(473,947)	-
Total	(891,288)	891,288	-	473,947	(473,947)	-
Change in Net Position	196,177	1,666,847	1,863,024	1,914,700	150,966	2,065,666
Beginning Net Position	17,030,073	13,642,726	30,672,799	15,115,373	13,491,760	28,607,133
Ending Net Position	\$ 17,226,250	\$ 15,309,573	\$ 32,535,823	\$ 17,030,073	\$ 13,642,726	\$ 30,672,799

City of Cleveland, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

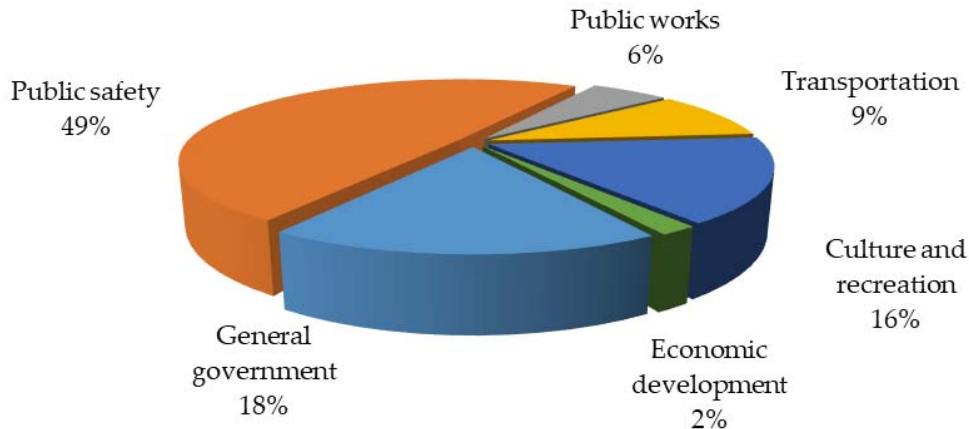
Governmental Activities - Revenues



For the year ended September 30, 2020, revenues from governmental activities totaled \$9,435,588. Property tax, sales tax and charges for services are the City's largest revenue sources. Grants and contributions increased by \$85,041 or 14% primarily due to nonrecurring federal grants received through the CARES Act in the current year. Sales taxes decreased by \$722,345 or 17%, which is primarily attributable to the impact of COVID-19 requiring local businesses to restrict occupancy, as well as temporary closures during the last six months of the fiscal year. Investment income decreased by \$26,727 or 22% due to utilization of interest-bearing cash accounts and realization of lower interest rates. Other revenues increased by \$252,723 primarily as a result of nonrecurring insurance reimbursements received in the current year. All other revenues remained relatively consistent when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



City of Cleveland, Texas

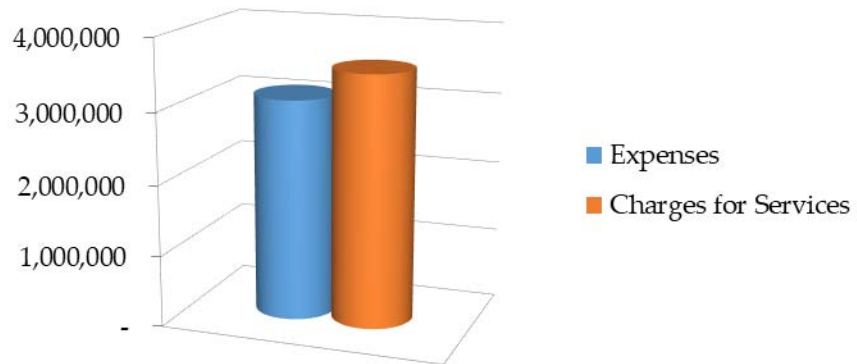
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

For the year ended September 30, 2020, expenses for governmental activities totaled \$8,348,123. This represents an increase of \$93,147 or 1% from the prior year. The City's largest functional expense is public safety of \$3,982,270, which increased by \$278,803 or 8%. This change is primarily a result of increased salaries and overtime related to COVID-19. Economic development expenses decreased by \$58,605 or 29% primarily due to a decline in salaries, advertising, and operating supplies resulting from the impacts of COVID-19. All other expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2020, charges for services by business-type activities totaled \$3,528,833. This represents a slight decrease of \$16,420 from the previous year, which is considered minimal.

Total expenses amounted to \$3,103,284, an increase of \$102,624 or 3% during the year. This is primarily attributed to greater personnel costs and vehicle repair expenses in the water department.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

City of Cleveland, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

As of the end of the year the general fund reflected a fund balance of \$6,459,426. Of this, \$38,488 is considered committed for the purchase of capital assets. Unassigned fund balance totaled \$6,420,938 as of yearend. The general fund increased by \$96,925 primarily as a result of revenues and other financing sources exceeding expenditures.

The debt service fund had an ending fund balance of \$289,042 at yearend, a slight increase of \$6,867 from the prior year. Total principal and interest payments (including bond issuance costs) made during the year were \$1,210,000 and \$343,119, respectively.

The capital projects fund had an ending fund balance of \$121,775, a decrease of \$1,351,739 compared to the prior year. The decrease was primarily a result of transfers out to the proprietary fund.

There was an overall decrease in governmental fund balance of \$1,169,121 from the prior year. The decrease was primarily a result of transfers out to the proprietary fund.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive revenue variance of \$45,205 and a positive expenditure variance of \$1,230,374 for the year. Other financing sources had an overall positive budget variance of \$11,025. Final budgeted revenues increased by \$86,443 compared to the original budgeted revenues. Final budgeted expenditures increased by \$83,081 compared to the original expense appropriations. Two general fund departments exceeded appropriations at the legal level of control.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$19,287,103 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$17,070,580 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Purchase new lot of land on Peach Ave. for \$101,006.
- Downtown sidewalk renovations for \$397,105.
- New furniture and shelving for the library totaling \$182,763.
- Municipal Sports Park restroom improvements for \$51,487.

City of Cleveland, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

- Purchase of three new police vehicles for \$100,140.
- New Kubota tractor for public works department for \$80,025.
- E-sign for city hall for \$44,469.
- Water plant #2 improvements for \$932,414.
- Sanitary sewer system improvements for \$314,337.

More detailed information about the City's capital assets is presented in note IV. D to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes outstanding of \$11,675,000. During the year, the City refunded \$1,980,000 of Certificates of Obligation. The City also issued \$2,030,000 of General Obligation Refunding Bonds. Principal payments of \$1,430,000 were made during the year. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Cleveland and improving services provided to their public citizens. The City is considering the impacts of the COVID-19 pandemic when preparing the upcoming fiscal year's budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Cleveland's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Department, 907 Houston St. Cleveland, Texas 77327.

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FINANCIAL STATEMENTS

City of Cleveland, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 7,150,676	\$ 1,993,645	\$ 9,144,321
Receivables, net	1,523,777	714,290	2,238,067
Contract receivable due from component unit	171,105	-	171,105
Internal balances	25,064	(25,064)	-
Due from component unit	62	-	62
Total Current Assets	8,870,684	2,682,871	11,553,555
Capital assets:			
Non-depreciable	2,835,282	3,953,055	6,788,337
Net depreciable capital assets	16,451,821	13,117,525	29,569,346
Total Capital Assets	19,287,103	17,070,580	36,357,683
Total Assets	28,157,787	19,753,451	47,911,238
<u>Deferred Outflows of Resources</u>			
Pension outflows	306,368	80,205	386,573
OPEB outflows	28,459	7,451	35,910
Deferred charges on refunding	62,176	-	62,176
Total Deferred Outflows of Resources	397,003	87,656	484,659

Component Unit
Cleveland
EDC

\$ 1,637,793
-
-
-
1,637,793

1,043,812
167,261
1,211,073
2,848,866

-
-
-
-

City of Cleveland, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 446,623	\$ 460,313	\$ 906,936
Customer deposits	-	314,092	314,092
Accrued interest payable	18,062	8,675	26,737
Due to primary government	-	-	-
Compensated absences, current	100,475	10,987	111,462
Contract payable due to primary government	-	-	-
Long-term debt due in one year	935,000	225,000	1,160,000
	<u>1,500,160</u>	<u>1,019,067</u>	<u>2,519,227</u>
Noncurrent liabilities:			
Compensated absences, noncurrent	11,164	1,221	12,385
Net pension liability	1,370,192	358,707	1,728,899
OPEB liability	222,151	58,158	280,309
Long-term debt due in more than one year	7,921,678	3,015,007	10,936,685
	<u>9,525,185</u>	<u>3,433,093</u>	<u>12,958,278</u>
Total Liabilities	<u>11,025,345</u>	<u>4,452,160</u>	<u>15,477,505</u>
<u>Deferred Inflows of Resources</u>			
Pension inflows	281,671	73,739	355,410
OPEB inflows	21,524	5,635	27,159
Total Deferred Inflows of Resources	<u>303,195</u>	<u>79,374</u>	<u>382,569</u>
<u>Net Position</u>			
Net investment in capital assets	10,492,601	13,830,573	24,323,174
Restricted for:			
Capital projects	121,775	-	121,775
Municipal court	28,813	-	28,813
Debt service	289,042	-	289,042
Unrestricted	6,294,019	1,479,000	7,773,019
Total Net Position	<u>\$ 17,226,250</u>	<u>\$ 15,309,573</u>	<u>\$ 32,535,823</u>

See Notes to Financial Statements.

Component Unit
Cleveland
EDC

\$ 13,543
-
-
62
-
171,105
-
184,710

-
-
-
-
-
184,710

-
-
-
1,211,073

-
-
-
1,453,083
\$ 2,664,156

City of Cleveland, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,416,600	\$ -	\$ 180,062	\$ -
Public safety	3,982,270	267,966	-	-
Public works	459,795	286,355	-	304,359
Transportation	761,901	289,370	-	10,187
Culture and recreation	1,316,044	211,361	1,818	-
Economic development	144,123	-	206,775	-
Interest and fiscal charges	267,390	-	-	-
Total Governmental Activities	8,348,123	1,055,052	388,655	314,546
Business-Type Activities				
Water & Sewer	3,103,284	3,528,833	-	272,676
Total Business-Type Activities	3,103,284	3,528,833	-	272,676
Total Primary Government	\$ 11,451,407	\$ 4,583,885	\$ 388,655	\$ 587,222
Component Unit				
Cleveland EDC	611,211	-	-	-
Total Component Unit	\$ 611,211	\$ -	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Insurance recoveries
- Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position
Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Cleveland EDC
\$ (1,236,538)	\$ -	\$ (1,236,538)	\$ -
(3,714,304)	-	(3,714,304)	-
130,919	-	130,919	-
(462,344)	-	(462,344)	-
(1,102,865)	-	(1,102,865)	-
62,652	-	62,652	-
(267,390)	-	(267,390)	-
<u>(6,589,870)</u>	<u>-</u>	<u>(6,589,870)</u>	<u>-</u>
-	698,225	698,225	-
-	698,225	698,225	-
<u>(6,589,870)</u>	<u>698,225</u>	<u>(5,891,645)</u>	<u>-</u>
			(611,211)
			<u>\$ (611,211)</u>
3,188,794	-	3,188,794	-
3,513,801	-	3,513,801	652,091
597,880	-	597,880	-
92,382	15,517	107,899	22,422
-	61,817	61,817	-
284,478	-	284,478	1,000
(891,288)	891,288	-	-
<u>6,786,047</u>	<u>968,622</u>	<u>7,754,669</u>	<u>675,513</u>
196,177	1,666,847	1,863,024	64,302
17,030,073	13,642,726	30,672,799	2,599,854
<u>\$ 17,226,250</u>	<u>\$ 15,309,573</u>	<u>\$ 32,535,823</u>	<u>\$ 2,664,156</u>

