

City of Cleveland, Texas

Annual Financial Report

For the Fiscal Year Ended September 30, 2017

City of Cleveland, Texas
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2017
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Introductory Section

City of Cleveland, Texas
Principal City Officials
September 30, 2017

Otis Cohn Mayor

Mike Penry Council Member Position 1

Marilyn Clay Council Member Position 2

Carolyn McWaters Council Member Position 3

Jennifer Bergman Council Member Position 4

Danny Lee Council Member Position 5

Kelly McDonald City Manager

Bobby Pennington Director of Finance

Angela Smith City Secretary

Financial Section

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland, Texas (City), as of and for the fiscal year ended September 30, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas, as of September 30, 2017, 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 and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018 on our consideration of City of Cleveland, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cleveland, Texas' internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas

February 20, 2018

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Management's Discussion and Analysis

As management of the City of Cleveland, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

Financial Highlights

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$26,691,959 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$19,753,218 that is net investment in capital assets.
- During the year, the City's revenues of \$11,400,849 exceeded expenses of \$11,025,791 by \$375,058.
- The General Fund reported a fund balance this year of \$4,108,414, of which \$4,069,926 was unassigned and approximated 57% of General Fund expenditures. Total fund balance decreased \$303,833 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$585,724 which was restricted for debt service fund expenditures. Total fund balance increased \$47,846 from prior year.
- The Water and Sewer Fund reported an operating income of \$869,645, and an increase in net position of \$2,432,519.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,981,401, of which \$1,090,526 was unrestricted. Total net position increased \$154,779 from current operations.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The combining statements for nonmajor funds and the financial statements for the Cleveland Economic Development Corporation referred to earlier are presented immediately following the required supplemental information.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$26,691,959, at the close of the most recent fiscal year.

Table A-1
City of Cleveland, Texas's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 8,880,381	\$ 6,885,771	\$ 5,319,579	\$ 3,485,908	\$ 14,199,960	\$ 10,371,679
Capital assets	18,145,571	18,676,342	13,971,360	13,666,464	32,116,931	32,342,806
Total assets	27,025,952	25,562,113	19,290,939	17,152,372	46,316,891	42,714,485
Total deferred outflows of Resources	713,765	761,974	104,122	109,706	817,887	871,680
Long-term liabilities outstanding	14,324,842	11,220,391	4,621,111	4,857,554	18,945,953	16,077,945
Other liabilities	1,007,533	566,421	429,741	481,036	1,437,274	1,047,457
Total liabilities	15,332,375	11,786,812	5,050,852	5,338,590	20,383,227	17,125,402
Total deferred inflows of resources	51,249	123,721	8,343	20,141	59,592	143,862
Net position:						
Net investments in capital assets	7,530,596	9,300,893	12,222,622	10,020,518	19,753,218	19,321,411
Restricted	1,524,020	1,480,473	-	-	1,524,020	1,480,473
Unrestricted	3,301,477	3,632,188	2,113,244	1,882,829	5,414,721	5,515,017
Total net position	\$ 12,356,093	\$ 14,413,554	\$ 14,335,866	\$ 11,903,347	\$ 26,691,959	\$ 26,316,901

The City's total assets of \$46,316,891 are largely comprised of capital assets, net of accumulated depreciation of \$32,116,931, or 69%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$18,945,953 comprise the largest portion of the City's total liabilities of \$20,383,227 at 93%. Of total long-term liabilities, \$1,402,042 is due within one year, with the remainder \$17,543,911 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to financial statements.

Approximately 74% of total net position or \$19,753,218 represents investments in capital assets, net of related debt, and approximately 6% of total net position or \$1,524,020 represents restriction for debt services, economic development, police and municipal court. The amount of \$5,414,721 (20%) of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in Net Position. Governmental and business-type activities combined to increase the City's net position by \$375,058 from current operations. The elements giving rise to this change may be determined from the table below.

Table A-2
City of Cleveland Texas's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 891,005	\$ 997,557	\$ 3,471,283	\$ 3,432,391	\$ 4,362,288	\$ 4,429,948
Operating grants and contributions	311,487	299,135	-	-	311,487	299,135
Capital grants and contributions	17,375	1,977,877	320,273	220,248	337,648	2,198,125
General revenues:						
Property taxes	2,760,419	2,677,409	-	-	2,760,419	2,677,409
Sales and other taxes	3,004,420	3,096,142	-	-	3,004,420	3,096,142
Franchise taxes	490,642	497,207	-	-	490,642	497,207
Earnings on investments	51,997	46,808	29,160	39,255	81,157	86,063
Gain on sale of assets	3,830	2,860	-	-	3,830	2,860
Proceeds from insurance	28,826	29,941	-	3,310	28,826	33,251
Miscellaneous	20,132	9,676	-	-	20,132	9,676
Total revenues	7,580,133	9,634,612	3,820,716	3,695,204	11,400,849	13,329,816
Expenses:						
General government	1,183,915	1,103,435	-	-	1,183,915	1,103,435
Public safety	3,436,830	3,337,458	-	-	3,436,830	3,337,458
Public works	196,678	216,938	-	-	196,678	216,938
Transportation	933,812	752,884	-	-	933,812	752,884
Culture and recreation	1,254,290	1,161,286	-	-	1,254,290	1,161,286
Grants	716,105	-	-	-	716,105	-
Economic development	204,066	198,116	-	-	204,066	198,116
Debt service	368,281	269,796	-	-	368,281	269,796
Water and sewer	-	-	2,731,814	2,638,757	2,731,814	2,638,757
Total expenses	8,293,977	7,039,913	2,731,814	2,638,757	11,025,791	9,678,670
Increase (decrease) in net position before transfers	(713,844)	2,594,699	1,088,902	1,056,447	375,058	3,651,146
Transfers	(1,343,617)	307,167	1,343,617	(307,167)	-	-
Change in net position	(2,057,461)	2,901,866	2,432,519	749,280	375,058	3,651,146
Net position - beginning	14,413,554	11,270,854	11,903,347	11,154,067	26,316,901	22,424,921
Prior period adjustments	-	240,834	-	-	-	240,834
Net position - beginning, as restated	14,413,554	11,511,688	11,903,347	11,154,067	26,316,901	22,665,755
Net position - ending	\$ 12,356,093	\$ 14,413,554	\$ 14,335,866	\$ 11,903,347	\$ 26,691,959	\$ 26,316,901

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

Governmental Activities. Governmental activities decreased the City's net position from current operations by \$2,057,461. The City's total revenues were \$7,580,133 from all governmental activities. A significant portion, \$2,760,419 or 36%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$3,004,420, or 40%, of total revenue for governmental activities. Charges for services accounts for \$891,005, or 12%, of total revenue for governmental activities. The remaining 12% is generated from grants and contributions, franchise taxes, earnings on investments, gain on sale of assets, proceeds from insurance and miscellaneous revenues. The most significant change in governmental activities revenues was the decrease in capital grants for construction projects.

The total cost of all governmental programs and services was \$8,293,977. The public safety function accounted for \$3,436,830, or 41% of this total. The general government function accounted for \$1,183,915, or 14% of this total. The culture and recreation function accounted for \$1,254,290, or 15% of this total. The most significant change in governmental activities expense was an increase in grant expenditures. The City was required to repay \$716,105 back to the Texas Department of Agriculture (TDA) due to the performance requirement for a CDBG grant was not met.

The City's governmental activities net position decreased primarily due to income from capital grants for construction projects decreased and the repayment to TDA as noted above.

Business-type Activities. Business-type activities are financed in whole or part by fees charged to external users for goods or services (water and sewer). They are reported in the enterprise fund. Business-type activities increased the City's net position by \$2,432,519 from current operations. Revenue can be reported as program revenue or general revenue. All revenues are general unless they are required to be reported as program revenues. Program revenue and charges for services include revenues attributable to a specific program because they result from exchange-like transactions or other events, such as charges to customers. Charges for service of \$3,471,283 are utilized to provide funds for program expenses of \$2,731,814.

The increase in net position from current operations for business-type activities is the result of transfers in from governmental activities of \$1,343,617.

Financial Analysis of the City's Funds

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

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

As the City completed the year, its governmental funds, as presented in the balance sheet reported combined ending fund balances of \$7,232,505, which is an increase of \$1,505,455 from current operations.

