

City of Cleveland, Texas

Annual Financial Report

For the Fiscal Year Ended September 30, 2018

City of Cleveland, Texas
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2018
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Introductory Section

City of Cleveland, Texas
Principal City Officials
September 30, 2018

Otis Cohn	Mayor
Mike Penry	Council Member Position 1
Marilyn Clay	Council Member Position 2
Fred Terrell.....	Council Member Position 3
Jennifer Bergman	Council Member Position 4
Danny Lee	Council Member Position 5
Kelly McDonald	City Manager
Bobby Pennington	Assistant City Manager/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 City of Cleveland, Texas (City), as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the City of Cleveland, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1.E. and Note 4.D. to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019 on our consideration of the City of Cleveland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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's internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

February 19, 2019

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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, 2018.

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 \$28,607,133 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$20,586,009 that is net investment in capital assets.
- During the year, the City's revenues of \$12,835,016 exceeded expenses of \$10,691,691 by \$2,143,325.
- The General Fund reported a fund balance this year of \$5,906,411, of which \$5,867,923 was unassigned and approximated 95% of General Fund expenditures. Total fund balance increased \$1,797,997 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$595,066 which was restricted for debt service fund expenditures. Total fund balance increased \$9,342 from prior year.
- The Water and Sewer Fund reported an operating income of \$780,992, and a decrease in net position of \$812,165.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$1,787,987, of which \$807,026 was unrestricted. Total net position decreased \$193,414 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.

In fiscal year 2018, the City implemented the Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which superseded GASB Statement No. 45.

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit other postemployment benefit (OPEB) plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning OPEB liability and beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The implementation of this statement has no impact on the City's governmental fund financial statements. However, implementation has resulted in certain changes to the presentation of the City's government-wide and business-type financial statements. More information on the implementation of this statement and the City's OPEB plan is available in Note 1. E. and Note 4.D., respectively.

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 and OPEB 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 \$28,607,133, 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 9,446,298	\$ 8,880,381	\$ 4,226,565	\$ 5,319,579	\$ 13,672,863	\$ 14,199,960
Capital assets	18,910,100	18,145,571	13,954,239	13,971,360	32,864,339	32,116,931
Total assets	28,356,398	27,025,952	18,180,804	19,290,939	46,537,202	46,316,891
Total deferred outflows of resources	399,879	713,765	55,287	104,122	455,166	817,887
Long-term liabilities outstanding	12,998,667	14,324,842	4,336,130	4,621,111	17,334,797	18,945,953
Other liabilities	416,228	1,007,533	371,409	429,741	787,637	1,437,274
Total liabilities	13,414,895	15,332,375	4,707,539	5,050,852	18,122,434	20,383,227
Total deferred inflows of resources	226,009	51,249	36,792	8,343	262,801	59,592
Net position:						
Net investments in capital assets	8,525,256	7,530,596	12,060,753	12,222,622	20,586,009	19,753,218
Restricted	1,482,062	1,524,020	-	-	1,482,062	1,524,020
Unrestricted	5,108,055	3,301,477	1,431,007	2,113,244	6,539,062	5,414,721
Total net position	\$ 15,115,373	\$ 12,356,093	\$ 13,491,760	\$ 14,335,866	\$ 28,607,133	\$ 26,691,959