City of Cleveland, Texas

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2020

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash and cash equivalents	\$ 6,061,813	\$ 286,346	\$ 223,760	\$ 578,757	\$ 7,150,676
Receivables, net	1,235,878	238,528	-	49,371	1,523,777
Contract receivable - EDC	171,105	-	-	-	171,105
Due from component unit	62	-	-	-	62
Due from other funds	25,086	2,696	-	28,840	56,622
Total Assets	\$ 7,493,944	\$ 527,570	\$ 223,760	\$ 656,968	\$ 8,902,242
<u>Liabilities</u>					
Accounts payable and accrued liabilities	\$ 338,420	\$ -	\$ 101,985	\$ 6,218	\$ 446,623
Due to other funds	26,064	-	-	5,494	31,558
Total Liabilities	364,484	-	101,985	11,712	478,181
<u>Deferred Inflows of Resources</u>					
Unavailable revenue:					
Property tax	498,929	238,528	-	-	737,457
EDC	171,105	-	-	-	171,105
Total Deferred Inflows of Resources	670,034	238,528	-	-	908,562
<u>Fund Balances</u>					
Restricted for:					
Capital projects	-	-	121,775	-	121,775
Municipal court	-	-	-	28,813	28,813
Debt service	-	289,042	-	-	289,042
Economic development	-	-	-	465,347	465,347
TIRZ	-	-	-	50,564	50,564
Public safety	-	-	-	105,977	105,977
Committed for:					
Purchase of capital assets	38,488	-	-	-	38,488
Unassigned reported in:					
General fund	6,420,938	-	-	-	6,420,938
Nonmajor funds	-	-	-	(5,445)	(5,445)
Total Fund Balances	6,459,426	289,042	121,775	645,256	7,515,499
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 7,493,944	\$ 527,570	\$ 223,760	\$ 656,968	\$ 8,902,242

See Notes to Financial Statements.

City of Cleveland, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2020

Fund Balances - Total Governmental Funds	\$ 7,515,499
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	2,835,282
Capital assets - net depreciable	16,451,821
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	737,457
Contract receivable - EDC	171,105
Deferred outflows (inflows) of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Pension outflows	306,368
Pension inflows	(281,671)
OPEB outflows	28,459
OPEB inflows	(21,524)
Deferred charge on refunding	62,176
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(18,062)
Compensated absences	(111,639)
Net pension liability	(1,370,192)
OPEB liability	(222,151)
Bond premium	(361,678)
Bonds, notes, and capital leases	(8,495,000)
Net Position of Governmental Activities	<u>\$ 17,226,250</u>

See Notes to Financial Statements.

City of Cleveland, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2020

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds
Revenues				
Property tax	\$ 2,265,544	\$ 872,686	\$ -	\$ 50,564
Sales tax	3,294,717	-	-	219,084
Franchise and local taxes	597,880	-	-	-
Intergovernmental	411,184	-	-	2,188
Contributions	159,207	206,775	-	-
Charges for services	500,731	-	-	-
License and permits	286,355	-	-	-
Fines and forfeitures	253,216	-	-	14,750
Investment income	77,085	6,212	5,803	3,282
Other revenue	270,831	-	-	415
Total Revenues	8,116,750	1,085,673	5,803	290,283
Expenditures				
General government:				
Administration	1,000,839	-	-	-
City council	25,891	-	-	-
Technology	376,645	-	-	-
Public safety:				
Municipal court	216,040	-	-	17,494
Police department	2,576,066	-	-	-
Animal control	42,156	-	-	-
Fire and ambulance	947,643	-	-	-
Emergency management	33,783	-	-	-
Public works:				
Development services	293,774	-	-	-
Garbage department	9,451	-	-	-
Maintenance	-	-	20,950	-
Transportation:				
Street department	487,307	-	-	-
Airport department	100,649	-	-	-
Culture and recreation:				
Library department	396,900	-	-	-
Cemetery and parks	381,547	-	-	-
Civic/community	197,074	-	-	-
Sports facilities	58,614	-	-	-
Economic development	-	-	-	147,198
Debt service:				
Principal	-	1,210,000	-	-
Interest and fiscal charges	-	279,110	-	-
Bond issuance costs	-	64,009	-	-
Capital outlay	919,471	-	-	46,765
Total Expenditures	8,063,850	1,553,119	20,950	211,457

**Total
Governmental
Funds**

\$ 3,188,794
3,513,801
597,880
413,372
365,982
500,731
286,355
267,966
92,382
271,246

9,498,509

1,000,839
25,891
376,645

233,534
2,576,066
42,156
947,643
33,783

293,774
9,451
20,950

487,307
100,649

396,900
381,547
197,074
58,614
147,198

1,210,000
279,110
64,009
966,236

9,849,376

City of Cleveland, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2020

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 52,900	\$ (467,446)	\$ (15,147)	\$ 78,826
<u>Other Financing Sources (Uses)</u>				
Transfers in	35,000	410,304	-	-
Transfers (out)	-	-	(1,336,592)	-
Proceeds from sale of assets	9,025	-	-	-
Payment to refunding bond agent	-	(1,965,991)	-	-
Proceeds from bond issuance	-	2,030,000	-	-
Total Other Financing Sources (Uses)	44,025	474,313	(1,336,592)	-
Net Change in Fund Balances	96,925	6,867	(1,351,739)	78,826
Beginning fund balances	6,362,501	282,175	1,473,514	566,430
Ending Fund Balances	\$ 6,459,426	\$ 289,042	\$ 121,775	\$ 645,256

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ (350,867)

445,304

(1,336,592)

9,025

(1,965,991)

2,030,000

(818,254)

(1,169,121)

8,684,620

\$ 7,515,499

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City of Cleveland, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

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

Net changes in fund balances - total governmental funds	\$ (1,169,121)
---	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,055,293
Depreciation expense	(923,985)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	83,054
--	--------

Payment from EDC for contract receivable	(155,000)
--	-----------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(15,403)
Accrued interest	5,706
Pension expense	94,451
OPEB expense	5,168

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of deferred charges on refunding	(15,198)
Amortization of debt premium	40,187
Current year bond refunding	1,980,000
Bond issuance	(2,030,000)
Deferred charges on current year bond refunding	31,025
Principal payments	1,210,000

Change in Net Position of Governmental Activities	\$ 196,177
--	-------------------

See Notes to Financial Statements.

City of Cleveland, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2020

	Water & Sewer
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 1,993,645
Receivables, net	714,290
Total Current Assets	2,707,935
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	3,953,055
Net depreciable capital assets	13,117,525
Total Noncurrent Assets	17,070,580
Total Assets	19,778,515
<u>Deferred Outflows of Resources</u>	
Pension outflows	80,205
OPEB outflows	7,451
Total Deferred Outflows of Resources	87,656
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	460,313
Due to other funds	25,064
Customer deposits	314,092
Accrued interest payable	8,675
Long-term debt - current portion	225,000
Compensated absences - current portion	10,987
Total Current Liabilities	1,044,131
<u>Noncurrent Liabilities</u>	
Net pension liability	358,707
OPEB liability	58,158
Long-term debt - noncurrent portion	3,015,007
Compensated absences - noncurrent portion	1,221
Total Liabilities	4,477,224
<u>Deferred Inflows of Resources</u>	
Pension inflows	73,739
OPEB inflows	5,635
Total Deferred Inflows of Resources	79,374
<u>Net Position</u>	
Net investment in capital assets	13,830,573
Unrestricted	1,479,000
Total Net Position	\$ 15,309,573

See Notes to Financial Statements.

City of Cleveland, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2020

	Water & Sewer
<u>Operating Revenues</u>	
Charges for services	\$ 3,528,833
Total Operating Revenues	3,528,833
 <u>Operating Expenses</u>	
Administration	390,953
Water production	964,734
Sewer department	801,630
Sanitation services	262,696
Other	6,873
Depreciation	577,474
Total Operating Expenses	3,004,360
Operating Income	524,473
 <u>Nonoperating Revenues (Expenses)</u>	
Insurance recoveries	61,817
Investment income	15,517
Interest expense	(98,924)
Total Nonoperating Revenues (Expenses)	(21,590)
Income (Loss) Before Transfers and Capital Contributions	502,883
 <u>Transfers and Capital Contributions</u>	
Capital contributions	272,676
Transfers in	1,336,592
Transfers (out)	(445,304)
Change in Net Position	1,666,847
Beginning net position	13,642,726
Ending Net Position	\$ 15,309,573

See Notes to Financial Statements.

City of Cleveland, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2020

	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 3,419,551
Payments to suppliers	(2,229,528)
Payments to employees	(258,633)
Net Cash Provided (Used) by Operating Activities	<u>931,390</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer in	1,336,592
Transfer (out)	(445,304)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>891,288</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(1,523,991)
Capital contributions	272,676
Insurance recoveries	61,817
Principal paid on debt	(220,000)
Interest paid on debt	(103,925)
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,513,423)</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	715,940
Interest on investments	15,517
Net Cash Provided by Investing Activities	<u>731,457</u>
Increase (Decrease) in Cash and Cash Equivalents	1,040,712
Beginning cash and cash equivalents	952,933
Ending Cash and Cash Equivalents	<u>\$ 1,993,645</u>

See Notes to Financial Statements.

City of Cleveland, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2020

	Water & Sewer
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 524,473
Adjustments to reconcile operating income (loss) to net cash provided:	
Depreciation	577,474
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(131,866)
Net pension liability	13,733
OPEB liability	24,785
Due to other funds	17,674
Deferred Outflows of Resources:	
Pension	43,406
OPEB	(7,013)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(211,269)
Customer deposits	22,584
Compensated absences	(5,977)
Deferred Inflows of Resources:	
Pension	60,692
OPEB	2,694
Net Cash Provided (Used) by Operating Activities	\$ 931,390

See Notes to Financial Statements.

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City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *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. Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City’s charter, all powers of the City shall be vested in an elective Council composed of four Council Members and a Mayor, collectively known as the City Council. The City Council enacts local legislation, adopts budgets, determines policies, and appoints the City Manager, who in turn is responsible to the City Council for the execution of laws and the administration of the government of the City.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The Cleveland Economic Development Corporation (“CEDC”) is legally separate and presented as a discretely presented component unit. The Tax Increment Reinvestment Zone No. 1 Fund (“TIRZ #1”) is a blended component unit and presented as a nonmajor governmental fund. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally,

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Cleveland Economic Development Corporation ("CEDC")

The Cleveland Economic Development Corporation was established as a nonprofit industrial development corporation on November 27, 2001. The primary purpose of the CEDC 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 CEDC receives funding primarily through sales and use taxes levied for the benefit of the CEDC. The CEDC is exempt from Federal income taxes under Section 501(c) 6 of the Internal Revenue Code. The CEDC is managed by a five-member board of directors who are appointed by the City Council of the City of Cleveland, Texas.

Blended Component Unit

Tax Increment Reinvestment Zone No. 1 Fund ("TIRZ #1")

The Tax Increment Reinvestment Zone No. 1 fund was created to encourage and accelerate planned development within the City limits. The fund accounts for all tax and expenditure activity associated with the fund's primary purpose. The tax increment is derived from the difference in appraised value between the year in which the reinvestment zone is established (base year) and each year the reinvestment zone is in existence. The Board is comprised of nine members who serve two and one-year terms. The City is responsible for appointing at least six members to the Board, Liberty County shall appoint one, one member is from the state senate of the district, and one from the state house of representatives. The TIRZ functions similar to a department of the City. Separate audited financial statements are not available.