The general fund is the City's operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,069,926 and total fund balance was \$4,108,414. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents 57% and 58% of total general fund expenditures, respectively. The fund balance of the City's general fund decreased by \$303,833 during the current fiscal year from current operations. For the most part, the decrease in fund balance was the result of a liability to TDA for nonperformance of a grant requirement.

The debt service fund ending fund balance was \$585,724, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$47,846 during the year, primarily due to transfers from the water and sewer fund.

The capital projects ending fund balance was \$1,773,421. The net increase in fund balance during the current year in the capital projects fund was \$1,756,847. The increase in fund balance is the result of proceeds from combination tax and revenue certificates of obligation.

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

Unrestricted net position of the Water and Sewer Funds at the end of the current fiscal year amounted to \$2,113,244. The total increase in net position for the Water and Sewer Funds was \$2,432,519. Other factors concerning these funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended the budget as needed throughout the year. There were no significant individual variations between the original budget and final budget.

The City's variances between actual results for the General Fund and final budgeted amounts are as follows:

- Liability to Texas Department of Agriculture (TDA) \$716,105. The City did not budget this amount in 2017 as the City had requested forgiveness of such repayment for the action taken by the City to accomplish the goals required by the performance portion of grant.
- Purchase of capital assets approved by Council.

Capital Assets and Debt Administration

Capital Assets. At the end of 2017, the City had invested \$32,116,931 in a broad range of capital assets. More detailed information about the City's capital assets is presented in the notes to financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,179,941	\$ 2,136,352	\$ 178,621	\$ 178,621	\$ 2,358,562	\$ 2,314,973
Buildings and improvements	14,822,243	14,372,143	19,094	20,502	14,841,337	14,392,645
Furniture and equipment	1,143,387	1,191,923	742,370	819,881	1,885,757	2,011,804
Water system	-	-	8,345,407	5,969,187	8,345,407	5,969,187
Sewer system	-	-	4,685,868	4,583,567	4,685,868	4,583,567
Construction in progress	-	975,924	-	2,094,706	-	3,070,630
Totals	\$ 18,145,571	\$ 18,676,342	\$ 13,971,360	\$ 13,666,464	\$ 32,116,931	\$ 32,342,806

Major capital asset purchases during the year included the following:

- Completion of airport runway, drainage project and sewer system improvements
- HVAC system
- Dell server
- 3 Ford vehicles

Long-term Liabilities

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

Table A-4
City of Cleveland, Texas's Long-term Liabilities Outstanding

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Tax note, certificates, and bonds payable, net	\$ 12,462,555	\$ 9,480,087	\$ 4,284,698	\$ 4,519,543	\$ 16,747,253	\$ 13,999,630
Note payable	-	-	33,249	54,705	33,249	54,705
Net pension liability	1,862,287	1,740,304	303,164	283,306	2,165,451	2,023,610
Totals	\$ 14,324,842	\$ 11,220,391	\$ 4,621,111	\$ 4,857,554	\$ 18,945,953	\$ 16,077,945

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

Economic Factors and Next Year's Budget

- Total tax rate \$0.77 per \$100 valuation in fiscal year 2017 (\$0.5357 for maintenance and operations and \$0.2343 for interest and sinking).
- The unemployment rate for the County is currently 7.0%, which is a decrease from a rate of 8.2 a year ago. This compares unfavorably to the state's average unemployment rate of 4.0%, which is an decrease from a rate of 4.9% a year ago.
- These indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the general fund budget are \$4,069,926 at September 30, 2017.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, 907 Houston St., Cleveland, Texas 77327.

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Basic Financial Statements

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City of Cleveland, Texas
Statement of Net Position
September 30, 2017

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS				
Cash and cash equivalents	\$ 7,403,569	\$ 2,383,862	\$ 9,787,431	\$ 1,073,474
Investments	375	433	808	1,798
Receivables (net):				
Property taxes	677,852	-	677,852	-
Sales and other taxes	579,511	-	579,511	-
Accounts	-	525,642	525,642	-
Due from other governments	14,167	43,703	57,870	-
Other	1,637	-	1,637	-
Internal balances	203,270	(203,270)	-	-
Due From primary government	-	-	-	51,016
Restricted assets:				
Cash - construction	-	2,569,209	2,569,209	-
Capital assets:				
Land and improvements	2,179,941	178,621	2,358,562	965,055
Buildings and improvements	19,766,945	47,997	19,814,942	-
Furniture and equipment	4,578,946	1,565,865	6,144,811	-
Water system	-	11,841,356	11,841,356	-
Sewer system	-	15,589,531	15,589,531	-
Construction in progress	-	-	-	33,730
Accumulated depreciation	(8,380,261)	(15,252,010)	(23,632,271)	-
Total assets	<u>27,025,952</u>	<u>19,290,939</u>	<u>46,316,891</u>	<u>2,125,073</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	74,159	-	74,159	-
Deferred outflows for pensions	639,606	104,122	743,728	-
Total deferred outflows of resources	<u>713,765</u>	<u>104,122</u>	<u>817,887</u>	<u>-</u>
LIABILITIES				
Accounts payable	130,443	91,281	221,724	35,762
Escrow liability - seizure funds	16,902	-	16,902	-
Accrued liabilities	55,558	76,100	131,658	-
Refundable deposits	-	251,630	251,630	-
Accrued interest payable	37,509	10,730	48,239	-
Due to component unit	51,016	-	51,016	-
Due to other governments	716,105	-	716,105	-
Noncurrent liabilities:				
Due within one year	1,145,000	257,042	1,402,042	48,328
Due in more than one year	11,317,555	4,060,905	15,378,460	59,582
Net pension liability - long-term	1,862,287	303,164	2,165,451	-
Total liabilities	<u>15,332,375</u>	<u>5,050,852</u>	<u>20,383,227</u>	<u>143,672</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pensions	51,249	8,343	59,592	-
Total deferred inflows of resources	<u>51,249</u>	<u>8,343</u>	<u>59,592</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	7,530,596	12,222,622	19,753,218	890,875
Restricted for:				
Debt services	759,847	-	759,847	-
Economic development	560,634	-	560,634	-
Police	186,750	-	186,750	-
Municipal court	16,789	-	16,789	-
Unrestricted	3,301,477	2,113,244	5,414,721	1,090,526
TOTAL NET POSITION	<u>\$ 12,356,093</u>	<u>\$ 14,335,866</u>	<u>\$ 26,691,959</u>	<u>\$ 1,981,401</u>

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

City of Cleveland, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2017

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government:				
City council	\$ 24,131	\$ -	\$ -	\$ -
Administration	807,683	-	-	-
Technology	352,101	-	-	-
Public safety:				
Municipal court	219,677	18,246	-	-
Police department	2,284,243	309,233	11,782	-
Animal control	61,675	190	-	-
Fire and ambulance	853,033	113,003	1,510	-
Emergency management	18,202	-	-	-
Public works:				
Development services	184,925	188,800	-	-
Garage department	11,753	-	-	-
Transportation:				
Street department	719,724	-	-	-
Airport department	214,088	103,074	-	17,375
Culture and recreation:				
Library department	403,653	21,069	11,085	-
Cemetery and parks	362,479	40,939	54,075	-
Civic/community	306,528	96,451	26,960	-
Sports facilities	181,630	-	-	-
Grants	716,105	-	-	-
Economic development	204,066	-	-	-
Debt service:				
Interest and fiscal charges	368,281	-	206,075	-
Total governmental activities	<u>8,293,977</u>	<u>891,005</u>	<u>311,487</u>	<u>17,375</u>
Business-type activities:				
Water and sewer	2,731,814	3,471,283	-	320,273
Total business-type activities	<u>2,731,814</u>	<u>3,471,283</u>	<u>-</u>	<u>320,273</u>
TOTAL PRIMARY GOVERNMENT	\$ 11,025,791	\$ 4,362,288	\$ 311,487	\$ 337,648
COMPONENT UNIT				
Cleveland Economic Development Corp.	<u>\$ 447,193</u>	<u>\$ 8,003</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 Sales and other taxes
 Franchise taxes
 Earnings on investments
 Gain on sale of assets
 Proceeds from insurance
 Miscellaneous
 Transfers
 Total general revenues and transfers