The City's total assets of \$46,537,202 are largely comprised of capital assets, net of accumulated depreciation of \$32,864,339, or 71%. 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 \$17,334,797 comprise the largest portion of the City's total liabilities of \$18,122,434 at 96%. Of total long-term liabilities, \$1,540,158 are due within one year, with the remainder \$15,794,639 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 72% of total net position or \$20,586,009 represents net investment in capital assets and approximately 5% of total net position or \$1,482,062 represents restriction for debt services, economic development, police and municipal court. The amount of \$6,539,062 (23%) of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in Net Position. Governmental and business-type activities combined to increase the City's net position by \$2,143,325 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,258,350	\$ 891,005	\$ 3,503,244	\$ 3,471,283	\$ 4,761,594	\$ 4,362,288
Operating grants and contributions	230,653	311,487	-	-	230,653	311,487
Capital grants and contributions	-	17,375	-	320,273	-	337,648
General revenues:						
Property taxes	2,901,329	2,760,419	-	-	2,901,329	2,760,419
Sales and other taxes	3,268,102	3,004,420	-	-	3,268,102	3,004,420
Franchise taxes	522,006	490,642	-	-	522,006	490,642
Earnings on investments	65,180	51,997	40,798	29,160	105,978	81,157
Gain on sale of assets	147,514	3,830	-	-	147,514	3,830
Grants and contributions not restricted to specific programs	716,105	-	-	-	716,105	-
Proceeds from insurance	125,738	28,826	41,037	-	166,775	28,826
Miscellaneous	14,960	20,132	-	-	14,960	20,132
Total revenues	9,249,937	7,580,133	3,585,079	3,820,716	12,835,016	11,400,849
Expenses:						
General government	1,285,000	1,183,915	-	-	1,285,000	1,183,915
Public safety	3,555,562	3,436,830	-	-	3,555,562	3,436,830
Public works	485,250	196,678	-	-	485,250	196,678
Transportation	678,439	933,812	-	-	678,439	933,812
Culture and recreation	1,243,431	1,254,290	-	-	1,243,431	1,254,290
Grants	-	716,105	-	-	-	716,105
Economic development	272,960	204,066	-	-	272,960	204,066
Debt service	316,888	368,281	-	-	316,888	368,281
Water and sewer	-	-	2,854,161	2,731,814	2,854,161	2,731,814
Total expenses	7,837,530	8,293,977	2,854,161	2,731,814	10,691,691	11,025,791
Increase (decrease) in net position before transfers	1,412,407	(713,844)	730,918	1,088,902	2,143,325	375,058
Transfers	1,543,083	(1,343,617)	(1,543,083)	1,343,617	-	-
Change in net position	2,955,490	(2,057,461)	(812,165)	2,432,519	2,143,325	375,058
Net position - beginning	12,356,093	14,413,554	14,335,866	11,903,347	26,691,959	26,316,901
Prior period adjustments (a)	(196,210)	-	(31,941)	-	(228,151)	-
Net position - beginning, as restated	12,159,883	14,413,554	14,303,925	11,903,347	26,463,808	26,316,901
Net position - ending	\$ 15,115,373	\$ 12,356,093	\$ 13,491,760	\$ 14,335,866	\$ 28,607,133	\$ 26,691,959

(a) The restatement of the beginning net position is the result of the District implementing GASB Statement No. 75 in fiscal year 2018. The implementation is discussed previously in MD&A.

Governmental Activities. Governmental activities increased the City's net position from current operations by \$2,955,490. The City's total revenues were \$9,249,937 from all governmental activities. A significant portion, \$2,901,329 or 31%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$3,268,102, or 35%, of total revenue for governmental activities. Charges for services accounts for \$1,258,350, or 14%, of total revenue for governmental activities. The remaining 20% 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 increase in capital grants and contributions not restricted to specific programs, a contribution from the Cleveland Economic Development Corporation (CEDC), to reimburse the City for the repayment of the Texas Department of Agriculture (TDA) grant in the prior year.

The total cost of all governmental programs and services was \$7,837,530. The public safety function accounted for \$3,555,562, or 45% of this total. The general government function accounted for \$1,285,000, or 16% of this total. The culture and recreation function accounted for \$1,243,431, or 16% of this total. The most significant change in governmental activities expense was a decrease in grant and transportation expenditures.

The City's governmental activities net position increased primarily from the revenue increases previously noted, exceeded expenditures, including the reduction of expenses previously noted, and the transfers in from the water and sewer department to cover budgeted expenditures.

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 decreased the City's net position by \$812,165 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 \$3,503,244 are utilized to provide funds for program expenses of \$2,854,161.

The decrease in net position from current operations for business-type activities is the result of transfers to governmental activities/governmental funds of \$1,543,083.