C. Basis of Presentation – Government-Wide and Fund 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 government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges

City of Cleveland, Texas
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between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. 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 and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is the main operating fund of the City and is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, transportation, and culture and recreation.

Debt Service 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 primary source of revenue for debt service is local property taxes.

Capital Projects Fund

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

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

The government reports the following major enterprise fund:

Water and Sewer Fund

The water and sewer fund is used to account for the provision of water & wastewater collection and wastewater treatment operations. Activities of the fund include administration, operations and maintenance of the water and sewer system, and sanitation services. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Additionally, the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the hotel/motel fund, the money seizures fund, the fire department restoration fund, court technology fund, court security fund, and TIRZ #1 funds.

During the course of operations the government 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 (i.e., the governmental and internal service funds) 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 funds) 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.

City of Cleveland, Texas
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D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Estimates

The preparation 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. 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.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 10 years
Furniture and equipment	5 to 20 years
Water & sewer system	5 to 50 years
Buildings and improvements	10 to 50 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Net Position Flow Assumption

Sometimes the government 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

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

9. Fund Balance Flow Assumptions

Sometimes the government 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 government'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.

10. 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 government 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 government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (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 government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director 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.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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11. Compensated Absences

The City employees are paid for absences due to vacation according to a prescribed policy. Accordingly, the government-wide and proprietary fund financial statements reflect the accrual for vacation leave at September 30, 2020. Compensated absences are liquidated by the general fund and proprietary fund.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, capital leases, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Postemployment Benefits (“OPEB”)

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn’t meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position.

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 (including special assessments) 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. 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.

City of Cleveland, Texas
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All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, and certain special revenue funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the department level. No funds can be transferred or added to a budgeted fund without Council approval. Appropriations lapse at the end of the year.

A. Expenditures in Excess of Appropriations

For the current year, expenditures exceeded appropriations at the legal level of control as follows:

General fund:	
Emergency management	\$ 3,716
Street department	5,221

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Debt Service fund:	
Principal	\$ 360,000
Interest and fiscal charges	136,743
Bond issuance costs	64,009
Payment to refunding agent	1,965,991
Court Technology fund:	
Municipal court	\$ 9,615

B. Deficit Fund Equity

The court technology fund had a deficit fund balance of \$5,445 as of September 30, 2020 due to current year expenditures exceeding revenues. This deficit will be replenished through the future operating surpluses.

C. Restricted Net Position

The City records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted fund balance for governmental funds was \$1,061,518, of which, \$494,160 is restricted by enabling legislation.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the primary government had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
External investment pools	\$ 1,409,866	0.09
Total fair value	\$ 1,409,866	
Portfolio weighted average maturity		0.09

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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As of September 30, 2020, the discretely presented component unit had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
External investment pools	\$ 311,395	0.09
Total fair value	\$ 311,395	
Portfolio weighted average maturity		0.09

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

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. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2020, the market values of pledged securities and FDIC exceeded bank balances.

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's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State

City of Cleveland, Texas
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Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Water & Sewer</u>	<u>Total</u>
Property taxes	\$ 498,929	\$ 238,528	\$ -	\$ -	\$ 737,457
Sales taxes	679,942	-	-	-	679,942
Hotel/motel taxes	-	-	27,673	-	27,673
Grant	-	-	-	193,145	193,145
Other	57,007	-	21,698	-	78,705
Accounts	-	-	-	635,073	635,073
Allowance	-	-	-	(113,928)	(113,928)
	<u>\$ 1,235,878</u>	<u>\$ 238,528</u>	<u>\$ 49,371</u>	<u>\$ 714,290</u>	<u>\$ 2,238,067</u>

C. Contract Receivable

The City was required to return federal funding of \$716,105 received in prior years due to a failure to fulfill the terms for which the funding was received. The City and the CEDC entered into a contract to reimburse the City the amount of \$716,105 with annual payments that will conclude in 2021. The CEDC made a payment of \$155,000 in the current year. The remaining balance of \$171,105 will be paid during the year ended September 30, 2021.

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NOTES TO FINANCIAL STATEMENTS, Continued
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D. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 2,280,011	\$ 101,006	\$ -	\$ 2,381,017
Construction in progress	57,160	397,105	-	454,265
Total capital assets not being depreciated	<u>2,337,171</u>	<u>498,111</u>	<u>-</u>	<u>2,835,282</u>
Capital assets, being depreciated:				
Buildings and improvements	21,664,333	76,535	-	21,740,868
Furniture & equipment	5,167,807	480,647	(333,840)	5,314,614
Total capital assets being depreciated	<u>26,832,140</u>	<u>557,182</u>	<u>(333,840)</u>	<u>27,055,482</u>
Less accumulated depreciation				
Buildings and improvements	(6,179,468)	(662,257)	-	(6,841,725)
Furniture & equipment	(3,834,048)	(261,728)	333,840	(3,761,936)
Total accumulated depreciation	<u>(10,013,516)</u>	<u>(923,985)</u>	<u>333,840</u>	<u>(10,603,661)</u>
Net capital assets being depreciated	<u>16,818,624</u>	<u>(366,803)</u>	<u>-</u>	<u>16,451,821</u>
Total Net Capital Assets	<u><u>\$ 19,155,795</u></u>	<u><u>\$ 131,308</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,287,103</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 112,258
Public safety	200,803
Public works	139,390
Transportation	177,277
Culture and recreation	294,257
Total Governmental Activities Depreciation Expense	<u><u>\$ 923,985</u></u>

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in progress	2,895,565	1,246,751	(367,882)	3,774,434
Total capital assets not being depreciated	<u>3,074,186</u>	<u>1,246,751</u>	<u>(367,882)</u>	<u>3,953,055</u>
Capital assets, being depreciated:				
Buildings and improvements	47,997	-	-	47,997
Furniture and equipment	1,709,195	113,650	-	1,822,845
Water system	11,841,356	-	-	11,841,356
Sewer system	15,840,051	163,590	367,882	16,371,523
Total capital assets being depreciated	<u>29,438,599</u>	<u>277,240</u>	<u>367,882</u>	<u>30,083,721</u>
Less accumulated depreciation				
Buildings and improvements	(31,720)	(1,408)	-	(33,128)
Furniture and equipment	(1,093,252)	(139,688)	-	(1,232,940)
Water system	(3,880,474)	(192,263)	-	(4,072,737)
Sewer system	(11,383,276)	(244,115)	-	(11,627,391)
Total accumulated depreciation	<u>(16,388,722)</u>	<u>(577,474)</u>	<u>-</u>	<u>(16,966,196)</u>
Net capital assets being depreciated	<u>13,049,877</u>	<u>(300,234)</u>	<u>367,882</u>	<u>13,117,525</u>
Total Net Capital Assets	<u><u>\$ 16,124,063</u></u>	<u><u>\$ 946,517</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,070,580</u></u>

Depreciation was charged to business-type functions as follows:

Water and sewer	<u>\$ 577,474</u>
Total Business-type Activities Depreciation Expense	<u><u>\$ 577,474</u></u>

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

A summary of changes in component unit activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 949,951	\$ -	\$ -	\$ 949,951
Construction in progress	93,861	-	-	93,861
Total capital assets not being depreciated	<u>1,043,812</u>	<u>-</u>	<u>-</u>	<u>1,043,812</u>
Capital assets, being depreciated:				
Buildings and improvements	-	83,952	-	83,952
Machinery & equipment	-	85,000	-	85,000
Total capital assets being depreciated	<u>-</u>	<u>168,952</u>	<u>-</u>	<u>168,952</u>
Less accumulated depreciation				
Buildings and improvements	-	(700)	-	(700)
Furniture & equipment	-	(991)	-	(991)
Total accumulated depreciation	<u>-</u>	<u>(1,691)</u>	<u>-</u>	<u>(1,691)</u>
Net capital assets being depreciated	<u>-</u>	<u>167,261</u>	<u>-</u>	<u>167,261</u>
Total Net Capital Assets	<u><u>\$ 1,043,812</u></u>	<u><u>\$ 167,261</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,211,073</u></u>

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

E. Long-term Debt

The following is a summary of changes in the City's total long-term debt for the year ended. In general, the City uses the debt service fund to liquidate certain governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Refunding	Ending Balance	Amounts Due Within One Year
Governmental Activities:						
Certificates of Obligation	\$ 5,570,000	\$ -	\$ (380,000)	\$ (1,980,000)	\$ 3,210,000	\$ 280,000
General Obligation Refunding Bonds	3,885,000	-	(630,000)	2,030,000	5,285,000	655,000
Tax Note	200,000	-	(200,000)	-	-	-
Less: Deferred Amounts						
Issuance Premium	401,865	-	(40,187)	-	361,678	-
Total Governmental Activities	\$ 10,056,865	\$ -	\$ (1,250,187)	\$ 50,000	\$ 8,856,678	\$ 935,000
Long-term Liabilities Due in More than One Year					\$ 7,921,678	
Business-Type Activities:						
Certificates of Obligation	\$ 3,400,000	\$ -	\$ (220,000)	\$ -	\$ 3,180,000	\$ 225,000
Less: Deferred Amounts						
Issuance Premium	65,008	-	(5,001)	-	60,007	-
Total Business-Type Activities	\$ 3,465,008	\$ -	\$ (225,001)	\$ -	\$ 3,240,007	\$ 225,000
Long-term Liabilities Due in More than One Year					\$ 3,015,007	
Component Unit Activities:						
Notes payable	\$ 8,730	\$ -	\$ (8,730)	\$ -	\$ -	\$ -
Contract payable to primary government	326,105	-	(155,000)	-	171,105	171,105
Total Component Unit Activities	\$ 334,835	\$ -	\$ (163,730)	\$ -	\$ 171,105	\$ 171,105
Long-term Liabilities Due in More than One Year					\$ -	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Capital leases are secured by the underlying asset. In the event of default, the lender may demand immediate payment or take possession of the asset.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Balance</u>	<u>Current Balance</u>
Governmental Activities:				
2017 Certificates of obligation	3.-3.25%	2037	3,920,000	3,210,000
2013 General Obligation Refunding	2%-3%	2026	7,860,000	3,255,000
2019 General Obligation Refunding	2%	2032	2,030,000	2,030,000
Total Governmental Activities			<u>\$ 14,740,000</u>	<u>\$ 8,495,000</u>
Business-Type Activities:				
2011 Certificate of Obligation	0.100%-3.90%	2031	\$ 2,360,000	\$ 1,445,000
2012A Certificate of Obligation	2%-3.25%	2033	2,470,000	1,735,000
Total Business Type Activities			<u>\$ 4,830,000</u>	<u>\$ 3,180,000</u>

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

<u>Year ending September 30,</u>	<u>Certificates of Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 280,000	\$ 98,188	\$ 378,188
2022	285,000	89,713	374,713
2023	290,000	81,088	371,088
2024	295,000	72,313	367,313
2025	300,000	63,388	363,388
2026	305,000	54,238	359,238
2027	310,000	44,863	354,863
2028	115,000	38,413	153,413
2029	115,000	34,819	149,819
2030	115,000	31,081	146,081
2031	115,000	27,344	142,344
2032	115,000	23,463	138,463
2033	115,000	19,438	134,438
2034	115,000	15,413	130,413
2035	115,000	11,100	126,100
2036	115,000	6,600	121,600
2037	110,000	2,200	112,200
Total	<u>\$ 3,210,000</u>	<u>\$ 713,656</u>	<u>\$ 3,923,656</u>

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Year ending September 30,	General Obligation Refunding		
	Principal	Interest	Total
2021	\$ 655,000	\$ 112,695	\$ 767,695
2022	670,000	94,200	764,200
2023	700,000	77,776	777,776
2024	710,000	63,205	773,205
2025	725,000	47,677	772,677
2026	745,000	31,060	776,060
2027	170,000	20,696	190,696
2028	175,000	17,108	192,108
2029	180,000	13,416	193,416
2030	180,000	9,672	189,672
2031	185,000	5,876	190,876
2032	190,000	1,976	191,976
Total	<u>\$ 5,285,000</u>	<u>\$ 495,357</u>	<u>\$ 5,780,357</u>

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Certificates of Obligation		
	Principal	Interest	Total
2021	\$ 225,000	\$ 97,428	\$ 322,428
2022	230,000	91,749	321,749
2023	240,000	85,608	325,608
2024	240,000	78,888	318,888
2025	250,000	71,598	321,598
2026	255,000	63,665	318,665
2027	265,000	55,069	320,069
2028	275,000	46,005	321,005
2029	285,000	36,500	321,500
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
Total	<u>\$ 3,180,000</u>	<u>\$ 678,925</u>	<u>\$ 3,858,925</u>

F. Advanced Refunding

On December 17, 2019, the City issued \$2,030,000 worth of General Obligation Refunding Bonds, Series 2019. The bonds will be used to pay \$1,980,000 of 2012 Certificates of Obligation. The reacquisition price exceeded the net carrying amount of the old debt by \$31,025. This amount is being amortized over the remaining life of the refunding debt. This advance refunding reduced

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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its total debt service payments by \$183,878 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$153,528.