Change in net position

Net position - beginning
NET POSITION - ENDING

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (24,131)	\$ -	\$ (24,131)	\$ -
(807,683)	-	(807,683)	-
(352,101)	-	(352,101)	-
(201,431)	-	(201,431)	-
(1,963,228)	-	(1,963,228)	-
(61,485)	-	(61,485)	-
(738,520)	-	(738,520)	-
(18,202)	-	(18,202)	-
3,875	-	3,875	-
(11,753)	-	(11,753)	-
(719,724)	-	(719,724)	-
(93,639)	-	(93,639)	-
(371,499)	-	(371,499)	-
(267,465)	-	(267,465)	-
(183,117)	-	(183,117)	-
(181,630)	-	(181,630)	-
(716,105)	-	(716,105)	-
(204,066)	-	(204,066)	-
(162,206)	-	(162,206)	-
<u>(7,074,110)</u>	<u>-</u>	<u>(7,074,110)</u>	<u>-</u>
-	1,059,742	1,059,742	-
-	1,059,742	1,059,742	-
<u>(7,074,110)</u>	<u>1,059,742</u>	<u>(6,014,368)</u>	<u>-</u>
			<u>(439,190)</u>
2,760,419	-	2,760,419	-
3,004,420	-	3,004,420	535,877
490,642	-	490,642	-
51,997	29,160	81,157	9,516
3,830	-	3,830	48,576
28,826	-	28,826	-
20,132	-	20,132	-
(1,343,617)	1,343,617	-	-
<u>5,016,649</u>	<u>1,372,777</u>	<u>6,389,426</u>	<u>593,969</u>
(2,057,461)	2,432,519	375,058	154,779
14,413,554	11,903,347	26,316,901	1,826,622
<u>\$ 12,356,093</u>	<u>\$ 14,335,866</u>	<u>\$ 26,691,959</u>	<u>\$ 1,981,401</u>

City of Cleveland, Texas

Balance Sheet - Governmental Funds

September 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash and cash equivalents	\$ 4,328,875	\$ 586,357
Investments	375	-
Receivable (net):		
Property taxes	466,220	211,632
Sales and other taxes	543,778	-
Due from other governments	14,167	-
Other	1,637	-
Due from other funds	203,320	2,867
TOTAL ASSETS	<u><u>\$ 5,558,372</u></u>	<u><u>\$ 800,856</u></u>
LIABILITIES		
Accounts payable	\$ 120,736	\$ 3,500
Accrued liabilities	54,197	-
Escrow liability - seizure funds	-	-
Due to other funds	41,684	-
Due to component unit	51,016	-
Due to other governments	716,105	-
Total liabilities	<u>983,738</u>	<u>3,500</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	466,220	211,632
Total deferred inflows of resources	<u>466,220</u>	<u>211,632</u>
FUND BALANCES		
Restricted for debt	-	585,724
Restricted for construction projects	-	-
Restricted for economic development	-	-
Restricted for police	-	-
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
Committed for purchase of capital assets	38,488	-
Unassigned fund balances	4,069,926	-
Total fund balances	<u>4,108,414</u>	<u>585,724</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 5,558,372</u></u>	<u><u>\$ 800,856</u></u>

Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 1,773,421	\$ 714,916	\$ 7,403,569
-	-	375
-	-	677,852
-	35,733	579,511
-	-	14,167
-	-	1,637
-	38,817	245,004
<u>\$ 1,773,421</u>	<u>\$ 789,466</u>	<u>\$ 8,922,115</u>
\$ -	\$ 6,207	\$ 130,443
-	1,361	55,558
-	16,902	16,902
-	50	41,734
-	-	51,016
-	-	716,105
<u>-</u>	<u>24,520</u>	<u>1,011,758</u>
-	-	677,852
<u>-</u>	<u>-</u>	<u>677,852</u>
-	-	585,724
1,773,421	-	1,773,421
-	560,634	560,634
-	186,750	186,750
-	16,789	16,789
-	773	773
-	-	38,488
-	-	4,069,926
<u>1,773,421</u>	<u>764,946</u>	<u>7,232,505</u>
<u>\$ 1,773,421</u>	<u>\$ 789,466</u>	<u>\$ 8,922,115</u>

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City of Cleveland, Texas

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2017

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 7,232,505

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

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

Governmental capital assets costs	\$ 26,525,832	
Accumulated depreciation of governmental capital assets	<u>(8,380,261)</u>	18,145,571

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		677,852
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Long-term liabilities, including tax note, certificates of obligation, general obligation bond payable, and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Tax note, certificate of obligations, and general obligation bond payable, at original par	\$ (11,980,000)	
Premium on debt issues	(482,555)	
Accrued interest on debt	(37,509)	
Net pension liability	<u>(1,862,287)</u>	(14,362,351)

Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures.		74,159
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Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.		639,606
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Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		<u>(51,249)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 12,356,093**

City of Cleveland, Texas
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Taxes:		
Property taxes	\$ 1,973,996	\$ 721,645
Sales and other taxes	2,801,518	-
Franchise taxes	490,642	-
License and permits	188,172	-
Charges for services	373,478	-
Fines and forfeitures	307,673	-
Intergovernmental	27,025	-
Earnings on investments	41,868	4,948
Contributions	94,618	206,075
Miscellaneous	24,736	-
Total revenues	<u>6,323,726</u>	<u>932,668</u>
EXPENDITURES		
General government:		
City council	23,462	-
Administration	759,480	-
Technology	333,444	-
Public safety:		
Municipal court	209,897	-
Police department	2,087,674	-
Animal control	53,460	-
Fire and ambulance	729,805	-
Emergency management	18,202	-
Public works:		
Development services	178,757	-
Garage department	10,402	-
Transportation:		
Street department	591,376	-
Airport department	65,467	-
Culture and recreation:		
Library department	361,704	-
Cemetery and parks	321,311	-
Civic/community	232,102	-
Sports facilities	52,286	-
Grants	716,105	-
Economic development	-	-
Capital outlay:		
Administration	18,411	-
Civic/community	25,178	-
Technology	121,010	-
Police department	25,990	-
Library department	81,281	-
Cemetery and parks	26,867	-
Development services	26,225	-
Sports facilities	12,399	-
Glen Park drainage	7,920	-
Debt service:		
Principal retirement	-	1,055,000
Interest and fiscal charges	-	247,358
Bond issuance costs	-	-
Total expenditures	<u>7,090,215</u>	<u>1,302,358</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(766,489)</u>	<u>(369,690)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	3,830	-
Proceeds from insurance	28,826	-
Proceeds from certificates issued	-	-
Premium on certificates issued	-	-
Transfers in (out)	430,000	417,536
Total other financing sources (uses)	<u>462,656</u>	<u>417,536</u>
NET CHANGE IN FUND BALANCES	(303,833)	47,846
Fund balance - beginning of year	4,412,247	537,878
FUND BALANCE - END OF YEAR	<u>\$ 4,108,414</u>	<u>\$ 585,724</u>

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

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,695,641
-	202,902	3,004,420
-	-	490,642
-	-	188,172
-	11,428	384,906
-	4,402	312,075
-	2,392	29,417
815	4,366	51,997
-	-	300,693
-	-	24,736
<u>815</u>	<u>225,490</u>	<u>7,482,699</u>
-	-	23,462
-	-	759,480
-	-	333,444
-	5,926	215,823
-	12,830	2,100,504
-	-	53,460
-	-	729,805
-	-	18,202
-	-	178,757
-	-	10,402
-	-	591,376
-	-	65,467
-	-	361,704
-	-	321,311
-	-	232,102
-	-	52,286
-	-	716,105
-	202,139	202,139
-	-	18,411
-	-	25,178
-	-	121,010
-	-	25,990
-	-	81,281
-	-	26,867
-	-	26,225
-	-	12,399
-	-	7,920
-	-	1,055,000
-	-	247,358
124,186	-	124,186
<u>124,186</u>	<u>220,895</u>	<u>8,737,654</u>
(123,371)	4,595	(1,254,955)
-	-	3,830
-	-	28,826
3,920,000	-	3,920,000
151,371	-	151,371
(2,191,153)	-	(1,343,617)
<u>1,880,218</u>	<u>-</u>	<u>2,760,410</u>
1,756,847	4,595	1,505,455
16,574	760,351	5,727,050
<u>\$ 1,773,421</u>	<u>\$ 764,946</u>	<u>\$ 7,232,505</u>

City of Cleveland, Texas

Reconciliation of The Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended September 30, 2017