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 \$8,040,540, which is an increase of \$808,035 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 \$5,867,923 and total fund balance was \$5,906,411. 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 95% and 96% of total general fund expenditures, respectively. The fund balance of the City's general fund increased by \$1,797,997 during the current fiscal year from current operations. For the most part, the increase in fund balance was the result of overall increases in primarily all City revenue sources and the decrease in grant expenditures from prior year.

The debt service fund ending fund balance was \$595,066, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$9,342 during the year, primarily due to transfers from the water and sewer fund.

The capital projects ending fund balance was \$832,112. The net decrease in fund balance during the current year in the capital projects fund was \$941,309. The decrease in fund balance is the result of the expenditures for capital projects as authorized by the debt 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 \$1,431,007. The total decrease in net position for the Water and Sewer Funds was \$812,165. 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 most significant individual variations between the final budget and actual results relates to anticipated grant expenditures not expended.

Capital Assets and Debt Administration

Capital Assets. At the end of 2018, the City had invested \$32,864,339 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	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,179,941	\$ 2,179,941	\$ 178,621	\$ 178,621	\$ 2,358,562	\$ 2,358,562
Buildings and improvements	14,274,411	14,822,243	17,685	19,094	14,292,096	14,841,337
Furniture and equipment	1,050,452	1,143,387	675,294	742,370	1,725,746	1,885,757
Water system	-	-	8,153,145	8,345,407	8,153,145	8,345,407
Sewer system	-	-	4,698,642	4,685,868	4,698,642	4,685,868
Construction in progress	1,405,296	-	230,852	-	1,636,148	-
Totals	\$ 18,910,100	\$ 18,145,571	\$ 13,954,239	\$ 13,971,360	\$ 32,864,339	\$ 32,116,931

Major capital asset purchases during the year included the following:

- Construction of airport hangar
- Water system improvements

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	
	2018	2017	2018	2017	2018	2017
Tax note, certificates, and bonds payable, gross	\$ 11,277,210	\$ 12,462,555	\$ 4,044,853	\$ 4,284,698	\$ 15,322,063	\$ 16,747,253
Compensated absences	93,842	-	15,109	-	108,951	-
Note payable	-	-	11,207	33,249	11,207	33,249
Net pension liability	1,401,130	1,862,287	228,091	303,164	1,629,221	2,165,451
Net OPEB liability	226,485	-	36,870	-	263,355	-
Totals	\$ 12,998,667	\$ 14,324,842	\$ 4,336,130	\$ 4,621,111	\$ 17,334,797	\$ 18,945,953

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.

Discretely Presented Component Unit

The Cleveland Economic Development Corporation (CEDC) is legally separate from the City and is reported as a discretely presented component unit.

Individual statements for CEDC are included in supplementary information as noted in the table of contents. Additional disclosures for deposits, notes receivable and capital assets are included in the notes to the financial statements as noted in the table of contents.

Economic Factors and Next Year's Budget

- Total tax rate \$0.77 per \$100 valuation in fiscal year 2018 (\$0.5445 for maintenance and operations and \$0.2255 for interest and sinking).
- The unemployment rate for the County is currently 5.5%, which is a decrease from a rate of 7.0 a year ago. This compares unfavorably to the state's average unemployment rate of 3.7%, which is a decrease from a rate of 4.0% a year ago.
- These indicators were taken into account when adopting the general fund budget for 2018. Amounts available for appropriation in the general fund budget are \$5,867,923 at September 30, 2018.

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.

Basic Financial Statements

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City of Cleveland, Texas
Statement of Net Position
For the Fiscal Year Ended September 30, 2018