G. Deferred Charges of Refunding

A deferred charge resulting from the issuance of the 2013 and 2019 General Obligation Refunding Bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$62,176. Current year amortization expense for governmental activities totaled \$15,198.

H. Other Long-term Liabilities

The following is a summary of changes in the City's total other long-term liabilities for the year ended. In general, the City uses the general and proprietary fund to liquidate governmental compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Other liabilities:					
Compensated Absences	\$ 96,236	\$ 115,409	\$ (100,006)	\$ 111,639	\$ 100,475
Total Governmental Activities	<u>\$ 96,236</u>	<u>\$ 115,409</u>	<u>\$ (100,006)</u>	<u>\$ 111,639</u>	<u>\$ 100,475</u>
Long-term liabilities due in more than one year				<u>\$ 11,164</u>	
Business-Type Activities:					
Other liabilities:					
Compensated Absences	\$ 18,185	\$ 8,178	\$ (14,155)	\$ 12,208	\$ 10,987
Total Business-Type Activities	<u>\$ 18,185</u>	<u>\$ 8,178</u>	<u>\$ (14,155)</u>	<u>\$ 12,208</u>	<u>\$ 10,987</u>
Long-term liabilities due in more than one year				<u>\$ 1,221</u>	

I. Customer Deposits

The City had customer deposits of \$314,092 in the water and sewer fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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J. Interfund Transactions

The compositions of interfund due to/from balances as of the year ended September 30, 2020 were as follows:

Receivable Fund:	Payable Fund:			Total
	General	Nonmajor Governmental	Water & Sewer	
General	\$ -	\$ 22	\$ 25,064	\$ 25,086
Debt service	2,696	-	-	2,696
Nonmajor governmental	23,368	5,472	-	28,840
Total	\$ 26,064	\$ 5,494	\$ 25,064	\$ 56,622

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

The CEDC owed the primary government \$62 as of September 30, 2020.

Transfers between the primary government funds during the 2020 year were as follows:

Transfer in:	Transfer out:		Total
	Capital Projects	Water & Sewer	
General	\$ -	\$ 35,000	\$ 35,000
Debt service	-	410,304	410,304
Water & sewer	1,336,592	-	1,336,592
Total	\$ 1,336,592	\$ 445,304	\$ 1,781,896

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various operating capital expenditures and principal and interest payments.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with more than 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does not anticipate that it will have an arbitrage liability and reviews the estimate for this potential liability annually. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com. All eligible employees of the city are required to participate in TMRS.

2. 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, Continued
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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:

	<u>Plan Year 2019</u>	<u>Plan Year 2018</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	80
Active employees	<u>86</u>
Total	<u>213</u>

3. 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, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Cleveland, Texas were 10.77% and 10.53% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$442,354, and equaled the required contributions.

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each

City of Cleveland, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) 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 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 3,676,632	\$ 1,728,899	\$ 139,684

City of Cleveland, Texas
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Changes in the Net Pension Liability (Asset):

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/18	\$ 12,424,070	\$ 9,959,971	\$ 2,464,099
Changes for the year:			
Service Cost	437,356	-	437,356
Interest	837,773	-	837,773
Difference between expected and actual experience	52,935	-	52,935
Changes of assumptions	65,894	-	65,894
Contributions – employer	-	408,197	(408,197)
Contributions – employee	-	189,496	(189,496)
Net investment income	-	1,540,427	(1,540,427)
Benefit payments, including refunds of emp. contributions	(462,603)	(462,603)	-
Administrative expense	-	(8,701)	8,701
Other changes	-	(261)	261
Net changes	931,355	1,666,555	(735,200)
Balance at 12/31/19	\$ 13,355,425	\$ 11,626,526	\$ 1,728,899

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.

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

For the year ended September 30, 2020, the City recognized pension expense of \$465,733.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (350,502)
Differences between expected and actual economic experience	-	(4,908)
Pension assumption changes	46,513	-
Contributions subsequent to the measurement date	340,060	-
Total	\$ 386,573	\$ (355,410)

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The City reported \$340,060 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2020	\$ (102,711)
2021	(72,481)
2022	39,922
2023	(173,627)
2024	-
Thereafter	-
	\$ (308,897)

Supplemental Death Benefits Fund

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

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	12
Active employees	86
Total	133

The City's contributions to the TMRS SDBF for the years ended 2019 and 2020 were \$1,045 and \$2,906, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2018	0.11%	0.11%	100.0%
2019	0.11%	0.11%	100.0%
2020	0.09%	0.09%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2019, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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 Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

1% Decrease (1.75%)	Current Single Rate Assumption 2.75%	1% Increase (3.75%)
\$ 332,836	\$ 280,309	\$ 238,747

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/18	\$ 238,380
Changes for the year:	
Service Cost	9,475
Interest	8,942
Difference between expected and actual experience	(14,494)
Changes of assumptions	42,175
Benefit payments	(4,169)
Net changes	41,929
Balance at 12/31/19	\$ 280,309

City of Cleveland, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of \$19,214.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes in actuarial assumptions	\$ 33,004	\$ -
Difference between expected and actual experience	-	(27,159)
Contributions subsequent to measurement date	2,906	-
Total	\$ 35,910	\$ (27,159)

The City reported \$2,906 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2021.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2020	\$ 797
2021	797
2022	(2,761)
2023	4,760
2024	2,252
Thereafter	-
	\$ 5,845

E. Subsequent Events

There were no material subsequent events through January 22, 2021, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Cleveland, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2) GENERAL FUND

For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property tax	\$ 2,320,161	\$ 2,320,161	\$ 2,265,544	\$ (54,617)
Sales tax	3,607,413	3,607,413	3,294,717	(312,696)
Franchise and local taxes	602,405	602,405	597,880	(4,525)
Intergovernmental	11,400	11,400	411,184	399,784
Contributions	188,315	188,315	159,207	(29,108)
Charges for services	542,808	593,008	500,731	(92,277)
License and permits	208,300	208,300	286,355	78,055
Fines and forfeitures	339,450	339,450	253,216	(86,234)
Investment income	110,100	110,100	77,085	(33,015)
Other revenue	54,750	90,993	270,831	179,838
Total Revenues	7,985,102	8,071,545	8,116,750	45,205
Expenditures				
General government:				
Administration	1,086,217	1,086,217	1,000,839	85,378
City council	36,950	36,950	25,891	11,059
Technology	476,571	476,571	376,645	99,926
Public safety:				
Municipal court	307,925	307,925	216,040	91,885
Police department	2,739,411	2,772,211	2,576,066	196,145
Animal control	69,020	69,020	42,156	26,864
Fire and ambulance	966,178	966,178	947,643	18,535
Emergency management	30,067	30,067	33,783	(3,716) *
Public works:				
Development services	378,138	384,157	293,774	90,383
Garbage department	11,900	11,900	9,451	2,449
Transportation:				
Street department	633,086	482,086	487,307	(5,221) *
Airport department	51,200	115,130	100,649	14,481
Culture and recreation:				
Library department	436,704	436,704	396,900	39,804
Cemetery and parks	427,031	427,031	381,547	45,484
Civic/community	274,595	264,595	197,074	67,521
Sports facilities	76,650	76,650	58,614	18,036
Capital outlay	1,038,500	1,179,832	919,471	260,361
Total Expenditures	9,040,143	9,123,224	8,063,850	1,059,374
Revenues Over (Under)				
Expenditures	(1,055,041)	(1,051,679)	52,900	1,104,579

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)
GENERAL FUND
For the Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 30,000	\$ 30,000	\$ 35,000	\$ 5,000
Proceeds from sale of assets	3,000	3,000	9,025	6,025
Total Other Financing Sources (Uses)	<u>33,000</u>	<u>33,000</u>	<u>44,025</u>	<u>11,025</u>
Net Change in Fund Balance	<u>\$ (1,022,041)</u>	<u>\$ (1,018,679)</u>	96,925	<u>\$ 1,115,604</u>
Beginning fund balance			6,362,501	
Ending Fund Balance			<u>\$ 6,459,426</u>	

Notes to Required Supplementary Information

- Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- * Expenditures exceeded appropriations at the legal level of control.

City of Cleveland, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Total pension liability				
Service cost	\$ 437,356	\$ 395,063	\$ 385,239	\$ 361,883
Interest	837,773	797,496	747,381	699,231
Differences between expected and actual experience	52,935	(136,743)	81,087	106,870
Changes of assumptions	65,894	-	-	-
Benefit payments, including refunds of participant contributions	(462,603)	(497,953)	(454,374)	(478,284)
Net change in total pension liability	<u>931,355</u>	<u>557,863</u>	<u>759,333</u>	<u>689,700</u>
Total pension liability - beginning	<u>12,424,070</u>	<u>11,866,207</u>	<u>11,106,874</u>	<u>10,417,174</u>
Total pension liability - ending (a)	<u>13,355,425</u>	<u>12,424,070</u>	<u>11,866,207</u>	<u>11,106,874</u>
Plan fiduciary net position				
Contributions - employer	\$ 408,197	\$ 363,729	\$ 350,699	\$ 308,931
Contributions - members	189,496	170,286	166,051	156,659
Net investment income	1,540,427	(306,841)	1,239,934	567,304
Benefit payments, including refunds of participant contributions	(462,603)	(497,953)	(454,374)	(478,284)
Administrative expenses	(8,701)	(5,926)	(6,422)	(6,406)
Other	(261)	(310)	(325)	(345)
Net change in plan fiduciary net position	<u>1,666,555</u>	<u>(277,015)</u>	<u>1,295,563</u>	<u>547,859</u>
Plan fiduciary net position - beginning	<u>9,959,971</u>	<u>10,236,986</u>	<u>8,941,423</u>	<u>8,393,564</u>
Plan fiduciary net position - ending (b)	<u>\$ 11,626,526</u>	<u>\$ 9,959,971</u>	<u>\$ 10,236,986</u>	<u>\$ 8,941,423</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 1,728,899</u>	<u>\$ 2,464,099</u>	<u>\$ 1,629,221</u>	<u>\$ 2,165,451</u>
Plan fiduciary net position as a percentage of the total pension liability	87%	80%	86%	81%
Covered payroll	\$ 3,789,910	\$ 3,405,719	\$ 3,321,023	\$ 3,133,188
Fund's net pension liability as a percentage of covered payroll	46%	72%	49%	69%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