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS		\$ 1,505,455
Amounts reported for governmental activities in the statement of activities are different because:		
Some property taxes will not be collected for several months after the City's fiscal year end and are not considered "available" revenues and, therefore, are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.		64,778
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.		
Capital outlay	\$ 345,281	
Depreciation expense	<u>(846,079)</u>	(500,798)
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(29,973)
Issuance of certificates of obligation provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par Value	\$ (3,920,000)	
(Premium) Discount	<u>(151,371)</u>	(4,071,371)
Repayment of tax note, certificates of obligation, and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,055,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The increase (decrease) in interest expense reported in the statement of activities consists of the following:		
Accrued interest on tax note, certificates of obligation, and bond payable increased	\$ (16,735)	
Amortization of premium	33,903	
Amortization of deferred charge on refunding	<u>(13,905)</u>	3,263
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	\$ (34,304)	
Deferred inflows (increased) decreased	72,472	
Net pension liability (increased) decreased	<u>(121,983)</u>	(83,815)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (2,057,461)</u>

City of Cleveland, Texas
Statement of Net Position
Proprietary Fund
September 30, 2017

	Water and Sewer Fund
	<u> </u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,383,862
Investments	433
Receivables (net):	
Accounts - utilities	525,642
Due from other governments	43,703
Total current assets	<u>2,953,640</u>
Noncurrent assets:	
Restricted assets:	
Cash - construction	2,569,209
Capital assets:	
Land and improvements	178,621
Buildings and improvements	47,997
Furniture and equipment	1,565,865
Water system	11,841,356
Sewer system	15,589,531
Accumulated depreciation	(15,252,010)
Total noncurrent assets	<u>16,540,569</u>
Total assets	<u>19,494,209</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions	104,122
Total deferred outflows of resources	<u>104,122</u>
LIABILITIES	
Current liabilities:	
Accounts payable	91,281
Accrued liabilities	76,100
Refundable deposits	251,630
Accrued interest payable	10,730
Due to other funds	203,270
Certificates of obligation payable - current	235,000
Note payable - current	22,042
Total current liabilities	<u>890,053</u>
Noncurrent liabilities:	
Certificates of obligation payable - long-term	4,049,698
Note payable - long-term	11,207
Net pension liability - long-term	303,164
Total noncurrent liabilities	<u>4,364,069</u>
Total Liabilities	<u>5,254,122</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions	8,343
Total deferred inflows of resources	<u>8,343</u>
NET POSITION	
Net investment in capital assets	12,222,622
Unrestricted	2,113,244
TOTAL NET POSITION	<u>\$ 14,335,866</u>

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

City of Cleveland, Texas

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund For the Fiscal Year Ended September 30, 2017

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,471,283
Total operating revenues	<u>3,471,283</u>
OPERATING EXPENSES	
Administration	330,175
Water production	823,743
Sewer department	670,286
Sanitation services	257,781
Depreciation	519,653
Total operating expenses	<u>2,601,638</u>
Operating income	<u>869,645</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	29,160
Interest and fees on debt	(130,176)
Total nonoperating revenues (expenses)	<u>(101,016)</u>
Income before capital contributions and transfers	768,629
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions - grants	288,325
Capital contributions from CEDC	31,948
Transfers in (out)	1,343,617
Total capital contributions and transfers	<u>1,663,890</u>
Change in net position	2,432,519
Net position - beginning	11,903,347
NET POSITION - ENDING	<u><u>\$ 14,335,866</u></u>

City of Cleveland, Texas
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2017

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services	\$ 3,490,766
Cash payments to suppliers for goods and services	(736,208)
Cash payments to employees for salaries and benefits	(1,186,114)
Net cash provided by (used for) operating activities	<u>1,568,444</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from (to) other funds	1,343,617
Net cash provided by (used for) noncapital financing activities	<u>1,343,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - grants	244,622
Purchase of capital assets	(792,601)
Principal paid on capital debt	(256,301)
Interest and fees paid on capital debt	(130,540)
Net cash provided by (used for) capital and related financing activities	<u>(934,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	29,160
Net cash provided by (used for) investing activities	<u>29,160</u>
Net increase (decrease) in cash and cash equivalents	2,006,401
Cash and cash equivalents at beginning of year, including restricted cash	2,946,670
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH	<u>\$ 4,953,071</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 869,645
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	519,653
Change in assets and liabilities:	
Decrease (increase) in accounts and other receivables, net	7,575
Decrease (increase) in prepaid items	18,834
Decrease (increase) in deferred outflows	5,584
Increase (decrease) in accounts payable	34,169
Increase (decrease) in accrued liabilities	(97,008)
Increase (decrease) in refundable deposits	11,908
Increase (decrease) in due to other funds	190,024
Increase (decrease) in net pension liability	19,858
Increase (decrease) in deferred inflows	(11,798)
Total adjustments	<u>698,799</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,568,444</u>
Schedule of non-cash capital and related financing activities:	
Contributions of capital assets from governmental funds and CEDC	\$ 31,948

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Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. The City does not have fiduciary activities. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

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

Discretely Presented Component Unit. The City reports the Cleveland Economic Development Corporation (CEDC) as a discretely presented component unit. The CEDC was established as a non-profit industrial development corporation on November 27, 2001. The primary purpose of the Corporation is to (1) enhance appearance, housing and education, (2) envision improvements and plan for progress in the local economy and (3) create and develop opportunities for enhancing the quality of life. The Corporation receives funding primarily through sales and use taxes levied for the benefit of the Corporation. The Corporation is exempt from Federal income taxes under Section 501(c) 6 of the Internal Revenue Code. The Corporation is managed by a five member board of directors who are appointed by the City Council of the City of Cleveland, Texas.

C. Basis of Presentation – Government-wide Financial Statements

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is charges between the government's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Cleveland, Texas

Notes to Financial Statements

D. Basis of Presentation – Fund Financial Statements

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

E. Measurement Focus and Basis of Accounting

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

City of Cleveland, Texas

Notes to Financial Statements

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

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

3. Prepaid Items

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

4. Capital Assets

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

City of Cleveland, Texas
Notes to Financial Statements

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

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

<u>Estimated Capital Asset Class</u>	<u>Useful Lives</u>
Buildings and improvements	10-50
Furniture and equipment	5-20
Water system	5-50
Sewer system	5-50

5. Deferred Outflows/Inflows of Resources

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

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

	<u>Statement of</u>	<u>Statement of</u>	<u>Balance Sheet -</u>	
	<u>Net Position</u>	<u>Net Position</u>	<u>Governmental Funds</u>	
	<u>Governmental</u>	<u>Business-type</u>	<u>General</u>	<u>Debt Service</u>
	<u>Activities</u>	<u>Activities</u>	<u>Fund</u>	<u>Fund</u>
Deferred outflows of resources:				
Deferred outflows from pension activities	\$ 409,341	\$ 66,637	\$ -	\$ -
Deferred contributions after the measurement date	230,265	37,485	-	-
Deferred charge on refunding	74,159	-	-	-
Total deferred outflows of resources	\$ 713,765	\$ 104,122	\$ -	\$ -
Deferred inflows of resources:				
Deferred inflows from pension activities	\$ 51,249	\$ 8,343	\$ -	\$ -
Unavailable property taxes	-	-	466,220	211,632
Total deferred inflows of resources	\$ 51,249	\$ 8,343	\$ 466,220	\$ 211,632

Deferred outflows/inflows of resources are amortized as follows:

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

City of Cleveland, Texas

Notes to Financial Statements

6. Net Position Flow Assumption

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

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

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

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

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

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

City of Cleveland, Texas

Notes to Financial Statements

9. Pensions

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

Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Liberty County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the fiscal year ended September 30, 2017 was \$0.77 per \$100, allocated \$0.56568 for the General Fund and \$0.20432 for the Debt Service Fund.

3. Compensated Absences

The City employees are paid for absences due to vacation according to a prescribed policy. Employees must take vacation leave before the end of the calendar year. Vacation leave may not be accumulated from year to year. The City will pay the employee for accrued vacation time upon termination. Employees are not allowed to carry forward vacation leave into the next year. Accordingly, the government-wide and proprietary fund financial statements reflect the accrual for vacation leave at September 30, 2017. Compensated absences are liquidated by the General Fund and proprietary funds.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

City of Cleveland, Texas

Notes to Financial Statements

5. Use of Estimates

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Data

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

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.
4. The City Manager may approve a department's request to transfer an unencumbered balance, or portion thereof within any department; however, City Council must approve a transfer of funds between departments.
5. Budgets for the governmental funds, excluding Special Revenue Funds (grants) are adopted on a basis consistent with generally accepted accounting principles (GAAP). Special Revenue Funds (grants) are budgeted on a project period basis.