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS				
Cash and cash equivalents	\$ 7,695,334	\$ 1,588,827	\$ 9,284,161	\$ 1,163,409
Investments	375	433	808	1,798
Receivables (net):				
Property taxes	650,039	-	650,039	-
Sales and other taxes	657,766	-	657,766	-
Accounts	-	543,703	543,703	-
Due from other governments	7,417	-	7,417	-
Other	290	-	290	-
Internal balances	68,972	(68,972)	-	-
Due from primary government	-	-	-	7,924
Noncurrent assets:				
Contract receivable from EDC	366,105	-	366,105	-
Restricted assets:				
Cash - construction	-	2,162,574	2,162,574	-
Capital assets:				
Land	2,179,941	178,621	2,358,562	949,951
Buildings and improvements	19,828,287	47,997	19,876,284	-
Furniture and equipment	4,690,184	1,628,502	6,318,686	-
Water system	-	11,841,356	11,841,356	-
Sewer system	-	15,840,051	15,840,051	-
Construction in progress	1,405,296	230,852	1,636,148	90,592
Accumulated depreciation	(9,193,608)	(15,813,140)	(25,006,748)	-
Total assets	28,356,398	18,180,804	46,537,202	2,213,674
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	60,254	-	60,254	-
Deferred outflows for pension activities	88,141	14,348	102,489	-
Deferred outflow for pension contributions after the measurement date	236,171	38,446	274,617	-
Deferred outflows for OPEB activities	12,880	2,097	14,977	-
Deferred outflow for OPEB contributions after the measurement date	2,433	396	2,829	-
Total deferred outflows of resources	399,879	55,287	455,166	-
LIABILITIES				
Accounts payable	316,858	74,393	391,251	-
Escrow liability - seizure funds	7,741	-	7,741	-
Accrued liabilities	57,091	15,612	72,703	-
Refundable deposits	-	271,084	271,084	-
Accrued interest payable	26,614	10,320	36,934	-
Due to component unit	7,924	-	7,924	-
Noncurrent liabilities:				
Due within one year	1,273,842	266,316	1,540,158	90,852
Due in more than one year	10,097,210	3,804,853	13,902,063	334,835
Net pension liability - long-term	1,401,130	228,091	1,629,221	-
Net OPEB liability - long term	226,485	36,870	263,355	-
Total liabilities	13,414,895	4,707,539	18,122,434	425,687
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pensions	226,009	36,792	262,801	-
Total deferred inflows of resources	226,009	36,792	262,801	-
NET POSITION				
Net investment in capital assets	8,525,256	12,060,753	20,586,009	980,961
Restricted for:				
Debt services	775,890	-	775,890	-
Economic development	523,033	-	523,033	-
Police	158,900	-	158,900	-
Municipal court	24,239	-	24,239	-
Unrestricted	5,108,055	1,431,007	6,539,062	807,026
TOTAL NET POSITION	\$ 15,115,373	\$ 13,491,760	\$ 28,607,133	\$ 1,787,987

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, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental activities:			
General government:			
City council	\$ 28,437	\$ -	\$ -
Administration	885,185	-	-
Technology	371,378	-	-
Public safety:			
Municipal court	262,508	23,388	-
Police department	2,338,927	378,300	2,825
Animal control	64,885	40	-
Fire and ambulance	874,906	125,643	1,200
Emergency management	14,336	-	-
Public works:			
Development services	235,174	443,939	-
Garage department	8,930	-	-
Maintenance	241,146	-	-
Transportation:			
Street department	487,673	-	-
Airport department	190,766	106,371	-
Culture and recreation:			
Library department	396,652	22,335	1,874
Cemetery and parks	381,123	53,437	11,999
Civic/community	307,039	104,897	9,080
Sports facilities	158,617	-	-
Economic development			
Economic development	272,960	-	-
Debt service:			
Interest and fiscal charges	316,888	-	203,675
Total governmental activities	7,837,530	1,258,350	230,653
Business-type activities:			
Water and sewer	2,854,161	3,503,244	-
Total business-type activities	2,854,161	3,503,244	-
TOTAL PRIMARY GOVERNMENT	\$ 10,691,691	\$ 4,761,594	\$ 230,653
COMPONENT UNIT			
Cleveland Economic Development Corp.	\$ 1,096,888	\$ 2,123	\$ -

General revenues:
Property taxes
Sales and other taxes
Franchise taxes
Earnings on investments
Gain on sale of assets
Grants and contributions not restricted to specific programs
Proceeds from insurance
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Prior period adjustment
Net position - beginning, as restated
NET POSITION - ENDING