<u>12/31/2015</u>	<u>12/31/2014</u>	1
\$ 310,615	\$ 289,352	
693,226	668,798	
(125,466)	(146,722)	
36,902	-	
<u>(492,054)</u>	<u>(454,110)</u>	
423,223	357,318	
<u>9,993,951</u>	<u>9,636,633</u>	
<u>10,417,174</u>	<u>9,993,951</u>	
\$ 306,308	\$ 285,365	
143,537	143,400	
12,441	457,872	
(492,054)	(454,110)	
(7,578)	(4,780)	
(373)	(393)	
<u>(37,719)</u>	<u>427,354</u>	
8,431,283	8,003,929	
<u>\$ 8,393,564</u>	<u>\$ 8,431,283</u>	
<u>\$ 2,023,610</u>	<u>\$ 1,562,668</u>	

	81%		84%
\$ 2,870,749		\$ 2,868,009	
	70%		54%

City of Cleveland, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2020	9/30/2019	9/30/2018	9/30/2017
Actuarially determined employer contributions	\$ 442,354	\$ 395,012	\$ 357,632	\$ 341,779
Contributions in relation to the actuarially determined contribution	\$ 442,354	\$ 395,012	\$ 357,632	\$ 341,779
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 4,179,243	\$ 3,674,680	\$ 3,357,437	\$ 3,286,315
Employer contributions as a percentage of covered payroll	10.58%	10.75%	10.65%	10.40%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 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	26 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018

Mortality Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational

Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 323,843	\$ 293,516
<u>\$ 323,843</u>	<u>\$ 293,516</u>
\$ -	\$ -
\$ 3,215,934	\$ 2,803,135
10.07%	10.47%

City of Cleveland, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM

SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended:

	12/31/2019	12/31/2018	12/31/2017 ¹
Total OPEB liability			
Service cost	\$ 9,475	\$ 10,217	\$ 8,635
Interest	8,942	8,824	8,827
Differences between expected and actual experience	(14,494)	(25,357)	-
Changes of assumptions	42,175	(14,913)	18,684
Benefit payments, including refunds of participant contributions	(4,169)	(3,746)	(3,985)
Net change in total OPEB liability	41,929	(24,975)	32,161
Total OPEB liability - beginning	\$ 238,380	\$ 263,355	\$ 231,194
Total OPEB liability - ending	\$ 280,309	\$ 238,380	\$ 263,355
Covered payroll	\$ 3,789,910	\$ 3,405,719	\$ 3,321,023
City's total OPEB liability as a percentage of covered	7.40%	7.00%	7.93%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

2) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

City of Cleveland, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2020

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>	<u>Fire Department</u>	<u>Court Technology</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 439,623	\$ 109,477	\$ 791	\$ -
Receivables, net	27,673	-	-	-
Due from other funds	-	27	-	-
Total Assets	\$ 467,296	\$ 109,504	\$ 791	\$ -
<u>Liabilities</u>				
Accounts payable and accrued expenses	\$ 1,900	\$ 4,318	\$ -	\$ -
Due to other funds	49	-	-	5,445
Total Liabilities	1,949	4,318	-	5,445
<u>Fund Balances</u>				
Restricted for:				
Economic development	465,347	-	-	-
TIRZ	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	105,186	791	-
Unassigned	-	-	-	(5,445)
Total Fund Balances	465,347	105,186	791	(5,445)
Total Liabilities and Fund Balances	\$ 467,296	\$ 109,504	\$ 791	\$ -

<u>Court Security</u>	<u>TIRZ #1</u>	<u>Total</u>
\$ -	\$ 28,866	\$ 578,757
-	21,698	49,371
28,813	-	28,840
<u>\$ 28,813</u>	<u>\$ 50,564</u>	<u>\$ 656,968</u>

\$ -	\$ -	\$ 6,218
-	-	5,494
<u>-</u>	<u>-</u>	<u>11,712</u>

-	-	465,347
-	50,564	50,564
28,813	-	28,813
-	-	105,977
-	-	(5,445)
<u>28,813</u>	<u>50,564</u>	<u>645,256</u>

<u>\$ 28,813</u>	<u>\$ 50,564</u>	<u>\$ 656,968</u>
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City of Cleveland, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>	<u>Fire Department</u>	<u>Court Technology</u>
<u>Revenues</u>				
Sales taxes	\$ 219,084	\$ -	\$ -	\$ -
Property taxes	-	-	-	-
Intergovernmental	-	2,188	-	-
Fines and forfeitures	-	4,393	-	5,360
Investment income	3,267	9	6	-
Other revenue	-	415	-	-
Total Revenues	<u>222,351</u>	<u>7,005</u>	<u>6</u>	<u>5,360</u>
<u>Expenditures</u>				
Economic development	147,198	-	-	-
Municipal court	-	-	-	16,115
Capital outlay	46,765	-	-	-
Total Expenditures	<u>193,963</u>	<u>-</u>	<u>-</u>	<u>16,115</u>
Revenues Over (Under) Expenditures	<u>28,388</u>	<u>7,005</u>	<u>6</u>	<u>(10,755)</u>
Net Change in Fund Balances	28,388	7,005	6	(10,755)
Beginning fund balances	436,959	98,181	785	5,310
Ending Fund Balances	<u>\$ 465,347</u>	<u>\$ 105,186</u>	<u>\$ 791</u>	<u>\$ (5,445)</u>

<u>Court Security</u>	<u>TIRZ #1</u>	<u>Total</u>
\$ -	\$ -	\$ 219,084
-	50,564	50,564
-	-	2,188
4,997	-	14,750
-	-	3,282
-	-	415
<u>4,997</u>	<u>50,564</u>	<u>290,283</u>
-	-	147,198
1,379	-	17,494
-	-	46,765
<u>1,379</u>	<u>-</u>	<u>211,457</u>
<u>3,618</u>	<u>50,564</u>	<u>78,826</u>
3,618	50,564	78,826
25,195	-	566,430
<u>\$ 28,813</u>	<u>\$ 50,564</u>	<u>\$ 645,256</u>

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Taxes	\$ 868,397	\$ 872,686	\$ 4,289
Investment income	5,200	6,212	1,012
Contributions	-	206,775	206,775
Total Revenues	<u>873,597</u>	<u>1,085,673</u>	<u>212,076</u>
<u>Expenditures</u>			
Debt Service:			
Principal	850,000	1,210,000	(360,000) *
Interest and fiscal charges	142,367	279,110	(136,743) *
Bond issuance costs	-	64,009	(64,009) *
Total Expenditures	<u>992,367</u>	<u>1,553,119</u>	<u>(560,752)</u>
Revenues Over (Under)			
Expenditures	<u>(118,770)</u>	<u>(467,446)</u>	<u>(348,676)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	118,770	410,304	291,534
Payment to refunding bond agent	-	(1,965,991)	(1,965,991) *
Proceeds from bond issuance	-	2,030,000	2,030,000
Total Other Financing Sources			
(Uses)	<u>118,770</u>	<u>474,313</u>	<u>355,543</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>6,867</u>	<u>\$ 6,867</u>
Beginning fund balances		282,175	
Ending Fund Balances		<u>\$ 289,042</u>	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COURT TECHNOLOGY
For the Year Ended September 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Fines and fees	\$ 6,500	\$ 5,360	\$ (1,140)
Investment income	5	-	(5)
Total Revenues	<u>6,505</u>	<u>5,360</u>	<u>(1,145)</u>
<u>Expenditures</u>			
Municipal court	6,500	16,115	(9,615) *
Total Expenditures	<u>6,500</u>	<u>16,115</u>	<u>(9,615)</u>
Revenues Over (Under)			
Expenditures	<u>5</u>	<u>(10,755)</u>	<u>(10,760)</u>
Net Change in Fund Balances	<u>\$ 5</u>	<u>(10,755)</u>	<u>\$ (10,760)</u>
Beginning fund balances		5,310	
Ending Fund Balances		<u>\$ (5,445)</u>	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COURT SECURITY
For the Year Ended September 30, 2020

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Fines and fees	\$ 5,000	\$ 4,997	\$ (3)
Investment income	5	-	(5)
Total Revenues	5,005	4,997	(8)
 <u>Expenditures</u>			
Municipal court	5,000	1,379	3,621
Total Expenditures	5,000	1,379	3,621
 Revenues Over (Under)			
Expenditures	5	3,618	3,613
Net Change in Fund Balances	\$ 5	3,618	\$ 3,613
Beginning fund balances		25,195	
Ending Fund Balances		\$ 28,813	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MONEY SEIZURES FUND
For the Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Intergovernmental	\$ 2,000	\$ 2,000	\$ 2,188	\$ 188
Fines and forfeitures	-	-	4,393	4,393
Investment income	-	50	9	(41)
Other revenue	-	-	415	415
Total Revenues	<u>2,000</u>	<u>2,050</u>	<u>7,005</u>	<u>4,955</u>
<u>Expenditures</u>				
Police department	2,000	2,050	-	2,050
Total Expenditures	<u>2,000</u>	<u>2,050</u>	<u>-</u>	<u>2,050</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>7,005</u>	<u>7,005</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>7,005</u>	<u>\$ 7,005</u>
Beginning fund balances			98,181	
Ending Fund Balances			<u>\$ 105,186</u>	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOTEL/MOTEL FUND
For the Year Ended September 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Taxes	\$ 237,840	\$ 219,084	\$ (18,756)
Investment income	4,488	3,267	(1,221)
Total Revenues	<u>242,328</u>	<u>222,351</u>	<u>(19,977)</u>
<u>Expenditures</u>			
Economic development	226,464	147,198	79,266
Capital outlay	195,000	46,765	148,235
Total Expenditures	<u>421,464</u>	<u>193,963</u>	<u>227,501</u>
Revenues Over (Under)			
Expenditures	<u>(179,136)</u>	<u>28,388</u>	<u>207,524</u>
Net Change in Fund Balances	<u>\$ (179,136)</u>	<u>28,388</u>	<u>\$ 207,524</u>
Beginning fund balances		436,959	
Ending Fund Balances		<u>\$ 465,347</u>	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Cleveland, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TIRZ #1
For the Year Ended September 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Taxes	\$ 46,485	\$ 50,564	\$ 4,079
Investment income	465	-	(465)
Total Revenues	<u>46,950</u>	<u>50,564</u>	<u>3,614</u>
<u>Expenditures</u>			
TIRZ expenses	46,485	-	46,485
Total Expenditures	<u>46,485</u>	<u>-</u>	<u>46,485</u>
Revenues Over (Under) Expenditures	<u>465</u>	<u>50,564</u>	<u>50,099</u>
Net Change in Fund Balances	<u>\$ 465</u>	<u>50,564</u>	<u>\$ 50,099</u>
Beginning fund balances		-	
Ending Fund Balances		<u>\$ 50,564</u>	

Notes to Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
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Financial Trends	92
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These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity	105
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These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.