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

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. As of September 30, 2017, the City did not have any outstanding encumbrances.

City of Cleveland, Texas
Notes to Financial Statements

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Primary Government

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

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

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

	September 30, 2017	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 808	100%	0.10	AAAm
Total Value	\$ 808	100%		
Portfolio Weighted Average Maturity			0.10	

City of Cleveland, Texas
 Notes to Financial Statements

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

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

Credit risk. For fiscal year 2017, the City invested in TexPool. TexPool is duly chartered and administered by the State Comptroller’s Office. The credit rating for investments is noted in the table above.

Concentration of credit risk. The City’s investment policy does not limit an investment in any one issuer.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of September 30, 2017, City’s deposits of \$12,408,375 at the depository banks were insured and collateralized with securities held by the City’s agent and in the City’s name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial risk due to the investments are insured or registered, or securities are held by the City or its agent in the City’s name.

Discretely Presented Component Unit

At September 30, 2017, the Cleveland Economic Development Corporation (CEDC) bank balance of \$1,080,659 was covered by federal deposit insurance, or pledged collateral held by the CEDC’s agent and in the CEDC’s name.

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

	September 30, 2017	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 1,798	100%	0.10	AAAm
Total value	\$ 1,798	100%		
Portfolio weighted average maturity			0.10	

City of Cleveland, Texas
Notes to Financial Statements

B. Receivables

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

Change in uncollectibles related to Debt Service property taxes	\$ 2,000
Change in uncollectibles related to Water and Sewer Fund utilities	(10,000)
Total change in uncollectibles of the current fiscal year increased (decreased) revenues	<u><u>\$ (8,000)</u></u>

Allowances for uncollectibles September 30, 2017 for the City's individual major governmental and proprietary funds are as follows:

	<u>General</u>	<u>Debt Service Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Property taxes	\$ 35,000	\$ 16,000	\$ -	\$ 51,000
Accounts - utilities	-	-	103,000	103,000

Approximately 82% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Due to Other Governments

The City is 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.

D. Interfund Balances and Activity

Primary Government

1. Due To and From Other Funds at September 30, 2017 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 203,320	\$ 41,684
Debt Service Fund	2,867	-
Nonmajor Funds	38,817	50
Water and Sewer Fund	-	203,270
Totals	<u><u>\$ 245,004</u></u>	<u><u>\$ 245,004</u></u>

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

City of Cleveland, Texas
Notes to Financial Statements

2. Transfers To and From Other Funds

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the City’s transfers for the fiscal year ended September 30, 2017.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 430,000
Water and Sewer Fund	Debt Service Fund	417,536
Capital Project Fund	Water and Sewer Fund	2,191,153
		<u>\$ 3,038,689</u>

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund and Debt Service Fund. Transfers from Capital Projects Fund were to transfer a portion of proceeds from bonds to the Water and Sewer Fund for future capital projects.

Component Unit - Economic Development Corporation

Amounts receivable and payable between the City and its component unit at September 30, 2017 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
City - General Fund	\$ -	\$ 51,016
Component unit - EDC	51,016	-
Totals	<u>\$ 51,016</u>	<u>\$ 51,016</u>

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

City of Cleveland, Texas
Notes to Financial Statements

E. Capital Assets

Primary Government

Capital asset activity for the period ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 2,136,352	\$ 43,589	\$ -	\$ 2,179,941
Construction in progress	975,924	7,920	(983,844)	-
Total capital assets, not being depreciated	<u>3,112,276</u>	<u>51,509</u>	<u>(983,844)</u>	<u>2,179,941</u>
Capital assets, being depreciated				
Buildings and improvements	18,701,820	81,281	983,844	19,766,945
Furniture and equipment	4,425,854	212,491	(59,399)	4,578,946
Total capital assets, being depreciated	<u>23,127,674</u>	<u>293,772</u>	<u>924,445</u>	<u>24,345,891</u>
Less accumulated depreciation for				
Buildings and improvements	(4,329,677)	(615,025)	-	(4,944,702)
Furniture and equipment	(3,233,931)	(231,054)	29,426	(3,435,559)
Total accumulated depreciation	<u>(7,563,608)</u>	<u>(846,079)</u>	<u>29,426</u>	<u>(8,380,261)</u>
Total capital assets, being depreciated, net	<u>15,564,066</u>	<u>(552,307)</u>	<u>953,871</u>	<u>15,965,630</u>
Governmental activities capital assets, net	<u>\$ 18,676,342</u>	<u>\$ (500,798)</u>	<u>\$ (29,973)</u>	<u>\$ 18,145,571</u>

Depreciation was charged to governmental-type activities as follows:

Governmental activities:	
City council	\$ 669
Administration	42,423
Technology	18,657
Police	123,901
Animal control	6,288
Fire and ambulance	105,887
Garage department	1,351
Street department	123,531
Airport department	148,621
Library department	36,169
Cemetery and parks	34,424
Civic center	71,536
Inspection	3,278
Sports facilities	129,344
Total depreciation expense	<u>\$ 846,079</u>

City of Cleveland, Texas
Notes to Financial Statements

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in progress	2,094,706	764,649	(2,859,355)	-
Total capital assets, not being depreciated	<u>2,273,327</u>	<u>764,649</u>	<u>(2,859,355)</u>	<u>178,621</u>
Capital assets, being depreciated:				
Buildings and improvements	47,997	-	-	47,997
Furniture and equipment	1,505,965	59,900	-	1,565,865
Water system	9,315,496	-	2,525,860	11,841,356
Sewer system	15,256,036	-	333,495	15,589,531
Total capital assets, being depreciated	<u>26,125,494</u>	<u>59,900</u>	<u>2,859,355</u>	<u>29,044,749</u>
Less accumulated depreciation for:				
Buildings and improvements	(27,495)	(1,408)	-	(28,903)
Furniture and equipment	(686,084)	(137,411)	-	(823,495)
Water system	(3,346,309)	(149,640)	-	(3,495,949)
Sewer system	(10,672,469)	(231,194)	-	(10,903,663)
Total accumulated depreciation	<u>(14,732,357)</u>	<u>(519,653)</u>	<u>-</u>	<u>(15,252,010)</u>
Total capital assets, being depreciated, net	<u>11,393,137</u>	<u>(459,753)</u>	<u>2,859,355</u>	<u>13,792,739</u>
Business-type activities capital assets, net	<u>\$ 13,666,464</u>	<u>\$ 304,896</u>	<u>\$ -</u>	<u>\$ 13,971,360</u>

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 519,653
Total depreciation expense	<u>\$ 519,653</u>

Discretely Presented Component Unit - CEDC

Land owned by the Cleveland Economic Development Corporation decreased by \$30,208 due to a sale of land while construction in progress increased \$33,730 for Cleveland Industrial Park drainage, Phase I. The ending balance of land and total assets was \$998,785 at September 30, 2017.

F. Long-Term Obligations

Primary Government and Discretely Presented Component Unit (CEDC)

1. Long-term Obligation Activity

Long-term obligations include a tax note, certificates of obligation, a general obligation bond, notes payable, and net pension liability. The requirements for the general obligation refunding bond and the tax note principal and interest payments are accounted for in the Debt Service Fund. The requirements for the certificates of obligation principal and interest payments are accounted for in the Debt Service Fund and Water and Sewer Fund. The requirements for notes payable principal and interest payments are accounted for in the Water and Sewer Fund and the Discretely Presented Component Unit (CEDC). The requirements for net pension liability are accounted for in the General Fund and the Water and Sewer Fund.

City of Cleveland, Texas
Notes to Financial Statements

Changes in long-term obligations for the period ended September 30, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Tax note	\$ 780,000	\$ -	\$ (190,000)	\$ 590,000	\$ 195,000
Certificates of obligation	2,565,000	3,920,000	(210,000)	6,275,000	340,000
General obligation bond	5,770,000	-	(655,000)	5,115,000	610,000
Issuance premiums	365,087	151,371	(33,903)	482,555	-
Total tax notes, certificates, and bonds payable, net	<u>9,480,087</u>	<u>4,071,371</u>	<u>(1,088,903)</u>	<u>12,462,555</u>	<u>1,145,000</u>
Net pension liability	1,740,304	1,010,272	(888,289)	1,862,287	-
Total governmental activities	<u>\$ 11,220,391</u>	<u>\$ 5,081,643</u>	<u>\$ (1,977,192)</u>	<u>\$ 14,324,842</u>	<u>\$ 1,145,000</u>
Business-type activities:					
Certificates of obligation	\$ 4,440,000	\$ -	\$ (230,000)	\$ 4,210,000	\$ 235,000
Issuance premiums	79,543	-	(4,845)	74,698	-
Total certificates	<u>4,519,543</u>	<u>-</u>	<u>(234,845)</u>	<u>4,284,698</u>	<u>235,000</u>
Note payable	54,705	-	(21,456)	33,249	22,042
Net pension liability	283,306	164,463	(144,605)	303,164	-
Total business-type activities	<u>\$ 4,857,554</u>	<u>\$ 164,463</u>	<u>\$ (400,906)</u>	<u>\$ 4,621,111</u>	<u>\$ 257,042</u>
Discretely presented component unit (CEDC):					
Note payable	\$ 153,841	\$ -	\$ (45,931)	\$ 107,910	\$ 48,328
Total discretely presented component unit	<u>\$ 153,841</u>	<u>\$ -</u>	<u>\$ (45,931)</u>	<u>\$ 107,910</u>	<u>\$ 48,328</u>

2. Governmental Activities

The City's governmental activities debt consists of a tax note, certificates of obligation, a general obligation refunding bond and net pension liability. The City issues debt to provide funds for the construction and improvement of the airport, law enforcement center, civic center, city hall, animal center, parks, equipment and various other projects. Principal and interest payments on the City's debt are secured by ad valorem property taxes levied on all taxable property within the city limits and user fees related to water and sewer fees. These bonds and tax note are issued as 5-20 year current interest notes.

Tax Note, Certificates of Obligation, and General Obligation Bond

The following is a summary of changes in the tax note, certificates of obligations, and the general obligation bond for the fiscal year:

Series	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
Tax Note:							
2015	1.64%	2020	930,000	\$ 780,000	\$ -	\$ (190,000)	\$ 590,000
Certificates of obligation:							
2012	2.00-4.00%	2032	3,370,000	2,565,000	-	(210,000)	2,355,000
2017	3.00-3.25%	2037	3,920,000	-	3,920,000	-	3,920,000
General obligation bond:							
2013 REF	2.00-3.00%	2026	7,860,000	5,770,000	-	(655,000)	5,115,000
Totals				<u>\$ 9,115,000</u>	<u>\$ 3,920,000</u>	<u>\$ (1,055,000)</u>	<u>\$ 11,980,000</u>

City of Cleveland, Texas
Notes to Financial Statements

In addition, the City has an Intra-Local Agreement with the Cleveland Economic Development Corporation (CEDC) whereas the CEDC is responsible for \$2,935,000 of the 2012 Series as noted in the preceding table for a total original issue of \$3,370,000. The CEDC portion of such debt had a balance of \$2,355,000 as of September 30, 2017. The CEDC is pledging sales tax revenue to fund the debt requirements.

Debt service requirements for the tax note, certificates of obligation, and the general obligation bond at September 30, 2017 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,145,000	\$ 336,971	\$ 1,481,971
2019	1,180,000	303,134	1,483,134
2020	1,210,000	270,011	1,480,011
2021	920,000	237,444	1,157,444
2022	940,000	208,868	1,148,868
2023	975,000	182,143	1,157,143
2024	995,000	156,963	1,151,963
2025	1,015,000	130,588	1,145,588
2026	1,040,000	102,903	1,142,903
2027	475,000	80,750	555,750
2028	290,000	67,575	357,575
2029	295,000	57,025	352,025
2030	300,000	46,275	346,275
2031	310,000	35,225	345,225
2032	320,000	23,775	343,775
2033	115,000	16,225	131,225
2034	115,000	12,703	127,703
2035	115,000	9,109	124,109
2036	115,000	5,444	120,444
2037	110,000	1,788	111,788
Totals	<u>\$ 11,980,000</u>	<u>\$ 2,284,919</u>	<u>\$ 14,264,919</u>

City of Cleveland, Texas
Notes to Financial Statements

3. Business-Type Activities

Certificates of Obligation

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

The City pledges maintenance tax collections and the net revenues of the waterworks and sanitary sewer system for payment of principal and interest on the certificates of obligation.

The following is a summary of changes in the certificates of obligation for the fiscal year:

Series	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
2009	0.345-4.30%	2029	\$ 555,000	\$ 410,000	\$ -	\$ (25,000)	\$ 385,000
2011	0.100-3.90%	2031	2,360,000	1,865,000	-	(100,000)	1,765,000
2012A	2.000-3.25%	2033	2,470,000	2,165,000	-	(105,000)	2,060,000
Totals				<u>\$ 4,440,000</u>	<u>\$ -</u>	<u>\$ (230,000)</u>	<u>\$ 4,210,000</u>

Debt service requirements for revenue bonds at September 30, 2017 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2018	\$ 235,000	\$ 126,299	\$ 361,299
2019	240,000	121,138	361,138
2020	245,000	115,500	360,500
2021	255,000	109,316	364,316
2022	260,000	102,563	362,563
2023	270,000	95,305	365,305
2024	275,000	87,341	362,341
2025	285,000	78,669	363,669
2026	290,000	69,301	359,301
2027	300,000	59,244	359,244
2028	315,000	48,585	363,585
2029	325,000	37,360	362,360
2030	295,000	26,401	321,401
2031	305,000	15,698	320,698
2032	155,000	7,719	162,719
2033	160,000	2,600	162,600
Totals	<u>\$ 4,210,000</u>	<u>\$ 1,103,039</u>	<u>\$ 5,313,039</u>

City of Cleveland, Texas
Notes to Financial Statements

Note Payable

The City issued a note payable to provide funds for the purchase of equipment. The note payable is secured by the equipment purchased.

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

Description	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2016 Note - Case 580N 4WD Backhoe	2.69%	2019	\$ 54,705	\$ -	\$ (21,456)	\$ 33,249
Totals			<u>\$ 54,705</u>	<u>\$ -</u>	<u>\$ (21,456)</u>	<u>\$ 33,249</u>

Debt service requirements for the note payable at September 30, 2017 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2018	\$ 22,042	\$ 677	\$ 22,719
2019	11,207	114	11,321
Totals	<u>\$ 33,249</u>	<u>\$ 791</u>	<u>\$ 34,040</u>

4. Discretely Presented Component Unit - CEDC

Note Payable

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

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

Description	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2009 Land	5.10%	2019	\$ 153,841	\$ -	\$ (45,931)	\$ 107,910
Totals			<u>\$ 153,841</u>	<u>\$ -</u>	<u>\$ (45,931)</u>	<u>\$ 107,910</u>

Debt service requirements for notes payable at September 30, 2017 are as follows:

Year Ending September 30,	Discretely Presented Component Unit		
	Principal	Interest	Total
2018	\$ 48,328	\$ 4,381	\$ 52,709
2019	50,852	1,857	52,709
2020	8,730	56	8,786
Totals	<u>\$ 107,910</u>	<u>\$ 6,294</u>	<u>\$ 114,204</u>

Note 4. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

B. Emergency Management Services Contract (EMS) Commitment

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

C. Pension Information

Plan Description

The City of Cleveland participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

City of Cleveland, Texas
Notes to Financial Statements

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2016	Plan Year 2015
Employee Deposit Rate	5%	5%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating
Supplemental Death Benefit to Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	48
Inactive employees entitled to but not yet receiving benefits	70
Active employees	77
	195

Contributions

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

Employees for the City of Cleveland were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Cleveland were 9.86% and 10.56% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017, were \$341,779, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

City of Cleveland, Texas
Notes to Financial Statements

Actuarial assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

City of Cleveland, Texas
Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS, the actuary, 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 arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.55%
International equity	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real return	10.0%	4.15%
Real estate	10.0%	4.75%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
Total	100%	