Debt Capacity	112
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These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information	117
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information	119
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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Cleveland, Texas

NET POSITION BY COMPONENT

Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental Activities				
Net investment in				
capital assets	\$ 7,808,110	\$ 7,473,754	\$ 5,596,033	\$ 6,699,709
Restricted	353,791	258,725	360,818	1,067,370
Unrestricted	1,707,027	1,819,640	2,644,703	2,829,266
Total Governmental Activities Net				
Position	<u>\$ 9,868,928</u>	<u>\$ 9,552,119</u>	<u>\$ 8,601,554</u>	<u>\$ 10,596,345</u>
Business-type Activities				
Net investment in				
capital assets	\$ 5,303,339	\$ 5,729,830	\$ 8,480,412	\$ 8,985,230
Restricted	398,449	423,569	429,909	218,270
Unrestricted	712,754	1,021,382	1,091,334	1,538,343
Total Business-type Activities Net				
Position	<u>\$ 6,414,542</u>	<u>\$ 7,174,781</u>	<u>\$ 10,001,655</u>	<u>\$ 10,741,843</u>
Primary Government				
Net investment in				
capital assets	\$ 13,111,449	\$ 13,203,584	\$ 14,076,445	\$ 15,684,939
Restricted	353,791	258,725	360,818	1,067,370
Unrestricted	2,419,781	2,841,022	3,736,037	4,367,609
Total Primary Government Net				
Position	<u>\$ 15,885,021</u>	<u>\$ 16,303,331</u>	<u>\$ 18,173,300</u>	<u>\$ 21,119,918</u>

Source: City's Audited Financial Statements

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 7,323,498	\$ 9,300,893	\$ 7,530,596	\$ 8,525,256	\$ 10,618,793	\$ 10,492,601
1,219,152	1,480,473	1,524,020	1,482,062	1,019,640	439,630
2,728,204	3,632,188	3,301,477	5,108,055	5,391,640	6,294,019
<u>\$ 11,270,854</u>	<u>\$ 14,413,554</u>	<u>\$ 12,356,093</u>	<u>\$ 15,115,373</u>	<u>\$ 17,030,073</u>	<u>\$ 17,226,250</u>
\$ 9,362,131	\$ 10,020,518	\$ 12,222,622	\$ 12,060,753	\$ 12,736,499	\$ 13,830,573
-	-	-	-	-	-
1,791,936	1,882,829	2,113,244	1,431,007	906,227	1,479,000
<u>\$ 11,154,067</u>	<u>\$ 11,903,347</u>	<u>\$ 14,335,866</u>	<u>\$ 13,491,760</u>	<u>\$ 13,642,726</u>	<u>\$ 15,309,573</u>
\$ 16,685,629	\$ 19,321,411	\$ 19,753,218	\$ 20,586,009	\$ 23,355,292	\$ 24,323,174
1,219,152	1,480,473	1,524,020	1,482,062	1,019,640	439,630
4,520,140	5,515,017	5,414,721	6,539,062	6,297,867	7,773,019
<u>\$ 22,424,921</u>	<u>\$ 26,316,901</u>	<u>\$ 26,691,959</u>	<u>\$ 28,607,133</u>	<u>\$ 30,672,799</u>	<u>\$ 32,535,823</u>

City of Cleveland, Texas

CHANGES IN NET POSITION

Last Ten Fiscal Years
(accrual basis of accounting)

	2011	2012	2013	2014
Expenses				
Governmental activities:				
General government:	\$ 800,884	\$ 832,552	\$ 780,377	\$ 1,032,297
Public safety	4,108,437	3,797,176	3,357,473	3,338,605
Public works	284,069	292,486	259,242	201,985
Transportation	820,878	634,128	687,793	555,593
Culture and recreation:	1,034,176	959,573	1,023,999	1,183,225
Grants	39,731	-	91,750	2,410
Economic development	86,902	147,739	94,043	113,922
Debt service	326,958	373,910	348,691	267,293
Total governmental activities	<u>7,502,035</u>	<u>7,037,564</u>	<u>6,643,368</u>	<u>6,695,330</u>
Business-type activities:				
Water and sewer	2,733,348	2,357,343	2,486,227	2,359,368
Total business-type activities	<u>2,733,348</u>	<u>2,357,343</u>	<u>2,486,227</u>	<u>2,359,368</u>
Total primary government	<u>\$ 10,235,383</u>	<u>\$ 9,394,907</u>	<u>\$ 9,129,595</u>	<u>\$ 9,054,698</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Public safety	\$ 1,602,378	\$ 1,029,968	\$ 844,629	\$ 884,880
Public works	60,531	60,453	80,099	80,207
Transportation	68,563	70,024	83,883	103,060
Culture and recreation	187,267	141,599	157,737	178,229
Operating grants and contributions	135,575	89,085	335,583	298,828
Capital grants and contributions	1,437,552	37,166	636,284	601,858
Total governmental activities	<u>3,491,866</u>	<u>1,428,295</u>	<u>2,138,215</u>	<u>2,147,062</u>
Business-type activities:				
Charges for services:				
Water and sewer	3,140,654	3,057,831	3,114,693	3,275,919
Operating grants and contributions	-	-	-	-
Capital grants and contributions	343,560	-	151,283	335,199
Total business-type activities	<u>3,484,214</u>	<u>3,057,831</u>	<u>3,265,976</u>	<u>3,611,118</u>
Total primary government	<u>\$ 6,976,080</u>	<u>\$ 4,486,126</u>	<u>\$ 5,404,191</u>	<u>\$ 5,758,180</u>
Net (Expense)/Revenue				
Governmental activities	\$ (4,010,169)	\$ (5,609,269)	\$ (4,505,153)	\$ (4,548,268)
Business-type activities	750,866	700,488	779,749	1,251,750
Total primary government	<u>\$ (3,259,303)</u>	<u>\$ (4,908,781)</u>	<u>\$ (3,725,404)</u>	<u>\$ (3,296,518)</u>

	2015	2016	2017	2018	2019	2020
\$	1,137,071	\$ 1,103,435	\$ 1,183,915	\$ 1,285,000	\$ 1,447,736	\$ 1,416,600
	3,309,784	3,337,458	3,436,830	3,555,562	3,703,467	3,982,270
	194,942	216,938	196,678	485,250	461,180	459,795
	510,621	752,884	933,812	678,439	757,647	761,901
	1,175,514	1,161,286	1,254,290	1,243,431	1,395,381	1,316,044
	4,999	-	716,105	-	-	-
	111,417	198,116	204,066	272,960	202,728	144,123
	245,038	269,796	368,281	316,888	286,837	267,390
	<u>6,689,386</u>	<u>7,039,913</u>	<u>8,293,977</u>	<u>7,837,530</u>	<u>8,254,976</u>	<u>8,348,123</u>
	2,451,573	2,638,757	2,731,814	2,854,161	3,000,660	3,103,284
	<u>2,451,573</u>	<u>2,638,757</u>	<u>2,731,814</u>	<u>2,854,161</u>	<u>3,000,660</u>	<u>3,103,284</u>
\$	<u>9,140,959</u>	<u>\$ 9,678,670</u>	<u>\$ 11,025,791</u>	<u>\$ 10,691,691</u>	<u>\$ 11,255,636</u>	<u>\$ 11,451,407</u>
\$	891,522	\$ 655,966	\$ 440,672	\$ 527,371	\$ 478,081	\$ 267,966
	51,185	64,024	188,800	443,939	218,940	286,355
	102,983	101,303	103,074	106,371	149,134	289,370
	193,888	176,264	158,459	180,669	192,845	211,361
	329,660	299,135	311,487	230,653	288,387	388,655
	358,958	1,977,877	17,375	-	248,843	314,546
	<u>1,928,196</u>	<u>3,274,569</u>	<u>1,219,867</u>	<u>1,489,003</u>	<u>1,576,230</u>	<u>1,758,253</u>
	3,371,678	3,432,391	3,471,283	3,503,244	3,545,253	3,528,833
	-	-	-	-	-	-
	23,752	220,248	320,273	-	43,882	272,676
	<u>3,395,430</u>	<u>3,652,639</u>	<u>3,791,556</u>	<u>3,503,244</u>	<u>3,589,135</u>	<u>3,801,509</u>
\$	<u>5,323,626</u>	<u>\$ 6,927,208</u>	<u>\$ 5,011,423</u>	<u>\$ 4,992,247</u>	<u>\$ 5,165,365</u>	<u>\$ 5,559,762</u>
\$	(4,761,190)	\$ (3,765,344)	\$ (7,074,110)	\$ (6,348,527)	\$ (6,678,746)	\$ (6,589,870)
	943,857	1,013,882	1,059,742	649,083	588,475	698,225
\$	<u>(3,817,333)</u>	<u>\$ (2,751,462)</u>	<u>\$ (6,014,368)</u>	<u>\$ (5,699,444)</u>	<u>\$ (6,090,271)</u>	<u>\$ (5,891,645)</u>

City of Cleveland, Texas
CHANGES IN NET POSITION (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Revenues				
Governmental activities:				
Taxes:				
Property taxes	\$ 2,232,954	\$ 2,304,674	\$ 2,618,204	\$ 2,609,697
Sales and other taxes	2,316,293	2,405,630	2,537,158	2,734,039
Franchise taxes	483,970	502,327	489,104	529,300
Earnings on investments	10,889	38,950	39,452	23,661
Gain on sale of assets	15,500	1,800	10,000	-
Grants and contributions not restricted to specific programs	-	-	-	-
Proceeds from insurance	29,392	759	39,371	32,749
Miscellaneous	15,459	47,522	51,030	40,425
Transfers	-	-	-	-
Total governmental activities	<u>5,104,457</u>	<u>5,301,662</u>	<u>5,784,319</u>	<u>5,969,871</u>
Business-type activities:				
Investment earnings	7,547	33,547	54,129	53,986
Proceeds from insurance	10,899	17,002	500	7,640
Miscellaneous	-	-	-	-
Transfers	-	-	-	-
Total business-type activities	<u>18,446</u>	<u>50,549</u>	<u>54,629</u>	<u>61,626</u>
Total primary government	<u>\$ 5,122,903</u>	<u>\$ 5,352,211</u>	<u>\$ 5,838,948</u>	<u>\$ 6,031,497</u>
Change in Net Position				
Governmental activities	\$ 1,094,288	\$ (307,607)	\$ 1,279,166	\$ 1,421,603
Business-type activities	769,312	751,037	834,378	1,313,376
Total primary government	<u>\$ 1,863,600</u>	<u>\$ 443,430</u>	<u>\$ 2,113,544</u>	<u>\$ 2,734,979</u>

Source: City's Audited Financial Statements

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$	2,721,030	\$ 2,677,409	\$ 2,760,419	\$ 2,901,329	\$ 3,063,702	\$ 3,188,794
	2,858,816	3,096,142	3,004,420	3,268,102	4,348,951	3,513,801
	468,169	497,207	490,642	522,006	475,052	597,880
	33,378	46,808	51,997	65,180	119,109	92,382
	79,000	2,860	3,830	147,514	5,000	9,025
	-	-	-	716,105	80,930	-
	40,852	29,941	28,826	125,738	11,112	-
	62,866	9,676	20,132	14,960	15,643	275,453
	-	-	-	-	473,947	(891,288)
	<u>6,264,111</u>	<u>6,360,043</u>	<u>6,360,266</u>	<u>7,760,934</u>	<u>8,593,446</u>	<u>6,786,047</u>
	43,938	39,255	29,160	40,798	33,129	15,517
	16,365	3,310	-	41,037	3,309	61,817
	3,263	-	-	-	-	-
	-	-	-	-	(473,947)	891,288
	<u>63,566</u>	<u>42,565</u>	<u>29,160</u>	<u>81,835</u>	<u>(437,509)</u>	<u>968,622</u>
\$	<u><u>6,327,677</u></u>	<u><u>6,402,608</u></u>	<u><u>6,389,426</u></u>	<u><u>7,842,769</u></u>	<u><u>8,155,937</u></u>	<u><u>7,754,669</u></u>
\$	1,502,921	\$ 2,594,699	\$ (713,844)	\$ 1,412,407	\$ 1,914,700	\$ 196,177
	1,007,423	1,056,447	1,088,902	730,918	150,966	1,666,847
\$	<u><u>2,510,344</u></u>	<u><u>3,651,146</u></u>	<u><u>375,058</u></u>	<u><u>2,143,325</u></u>	<u><u>2,065,666</u></u>	<u><u>1,863,024</u></u>

City of Cleveland, Texas
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General fund:				
Restricted	\$ 13,243	\$ 7,484	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	-	81,256	5,400	81,867
Committed	-	-	22,669	98,488
Assigned	33,500	128,316	-	-
Unassigned	694,064	692,564	1,478,340	2,188,473
Total general fund	<u>\$ 740,807</u>	<u>\$ 909,620</u>	<u>\$ 1,506,409</u>	<u>\$ 2,368,828</u>
All other governmental funds:				
Reserved for:				
Debt service	\$ 178,063	\$ 104,705	\$ 160,024	\$ 265,282
Unreserved, reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Restricted	430,185	3,745,387	583,590	609,536
Nonspendable	-	-	1,935	24,570
Committed	-	-	-	756
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 608,248</u>	<u>\$ 3,850,092</u>	<u>\$ 745,549</u>	<u>\$ 900,144</u>

Source: City's Audited Financial Statements

Note: The City implemented GASB Statement 54 in fiscal year 2011.