City of Cleveland, Texas
Notes to Financial Statements

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2015	\$ 10,417,174	\$ 8,393,564	\$ 2,023,610
Changes for the year:			
Service cost	361,883	-	361,883
Interest	699,231	-	699,231
Change of benefit terms	-	-	-
Difference between expected and actual experience	106,870	-	106,870
Changes of assumptions	-	-	-
Contributions - employer	-	308,931	(308,931)
Contributions - employee	-	156,659	(156,659)
Net investment income	-	567,304	(567,304)
Benefit payments, including refunds of employee contributions	(478,284)	(478,284)	-
Administrative expense	-	(6,406)	6,406
Other changes	-	(345)	345
Net changes	<u>689,700</u>	<u>547,859</u>	<u>141,841</u>
Balance at December 31, 2016	<u><u>\$ 11,106,874</u></u>	<u><u>\$ 8,941,423</u></u>	<u><u>\$ 2,165,451</u></u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 3,811,137	\$ 2,165,451	\$ 830,311

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

City of Cleveland, Texas
Notes to Financial Statements

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

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$439,238.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 75,713	\$ 59,592
Changes in actuarial assumptions	13,246	-
Difference between projected and actual investment earnings	387,019	-
Contributions subsequent to the measurement date	267,750	-
Totals	<u>\$ 743,728</u>	<u>\$ 59,592</u>

\$267,750 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2017. 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:	
2017	\$ 124,104
2018	163,629
2019	128,800
2020	(147)
Thereafter	-
Totals	<u>\$ 416,386</u>

D. Postemployment Benefits-Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The 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. 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.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.24% for 2017, .27% for 2016, and .30% for 2015, of which 0.12% represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. As an employer, the City's contributions to the SDBF for the years ended September 30, 2017, 2016, and 2015 were \$8,113, \$8,933 and \$8,333, respectively, representing contributions.

Required Supplementary Information

City of Cleveland, Texas
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance – Budget and Actual
 General Fund
 For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property taxes	\$ 2,020,002	\$ 2,020,002	\$ 1,973,996	\$ (46,006)
Sales and other taxes	2,834,272	2,834,272	2,801,518	(32,754)
Franchise taxes	507,528	507,528	490,642	(16,886)
License and permits	70,400	70,400	188,172	117,772
Charges for services	249,655	249,655	373,478	123,823
Fines and forfeitures	346,961	346,961	307,673	(39,288)
Intergovernmental	13,000	13,000	27,025	14,025
Earnings on investments	38,125	38,125	41,868	3,743
Contributions	-	-	94,618	94,618
Miscellaneous	186,500	186,500	24,736	(161,764)
Total Revenues	<u>6,266,443</u>	<u>6,266,443</u>	<u>6,323,726</u>	<u>57,283</u>
EXPENDITURES				
General Government:				
City council	31,775	31,775	23,462	8,313
Administration	854,149	854,149	759,480	94,669
Technology	465,206	465,206	333,444	131,762
Public Safety:				
Municipal court	236,271	236,271	209,897	26,374
Police department	2,189,994	2,189,994	2,087,674	102,320
Animal control	67,674	67,674	53,460	14,214
Fire and ambulance	692,626	692,626	729,805	(37,179)
Emergency management	15,260	15,260	18,202	(2,942)
Public Works:				
Development services	231,575	231,575	178,757	52,818
Garage department	11,350	11,350	10,402	948
Transportation:				
Street department	585,342	585,342	591,376	(6,034)
Airport department	63,800	63,800	65,467	(1,667)
Culture and Recreation:				
Library department	471,268	471,268	361,704	109,564
Cemetery and parks	520,370	549,370	321,311	228,059
Civic/community	218,033	218,033	232,102	(14,069)
Sports facilities	46,750	46,750	52,286	(5,536)
Grants	-	-	716,105	(716,105)
Capital Outlay:				
Administration	-	-	18,411	(18,411)
Civic/community	-	-	25,178	(25,178)
Technology	-	-	121,010	(121,010)
Police department	-	-	25,990	(25,990)
Library department	-	-	81,281	(81,281)
Cemetery and parks	-	-	26,867	(26,867)
Development services	-	-	26,225	(26,225)
Sports facilities	-	-	12,399	(12,399)
Glen Park drainage	-	-	7,920	(7,920)
Total Expenditures	<u>6,701,443</u>	<u>6,730,443</u>	<u>7,090,215</u>	<u>(359,772)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(435,000)</u>	<u>(464,000)</u>	<u>(766,489)</u>	<u>(302,489)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	3,830	3,830
Proceeds from insurance	-	-	28,826	28,826
Transfers in (out)	435,000	435,000	430,000	(5,000)
Total Other Financing Sources (Uses)	<u>435,000</u>	<u>435,000</u>	<u>462,656</u>	<u>27,656</u>
NET CHANGE IN FUND BALANCE	-	(29,000)	(303,833)	(274,833)
Fund Balance - Beginning	4,412,247	4,412,247	4,412,247	-
FUND BALANCE - ENDING	<u>\$ 4,412,247</u>	<u>\$ 4,383,247</u>	<u>\$ 4,108,414</u>	<u>\$ (274,833)</u>

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

City of Cleveland, Texas

Schedule of Changes in the City's Net Pension Liability and Related Ratios - Texas Municipal Retirement System Last Three Fiscal Years*

	2017	2016	2015
Total Pension Liability:			
Service cost	\$ 361,883	\$ 310,615	\$ 289,352
Interest	699,231	693,226	668,798
Differences between expected and actual experience	106,870	(125,466)	(146,722)
Changes of assumptions	-	36,902	-
Benefit payments, including refunds of employee contributions	(478,284)	(492,054)	(454,110)
Net change in total pension liability	<u>689,700</u>	<u>423,223</u>	<u>357,318</u>
Total pension liability - beginning	10,417,174	9,993,951	9,636,633
Total pension liability - ending (a)	<u>\$ 11,106,874</u>	<u>\$ 10,417,174</u>	<u>\$ 9,993,951</u>
Plan fiduciary net position:			
Contributions - employer	\$ 308,931	\$ 306,308	\$ 285,365
Contributions - employee	156,659	143,537	143,400
Net investment income	567,304	12,441	457,872
Benefits payments, including refunds of employee contributions	(478,284)	(492,054)	(454,110)
Administrative expense	(6,406)	(7,578)	(4,780)
Other	(345)	(373)	(393)
Net change in plan fiduciary net position	<u>547,859</u>	<u>(37,719)</u>	<u>427,354</u>
Plan fiduciary net position - beginning	8,393,564	8,431,283	8,003,929
Plan fiduciary net position - ending (b)	<u>\$ 8,941,423</u>	<u>\$ 8,393,564</u>	<u>\$ 8,431,283</u>
Net pension liability - ending (a)-(b)	<u>\$ 2,165,451</u>	<u>\$ 2,023,610</u>	<u>\$ 1,562,668</u>
Plan fiduciary net position as a percentage of total pension liability	80.50%	80.57%	84.36%
Covered payroll	\$ 3,133,188	\$ 2,870,749	\$ 2,868,009
Net pension liability as a percentage of covered payroll	69.11%	70.49%	54.49%

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end December 31.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. The employer will be required to build this schedule over the next 10-year period, as only three years of data is available.

City of Cleveland, Texas

Schedule of the City's Contributions Texas Municipal Retirement System Last Three Fiscal Years*

	2017	2016	2015
Actuarially determined contribution	\$ 341,779	\$ 323,843	\$ 293,516
Contributions in relation to the actuarially determined contribution	(341,779)	(323,843)	(293,516)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,286,315	\$ 3,215,934	\$ 2,803,135
Contributions as a percentage of covered payroll	10.40%	10.07%	10.47%

*The amounts presented for the fiscal year were determined as of the City's fiscal year end September 30. GASB 68 requires 10 fiscal years of data to be provided in this schedule. GASB 68 was implemented at the beginning of fiscal year 2015 and the City will be required to build this schedule over the next 10-year period.

City of Cleveland, Texas

Notes to Required Supplementary Information

Note 1. Budget

A. Budgetary Data

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

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.
4. The City Manager may approve a department's request to transfer an unencumbered balance, or portion thereof within any department; however, City Council must approve a transfer of funds between departments.
5. Budgets for the governmental funds, excluding Special Revenue Funds (grants), are adopted on a basis consistent with generally accepted accounting principles (GAAP). Special Revenue Funds (grants) are budgeted on a project period basis.

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

B. Variances with Final Budget

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

There were no significant variances between original and final budget.

City of Cleveland, Texas

Notes to Required Supplementary Information

C. Excess of Expenditures Over Appropriations

For the fiscal year ended September 30, 2017, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Fire and ambulance	\$ 692,626	\$ 729,805	\$ (37,179)
Emergency management	15,260	18,202	(2,942)
Street department	585,342	591,376	(6,034)
Airport department	63,800	65,467	(1,667)
Civic/community	218,033	232,102	(14,069)
Sports facilities	46,750	52,286	(5,536)
Grants	-	716,105	(716,105)
Capital outlay:			
Administration	-	18,411	(18,411)
Civic/community	-	25,178	(25,178)
Technology	-	121,010	(121,010)
Police department	-	25,990	(25,990)
Library department	-	81,281	(81,281)
Cemetery and parks	-	26,867	(26,867)
Development services	-	26,225	(26,225)
Sports facilities	-	12,399	(12,399)
Glen Park drainage	-	7,920	(7,920)

Note 2. Pension

TMRS

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

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

City of Cleveland, Texas

Notes to Required Supplementary Information

Actuarial Assumptions

Valuation date December 31, 2016
Notes Actuarially determined contribution rates are calculated as of December 31,

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

Other information

Notes There were no benefit changes during the year.

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Supplementary Information

City of Cleveland, Texas
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 September 30, 2017

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
ASSETS		
Cash and cash equivalents	\$ 509,203	\$ 204,940
Receivable:		
Sales and other taxes	35,733	-
Due from other funds	22,028	-
TOTAL ASSETS	<u>\$ 566,964</u>	<u>\$ 204,940</u>
LIABILITIES		
Accounts payable	\$ 4,919	\$ 1,288
Accrued liabilities	1,361	-
Escrow liability - seizure funds	-	16,902
Due to other funds	50	-
Total Liabilities	<u>6,330</u>	<u>18,190</u>
FUND BALANCES		
Restricted for economic development	560,634	-
Restricted for police	-	186,750
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
Total fund balances	<u>560,634</u>	<u>186,750</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 566,964</u>	<u>\$ 204,940</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ 773	\$ -	\$ -	\$ 714,916
-	-	-	35,733
-	580	16,209	38,817
<u>\$ 773</u>	<u>\$ 580</u>	<u>\$ 16,209</u>	<u>\$ 789,466</u>
\$ -	\$ -	\$ -	\$ 6,207
-	-	-	1,361
-	-	-	16,902
-	-	-	50
<u>-</u>	<u>-</u>	<u>-</u>	<u>24,520</u>
-	-	-	560,634
-	-	-	186,750
-	580	16,209	16,789
773	-	-	773
<u>773</u>	<u>580</u>	<u>16,209</u>	<u>764,946</u>
<u>\$ 773</u>	<u>\$ 580</u>	<u>\$ 16,209</u>	<u>\$ 789,466</u>

City of Cleveland, Texas

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2017

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
REVENUES		
Sales and other taxes	\$ 202,902	\$ -
Charges for services	-	-
Fines and forfeitures	-	4,402
Intergovernmental	-	2,392
Earnings on investments	4,021	340
Total revenues	<u>206,923</u>	<u>7,134</u>
EXPENDITURES		
Municipal court	-	-
Police department	-	12,830
Economic development	202,139	-
Total expenditures	<u>202,139</u>	<u>12,830</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,784	(5,696)
Fund balances, beginning of year	555,850	192,446
FUND BALANCES, END OF YEAR	<u>\$ 560,634</u>	<u>\$ 186,750</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ -	\$ 202,902
-	6,530	4,898	11,428
-	-	-	4,402
-	-	-	2,392
5	-	-	4,366
<u>5</u>	<u>6,530</u>	<u>4,898</u>	<u>225,490</u>
-	5,926	-	5,926
-	-	-	12,830
-	-	-	202,139
<u>-</u>	<u>5,926</u>	<u>-</u>	<u>220,895</u>
5	604	4,898	4,595
768	(24)	11,311	760,351
<u>\$ 773</u>	<u>\$ 580</u>	<u>\$ 16,209</u>	<u>\$ 764,946</u>

City of Cleveland, Texas

Statement of Net Position - Component Unit
Cleveland Economic Development Corporation
September 30, 2017

	Component Unit CEDC
ASSETS	
Cash and cash equivalents	\$ 1,073,474
Investments	1,798
Due from other governments	-
Due from primary government	51,016
Prepaid items	-
Capital Assets:	
Land and improvements	965,055
Construction in progress	33,730
TOTAL ASSETS	\$ 2,125,073
LIABILITIES	
Accounts payable	\$ 35,762
Due to primary government	-
Note payable - current	48,328
Total Current Liabilities	84,090
Noncurrent Liabilities:	
Note payable - long-term	59,582
Total Noncurrent Liabilities	59,582
Total Liabilities	143,672
NET POSITION	
Net Investment in Capital Assets	890,875
Unrestricted	1,090,526
Total Net Position	1,981,401
TOTAL LIABILITIES AND NET POSITION	\$ 2,125,073

City of Cleveland, Texas

Statement of Revenues, Expenses, and Changes
in Net Position - Component Unit
Cleveland Economic Development Corporation
For the Fiscal Year Ended September 30, 2017

	<u>Component Unit CEDC</u>
OPERATING REVENUES	
Taxes:	
Sales tax	\$ 535,877
Charges for services	8,003
Total revenues	<u>543,880</u>
OPERATING EXPENSES	
Economic development:	
Professional services	29,705
Other services	9,913
Supplies	206
Utilities	18,680
Manufacturing/industrial	41,692
Contributions to city	340,218
Total expenses	<u>440,414</u>
Operating income	<u>103,466</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	9,516
Gain on sale of assets	48,576
Interest and fiscal charges	(6,779)
Total nonoperating revenues (expenses)	<u>51,313</u>
Change in net position	154,779
Net position - beginning	1,826,622
NET POSITION - ENDING	<u>\$ 1,981,401</u>

City of Cleveland, Texas
 Schedule of Taxes Receivable
 For the Fiscal Year Ended September 30, 2017

Tax Year	Balance 9/30/2016	Tax Levy	Collections	Adjustments	Balance 9/30/2017
2016	\$ -	\$ 2,681,478	\$ 2,501,336	\$ -	\$ 180,142
2015	139,287	-	49,885	(4,703)	84,699
2014	81,796	-	20,655	(154)	60,987
2013	61,219	-	10,559	403	51,063
2012	56,259	-	5,590	277	50,946
2011	54,962	-	2,451	(250)	52,261
2010	45,773	-	2,250	(565)	42,958
2009	45,613	-	2,141	(503)	42,969
2008	40,974	-	1,649	(542)	38,783
2007 & Prior	140,191	-	9,691	(6,456)	124,044
Total	\$ 666,074	\$ 2,681,478	\$ 2,606,207	\$ (12,493)	\$ 728,852
Less allowance for uncollectible accounts					51,000
					<u>\$ 677,852</u>

ASSESSED VALUATION AND RATE SUMMARY

Tax Year	Property Valuations	General Fund	Debt Service Fund	Total
2016	\$ 348,243,896	\$ 0.5657	\$ 0.2043	\$ 0.7700
2015	333,682,949	0.5420	0.2380	0.7800
2014	330,564,615	0.5395	0.2405	0.7800
2013	325,017,821	0.5023	0.2777	0.7800
2012	319,378,205	0.4831	0.2969	0.7800
2011	329,892,409	0.4720	0.2130	0.6850
2010	320,261,606	0.4803	0.2047	0.6850
2009	319,014,307	0.5066	0.1784	0.6850
2008	296,310,878	0.4377	0.2523	0.6900
2007	278,449,571	0.4565	0.2435	0.7000

Overall Compliance and Internal Control Section

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Cleveland, Texas (City) as of and for the fiscal year ended September 30, 2017, and the related notes to financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

February 20, 2018

City of Cleveland, Texas
Schedule of Findings and Reponses
For the Fiscal Year Ended September 30, 2017

Section 1 – Summary of Auditor’s Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor’s report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Section 2 – Financial Statements Findings

None reported

City of Cleveland, Texas
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended September 30, 2017

Prior Year Findings

None reported