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	51,259	-	-	-	-
38,488	38,488	38,488	38,488	38,488	38,488
-	-	-	-	-	-
3,416,854	4,322,500	4,069,926	5,867,923	6,324,013	6,420,938
<u>\$ 3,455,342</u>	<u>\$ 4,412,247</u>	<u>\$ 4,108,414</u>	<u>\$ 5,906,411</u>	<u>\$ 6,362,501</u>	<u>\$ 6,459,426</u>
\$ 366,997	\$ 537,878	\$ 585,724	\$ 595,066	\$ 282,175	\$ 289,042
-	-	-	-	-	-
-	-	-	-	-	-
739,042	775,675	2,537,594	1,538,284	2,039,159	772,476
24,570	482	-	-	-	-
762	768	773	779	785	-
-	-	-	-	-	-
-	-	-	-	-	(5,445)
<u>\$ 1,131,371</u>	<u>\$ 1,314,803</u>	<u>\$ 3,124,091</u>	<u>\$ 2,134,129</u>	<u>\$ 2,322,119</u>	<u>\$ 1,056,073</u>

City of Cleveland, Texas
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

	2011	2012	2013	2014
Revenues				
Property taxes	\$ 2,139,250	\$ 2,308,925	\$ 2,599,261	\$ 2,635,087
Sales and other taxes	2,316,293	2,405,630	2,537,158	2,734,039
Franchise taxes	483,970	502,327	489,104	529,300
Licenses, permits, & fees	60,531	60,453	80,099	80,207
Charges for services	867,819	478,608	283,151	350,717
Fines and forfeitures	1,004,653	852,388	802,348	815,114
Intergovernmental	1,535,627	79,271	464,165	319,459
Earnings on investments	10,889	38,950	39,452	23,661
Contributions	38,361	47,902	206,125	307,266
Miscellaneous	15,459	51,247	51,030	35,252
Total Revenues	8,472,852	6,825,701	7,551,893	7,830,102
Expenditures				
General government	755,450	1,029,772	982,326	980,612
Public safety	4,081,746	3,491,151	2,846,988	3,107,436
Public works	76,242	69,039	257,891	200,634
Transportation	699,539	481,126	541,573	405,080
Culture and recreation	889,349	819,431	884,398	920,494
Grants	39,731	-	91,750	2,410
Economic Development	86,902	147,739	94,043	113,922
Capital outlay	1,748,788	971,351	3,909,333	783,769
Debt service:				
Principal	386,920	575,744	835,209	1,193,877
Interest	326,613	359,955	239,772	287,476
Bond issuance costs	-	138,609	136,503	2,156
Total Expenditures	9,091,280	8,083,917	10,819,786	7,997,866
Revenues Over (Under)				
Expenditures	(618,428)	(1,258,216)	(3,267,893)	(167,764)

	2015	2016	2017	2018	2019	2020
\$	2,716,197	\$ 2,705,538	\$ 2,695,641	\$ 2,929,142	\$ 3,059,338	3,188,794
	2,858,816	3,096,142	3,004,420	3,268,102	4,348,951	3,513,801
	468,169	497,207	490,642	522,006	475,052	597,880
	51,185	56,771	188,172	427,083	210,299	286,355
	405,936	405,417	384,906	442,047	489,458	500,731
	782,457	524,092	312,075	381,190	324,470	267,966
	397,886	2,001,438	29,417	3,145	279,434	413,372
	33,378	46,808	51,997	65,180	119,109	92,382
	290,732	273,924	300,693	577,508	378,726	365,982
	62,866	22,603	24,736	22,990	41,528	271,246
	<u>8,067,622</u>	<u>9,629,940</u>	<u>7,482,699</u>	<u>8,638,393</u>	<u>9,726,365</u>	<u>9,498,509</u>
	1,006,268	1,034,477	1,116,386	1,194,425	1,362,220	1,314,318
	3,123,370	3,114,285	3,117,794	3,216,720	3,384,659	3,833,182
	195,298	215,059	189,159	470,129	446,155	324,175
	370,696	610,752	656,843	399,755	472,316	587,956
	917,806	896,788	967,403	947,367	1,073,846	1,034,135
	4,999	-	716,105	-	-	-
	112,555	197,764	202,139	269,810	200,911	147,198
	510,956	3,075,355	345,281	1,649,264	1,125,002	1,055,293
	1,098,865	1,089,755	1,055,000	1,145,000	1,180,000	1,210,000
	266,820	255,863	247,358	354,223	316,123	279,110
	-	33,043	124,186	-	-	64,009
	<u>7,607,633</u>	<u>10,523,141</u>	<u>8,737,654</u>	<u>9,646,693</u>	<u>9,561,232</u>	<u>9,849,376</u>
	459,989	(893,201)	(1,254,955)	(1,008,300)	165,133	(350,867)

City of Cleveland, Texas

CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS (Continued)

Last Ten Years

(modified accrual basis of accounting)

	2011	2012	2013	2014
Other Financing Sources (Uses)				
Proceeds from sale of assets	15,500	1,800	10,000	13,500
Proceeds from insurance	29,392	759	39,371	32,749
Proceeds from debt	135,010	4,059,413	-	111,115
Capital contributions from CEDC	-	-	302,327	285,213
Refunding bonds issued	-	-	7,860,000	-
Premium on bonds issued	-	191,048	301,219	-
Payment to refunded bond escrow agent	-	-	(8,339,049)	-
Transfers in (out)	400,000	415,853	586,271	742,201
Total Other Financing Sources (Uses)	579,902	4,668,873	760,139	1,184,778
Net Change in Fund Balances	\$ (38,526)	\$ 3,410,657	\$ (2,507,754)	\$ 1,017,014
Ratio of total debt service expenditures to noncapital	10%	13%	16%	21%

Source: City's Audited Financial Statements

2015	2016	2017	2018	2019	2020
79,000	2,860	3,830	147,514	5,000	9,025
40,852	29,941	28,826	125,738	-	-
-	930,000	4,071,371	-	-	-
-	-	-	-	-	-
-	-	-	-	-	2,030,000
-	-	-	-	-	-
-	-	-	-	-	(1,965,991)
737,900	829,903	(1,343,617)	1,543,083	473,947	(891,288)
857,752	1,792,704	2,760,410	1,816,335	478,947	(818,254)
\$ 1,317,741	\$ 899,503	\$ 1,505,455	\$ 808,035	\$ 644,080	(1,169,121)
19%	18%	16%	19%	18%	17%

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City of Cleveland, Texas

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2011	\$ 353,248,276	\$ 69,077,030	\$ 127,824,836	\$ 294,500,470	0.68500
2012	358,923,846	72,096,880	128,230,514	302,790,212	0.68500
2013	357,885,728	71,807,780	127,970,345	301,723,163	0.78000
2014	359,515,324	69,482,615	129,132,213	299,865,726	0.78000
2015	363,166,223	75,472,640	130,724,194	307,914,669	0.78000
2016	369,727,809	72,325,740	134,373,899	307,679,650	0.78000
2017	395,521,819	72,821,800	147,714,711	320,628,908	0.77000
2018	415,083,171	76,313,630	152,650,865	338,745,936	0.77000
2019	444,489,345	80,052,474	168,524,489	356,017,330	0.77000
2020	480,262,595	77,063,810	182,043,629	375,282,776	0.77000

Note: Tax rates per \$100 of assessed valuation.

Source: Liberty County Appraisal District

City of Cleveland, Texas

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Years

	2011	2012	2013	2014
Direct Rates:				
City of Cleveland - Operating	0.48030	0.47200	0.48310	0.50230
City of Cleveland - Debt Service	0.20470	0.21300	0.29690	0.27770
Total Direct Rate	0.68500	0.68500	0.78000	0.78000
 Overlapping Rates:				
Liberty County	0.56000	0.56000	0.56000	0.57880
Cleveland ISD	1.31500	1.31500	1.31500	1.31500
Total Entities	1.87500	1.87500	1.87500	1.89380

Tax rates per \$100 of assessed valuation.

Source: Liberty County Appraisal Districts and City records.

2015	2016	2017	2018	2019	2020
0.53950	0.54200	0.56568	0.53568	0.54450	0.54450
0.24050	0.23800	0.20432	0.23432	0.22550	0.22550
0.78000	0.78000	0.77000	0.77000	0.77000	0.77000
0.57880	0.57880	0.57880	0.57880	0.57880	0.57880
1.31500	1.31500	1.38000	1.41500	1.41500	1.34500
1.89380	1.89380	1.95880	1.99380	1.99380	1.92380

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City of Cleveland, Texas
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago

Property Tax Payer	2020			2011		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
Mckinley Development Co Inc.	\$ 14,256,410	1	3.80%	\$ -	n/a	-
Entergy Texas Inc.	8,715,150	2	2.32%	-	n/a	-
Wal-Mart Real Estate	8,677,800	3	2.31%	-	n/a	-
Wal-Mart Stores of Texas, LLC	5,718,910	4	1.52%	-	n/a	-
CISH Acquisition LLC	4,633,710	5	1.23%	-	n/a	-
Cleveland Auto Properties	3,867,080	6	1.03%	-	n/a	-
TSM Investments LLC DBA Love's Travel Stops and Country Stores Inc.	3,560,680	8	0.95%	-	n/a	-
Orange Marketplace LP	3,555,960	9	0.95%	-	n/a	-
Sleepy Hollow Holdings LP	3,092,270	10	0.82%	-	n/a	-
NHCI of Hillsboro Inc.	-	n/a	-	9,758,380	1	3.31%
Wal-Mart Real Estate	-	n/a	-	8,127,150	2	2.76%
Cleveland Diagnostic Plaza	-	n/a	-	7,589,950	3	2.58%
Wal-Mart Stores of Texas, LLC	-	n/a	-	6,590,880	4	2.24%
Entergy Texas Inc.	-	n/a	-	4,546,810	5	1.54%
Southwestern Bell Telephone LP	-	na	-	3,634,710	6	1.23%
Cleveland Regional Medical Corp.	-	n/a	-	3,589,110	7	1.22%
Tobin Ben Co.	-	n/a	-	3,009,370	8	1.02%
Sleepy Hollow Holdings LP	-	n/a	-	2,821,660	9	0.96%
Campbell Concrete & Materials, LP	-	n/a	-	2,638,100	10	0.90%
Total	\$ 59,736,170		15.92%	\$ 52,306,120		17.76%
Total Assessed Valuation	\$ 375,282,776		100%	\$ 294,500,470		100%

Source: Liberty Central Appraisal District

Note: Property is assessed as of January 1 and certified to the City by July 25 for taxable values.

City of Cleveland, Texas
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Years

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Tax levy	\$ 2,235,271	\$ 2,515,519	\$ 2,506,143	\$ 2,572,991
Current tax collected	\$ 2,002,080	\$ 2,064,737	\$ 2,264,894	\$ 2,343,786
Percent of current tax collections	89.57%	82.08%	90.37%	91.09%
Delinquent tax collections	\$ 147,151	\$ 364,742	\$ 155,209	\$ 194,700
Total tax collections	\$ 2,149,231	\$ 2,429,479	\$ 2,420,103	\$ 2,538,486
Total collections as a percentage of levy	96.2%	96.6%	96.6%	98.7%

Source: Dallas and Collin County reports.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$	2,588,336	\$ 2,665,275	\$ 2,815,854	\$ 2,994,333	\$ 3,183,951	\$ 3,186,119
\$	2,386,148	\$ 2,467,612	\$ 2,509,840	\$ 2,696,797	\$ 2,864,968	\$ 3,031,165
	92.19%	92.58%	89.13%	90.06%	89.98%	95.14%
\$	162,627	\$ 158,071	\$ 257,189	\$ 235,628	\$ 218,991	\$ -
\$	2,548,775	\$ 2,625,683	\$ 2,767,029	\$ 2,932,425	\$ 3,083,959	\$ 3,031,165
	98.5%	98.5%	98.3%	97.9%	96.9%	95.1%

City of Cleveland, Texas
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Years

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental activities:				
Deferred amounts:				
Premium	\$ -	\$ 186,654	\$ 462,932	\$ 430,317
Certificates of Obligation	7,170,000	10,585,000	11,350,000	10,270,000
General Obligation Refunding Bonds	-	-	-	-
Tax Notes	-	-	-	-
Notes payable	132,922	201,591	106,382	103,620
Business-type activities:				
Certificates of Obligation	\$ 5,115,000	\$ 4,760,000	\$ 5,110,000	\$ 4,890,000
Premium			94,078	89,233
Total primary government	<u>\$ 12,417,922</u>	<u>\$ 15,733,245</u>	<u>\$ 17,123,392</u>	<u>\$ 15,783,170</u>
Percentage of personal income (1)	8.18%	10.44%	11.42%	10.51%
Per capita (1)	\$ 1,599	\$ 2,041	\$ 2,232	\$ 2,054

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Personal income and population data is disclosed on page 117.

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 397,702	\$ 365,087	\$ 482,555	\$ 442,210	\$ 401,865	\$ 361,678
2,775,000	2,565,000	6,275,000	5,935,000	5,570,000	3,210,000
6,385,000	5,770,000	5,115,000	4,505,000	3,885,000	5,285,000
105,000	780,000	590,000	395,000	200,000	-
9,755	-	-	-	-	-
\$ 4,670,000	\$ 4,440,000	\$ 4,210,000	\$ 3,975,000	\$ 3,400,000	\$ 3,180,000
84,388	79,543	74,698	69,853	65,008	60,007
<u>\$ 14,426,845</u>	<u>\$ 13,999,630</u>	<u>\$ 16,747,253</u>	<u>\$ 15,322,063</u>	<u>\$ 13,521,873</u>	<u>\$ 12,096,685</u>
9.55%	9.09%	10.84%	9.80%	8.58%	7.37%
\$ 1,867	\$ 1,777	\$ 2,119	\$ 1,916	\$ 1,677	\$ 1,441

City of Cleveland, Texas
RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Years

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
NET TAXABLE ASSESSED VALUE				
All property	\$ 294,500,470	\$ 302,790,212	\$ 301,723,163	\$ 299,865,726
NET BONDED DEBT (1)				
Gross bonded debt	12,285,000	15,531,654	17,017,010	15,679,550
Less: debt service funds	178,063	104,705	160,024	265,282
Net Bonded Debt	<u>\$ 12,106,937</u>	<u>\$ 15,426,949</u>	<u>\$ 16,856,986</u>	<u>\$ 15,414,268</u>
RATIO OF NET BONDED DEBT TO ASSESSED VALUE	4.11%	5.09%	5.59%	5.14%
POPULATION	7,765	7,708	7,671	7,684
NET BONDED DEBT PER CAPITA	\$ 1,559	\$ 2,001	\$ 2,197	\$ 2,006

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) This is the general bonded debt of both governmental and business-type activities, net of original issuance discounts and premiums.

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 307,914,669	\$ 307,679,650	\$ 320,628,908	\$ 338,745,936	\$ 356,017,330	\$ 375,282,776
14,312,090	13,219,630	16,157,253	14,927,063	13,321,873	12,096,685
366,997	537,878	585,724	595,066	282,175	289,042
<u>\$ 13,945,093</u>	<u>\$ 12,681,752</u>	<u>\$ 15,571,529</u>	<u>\$ 14,331,997</u>	<u>\$ 13,039,698</u>	<u>\$ 11,807,643</u>
4.53%	4.12%	4.86%	4.23%	3.66%	3.15%
7,728	7,879	7,904	7,998	8,061	8,396
\$ 1,804	\$ 1,610	\$ 1,970	\$ 1,792	\$ 1,618	\$ 1,406

City of Cleveland, Texas

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2020

Governmental Unit	Gross Bonded Debt Outstanding (a)	Estimated Percentage Applicable (b)	Estimated Share of Overlapping Debt (a * b)
Debt repaid with property taxes			
Cleveland I.S.D	\$ 244,569,272 **	1.35%	\$ 3,289,457
Liberty County	8,635,050 ***	6.58%	568,186
Subtotal, overlapping debt			3,857,643
City Direct Debt			8,856,678
Total Direct and Overlapping Debt			\$ 12,714,321

Sources: Taxing Entities and City, Dallas Central Appraisal District, and the Collin County Appraisal District.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

** As of 8/31/2020

*** As of 9/30/2019

City of Cleveland, Texas
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

<u>Year</u>	<u>Estimated Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
				<u>Liberty County</u>
2011	7,765	\$ 151,805,750	19,550	11.1%
2012	7,708	150,691,400	19,550	9.6%
2013	7,671	149,968,050	19,550	8.9%
2014	7,684	150,222,200	19,550	7.2%
2015	7,728	151,082,400	19,550	6.9%
2016	7,879	154,034,450	19,550	7.5%
2017	7,904	154,523,200	19,550	7.1%
2018	7,998	156,360,900	19,550	5.8%
2019	8,061	157,592,550	19,550	5.0%
2020	8,396	164,141,800	19,550	10.8%

Sources: Estimated population provided by United States Census Bureau
Per Capita Income provided at <https://www.census.gov>
Unemployment information provided by the Texas Workforce Commission.

Note: Only 2019 per capita personal income was available. The future years will be updated as they become available.

City of Cleveland, Texas

PRINCIPAL EMPLOYERS

Current Fiscal Year

Employer	2020		
	Employees	Rank	Percentage of Total City Employment
Cleveland ISD	1,200	1	39.87%
Wal-Mart Supercenter	340	2	11.30%
Texas Emergency Hospital	187	3	6.21%
Union Tank Co.	176	5	5.85%
City of Cleveland	103	4	3.42%
Cleveland Correctional Center	92	6	3.06%
H-E-B Foods	90	7	2.99%
Cleveland Health Care Center	87	8	2.89%
Martin Chevrolet Buick GMC	61	9	2.03%
Campbell Concrete & Materials	40	10	1.33%
Total	2,376		78.94%

Total City Employment 3,010

The requirement is for the current year and nine years ago, however, only the current year is available at this time.

Source: Human Resources Department of each company.

Source: Texas Labor Market Information

<https://datausa.io/profile/geo/cleveland-tx>

City of Cleveland, Texas

FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

<u>Function/Program</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
General government and adminstration	18	22	22	18	17	18	19	18	20	18
Public safety	41	50	60	62	56	55	55	56	59	53
Public works	5	5	6	8	7	6	6	6	8	7
Culture and recreation	13	16	26	19	17	15	13	17	14	13
Water and sewer	11	15	12	16	13	17	16	14	14	12
Community development	3	3	5	5	4	4	4	3	4	3
Economic development	-	-	-	-	-	-	-	-	1	1
Total	<u>91</u>	<u>111</u>	<u>131</u>	<u>128</u>	<u>114</u>	<u>115</u>	<u>113</u>	<u>114</u>	<u>120</u>	<u>107</u>

Sources: Various City departments.

City of Cleveland, Texas
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	2011	2012	2013	2014
Public safety				
Police				
Number of employees	28	34	34	38
Number of violations (citations)	2,654	2,938	2,604	1,933
Fire				
Number of employees	19	16	15	19
Number of volunteers	25	25	23	22
Number of fire runs	788	754	760	969
Public works				
Streets (miles)	52	52	52	52
Building permits issued	643	636	660	574
Cultural and recreational				
Parks and recreation				
Park maintain & operate per acre	36	36	36	36
Participants in parks programs				
Library				
Volumes in collection	44,063	50,010	58,026	60,348
Water and sewer				
Number of water connections	29,243	29,202	29,341	29,565
Number of sewer connections	27,274	27,176	27,290	27,303
Average daily water consumption ^a	33,996	32,332	33,237	31,114
Maximum storage capacity ^a	2.7	2.7	2.7	2.7

Sources: Various City departments.

^a Millions of gallons

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
34	37	34	36	39	32
2,161	1,818	1,690	2,780	2,191	1,636
18	18	18	19	19	19
21	19	18	15	16	16
1,508	2,112	2,639	2,158	2,245	1,712
52	52	52	52	54	56
606	610	549	854	875	1,220
36	133	133	133	133	133
53,894	61,389	59,237	61,365	68,696	68,475
29,385	29,634	29,425	29,408	29,650	30,311
27,109	27,341	27,002	27,016	27,130	27,676
30,009	31,484	59,578	17,133	30,232	31,448
2.7	2.7	2.7	2.7	2.7	2.7

City of Cleveland, Texas

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Ten Years

Function/Program	2011	2012	2013	2014
Public safety				
Police stations	1	1	1	1
Police patrol units	15	19	18	18
Fire stations	1	1	1	1
Public works				
Streets-paved (miles)	52	52	52	52
Cultural and recreational				
Parks (acres)	36	36	36	36
Playgrounds (1)	3	3	3	3
Library	1	1	1	1
Water and sewer				
Fire hydrants	300	300	300	300
Ground storage facilities	4	6	6	6
Elevated storage facilities	2	2	2	2
Lift stations	16	16	16	16

Sources: Various City departments.

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
1	1	1	1	1	1
18	17	19	18	18	17
1	1	1	1	1	1
52	52	52	52	54	56
36	133	133	133	133	133
3	3	3	5	5	5
1	1	1	1	1	1
300	300	300	300	300	300
6	7	7 #	7	7	7
2	2	2	2	2	2
16	17	17	17	18	18