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (28,437)	\$ -	\$ (28,437)	\$ -
(885,185)	-	(885,185)	-
(371,378)	-	(371,378)	-
(239,120)	-	(239,120)	-
(1,957,802)	-	(1,957,802)	-
(64,845)	-	(64,845)	-
(748,063)	-	(748,063)	-
(14,336)	-	(14,336)	-
208,765	-	208,765	-
(8,930)	-	(8,930)	-
(241,146)	-	(241,146)	-
(487,673)	-	(487,673)	-
(84,395)	-	(84,395)	-
(372,443)	-	(372,443)	-
(315,687)	-	(315,687)	-
(193,062)	-	(193,062)	-
(158,617)	-	(158,617)	-
(272,960)	-	(272,960)	-
(113,213)	-	(113,213)	-
(6,348,527)	-	(6,348,527)	-
-	649,083	649,083	-
-	649,083	649,083	-
(6,348,527)	649,083	(5,699,444)	-
			(1,094,765)
2,901,329	-	2,901,329	-
3,268,102	-	3,268,102	578,307
522,006	-	522,006	-
65,180	40,798	105,978	9,712
147,514	-	147,514	313,332
716,105	-	716,105	-
125,738	41,037	166,775	-
14,960	-	14,960	-
1,543,083	(1,543,083)	-	-
9,304,017	(1,461,248)	7,842,769	901,351
2,955,490	(812,165)	2,143,325	(193,414)
12,356,093	14,335,866	26,691,959	1,981,401
(196,210)	(31,941)	(228,151)	-
12,159,883	14,303,925	26,463,808	1,981,401
\$ 15,115,373	\$ 13,491,760	\$ 28,607,133	\$ 1,787,987

City of Cleveland, Texas
 Balance Sheet - Governmental Funds
 September 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash and cash equivalents	\$ 5,397,225	\$ 592,617
Investments	375	-
Receivable (net):		
Property taxes	442,601	207,438
Sales and other taxes	640,080	-
Due from other governments	7,417	-
Other	290	-
Due from other funds	77,979	2,449
TOTAL ASSETS	<u>\$ 6,565,967</u>	<u>\$ 802,504</u>
LIABILITIES		
Accounts payable	\$ 126,646	\$ -
Accrued liabilities	55,697	-
Escrow liability - seizure funds	-	-
Due to other funds	26,688	-
Due to component unit	7,924	-
Total liabilities	216,955	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	442,601	207,438
Total deferred inflows of resources	442,601	207,438
FUND BALANCES		
Restricted for debt	-	595,066
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	5,867,923	-
Total fund balances	5,906,411	595,066
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 6,565,967</u>	<u>\$ 802,504</u>

Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 1,016,351	\$ 689,141	\$ 7,695,334
-	-	375
-	-	650,039
-	17,686	657,766
-	-	7,417
-	-	290
-	24,239	104,667
<u>\$ 1,016,351</u>	<u>\$ 731,066</u>	<u>\$ 9,115,888</u>
\$ 184,239	\$ 5,973	\$ 316,858
-	1,394	57,091
-	7,741	7,741
-	9,007	35,695
-	-	7,924
<u>184,239</u>	<u>24,115</u>	<u>425,309</u>
-	-	650,039
-	-	650,039
-	-	595,066
832,112	-	832,112
-	523,033	523,033
-	158,900	158,900
-	24,239	24,239
-	779	779
-	-	38,488
-	-	5,867,923
<u>832,112</u>	<u>706,951</u>	<u>8,040,540</u>
<u>\$ 1,016,351</u>	<u>\$ 731,066</u>	<u>\$ 9,115,888</u>

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City of Cleveland, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,040,540

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	\$ 28,103,708	
Accumulated depreciation of governmental capital assets	<u>(9,193,608)</u>	18,910,100

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.	650,039
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Other long-term asset is not available to pay for current period expenditures in the current period and, therefore, is not reported as a receivable in the funds.	366,105
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Long-term liabilities, including tax note, certificates of obligation, general obligation bond payable, compensated absences, net pension liability, and net OPEB 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, certificates of obligation, and general obligation bond payable, at original par	\$ (10,835,000)	
Premium on debt issues	(442,210)	
Accrued interest on debt	(26,614)	
Compensated absences	(93,842)	
Net pension liability	(1,401,130)	
Net OPEB liability	<u>(226,485)</u>	(13,025,281)

Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the governmental funds due to it is not a current financial resource available to pay for current expenditures.	60,254
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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.	324,312
--	---------

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.	(226,009)
---	-----------

Deferred outflows of resources for OPEB 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.	<u>15,313</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 15,115,373

City of Cleveland, Texas
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Taxes:		
Property taxes	\$ 2,042,444	\$ 886,698
Sales and other taxes	3,039,971	-
Franchise taxes	522,006	-
License and permits	427,083	-
Charges for services	427,723	-
Fines and forfeitures	372,009	-
Intergovernmental	1,420	-
Earnings on investments	44,607	5,109
Contributions	373,833	203,675
Miscellaneous	22,990	-
	<hr/>	<hr/>
Total revenues	7,274,086	1,095,482
EXPENDITURES		
General government:		
City council	27,768	-
Administration	828,813	-
Technology	337,844	-
Public safety:		
Municipal court	247,963	-
Police department	2,125,545	-
Animal control	54,021	-
Fire and ambulance	751,673	-
Emergency management	14,005	-
Public works:		
Development services	221,765	-
Garage department	7,218	-
Maintenance	-	-
Transportation:		
Street department	358,359	-
Airport department	41,396	-
Culture and recreation:		
Library department	352,033	-
Cemetery and parks	338,413	-
Civic/community	231,271	-
Sports facilities	25,650	-
Economic development	-	-
Capital outlay:		
Police department	79,824	-
Airport department	-	-
Development services	23,439	-
Fire and ambulance	-	-
Sports facilities	112,341	-
Debt service:		
Principal retirement	-	1,145,000
Interest and fiscal charges	-	354,223
	<hr/>	<hr/>
Total expenditures	6,179,341	1,499,223
Excess (deficiency) of revenues over (under) expenditures	<hr/>	<hr/>
	1,094,745	(403,741)
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	147,514	-
Proceeds from insurance	125,738	-
Transfers in (out)	430,000	413,083
	<hr/>	<hr/>
Total other financing sources (uses)	703,252	413,083
Net change in fund balances	1,797,997	9,342
Fund balances - beginning of year	4,108,414	585,724
	<hr/>	<hr/>
FUND BALANCES - END OF YEAR	\$ 5,906,411	\$ 595,066

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>
\$ -	\$ -	\$ 2,929,142
-	228,131	3,268,102
-	-	522,006
-	-	427,083
-	14,324	442,047
-	9,181	381,190
-	1,725	3,145
11,068	4,396	65,180
-	-	577,508
-	-	22,990
<hr/>	<hr/>	<hr/>
11,068	257,757	8,638,393
-	-	27,768
-	-	828,813
-	-	337,844
-	6,874	254,837
-	16,639	2,142,184
-	-	54,021
-	-	751,673
-	-	14,005
-	-	221,765
-	-	7,218
241,146	-	241,146
-	-	358,359
-	-	41,396
-	-	352,033
-	-	338,413
-	-	231,271
-	-	25,650
-	269,810	269,810
-	22,429	102,253
1,405,296	-	1,405,296
-	-	23,439
5,935	-	5,935
-	-	112,341
-	-	1,145,000
-	-	354,223
<hr/>	<hr/>	<hr/>
1,652,377	315,752	9,646,693
<hr/>	<hr/>	<hr/>
(1,641,309)	(57,995)	(1,008,300)
<hr/>	<hr/>	<hr/>
-	-	147,514
-	-	125,738
700,000	-	1,543,083
<hr/>	<hr/>	<hr/>
700,000	-	1,816,335
<hr/>	<hr/>	<hr/>
(941,309)	(57,995)	808,035
<hr/>	<hr/>	<hr/>
1,773,421	764,946	7,232,505
<hr/>	<hr/>	<hr/>
\$ 832,112	\$ 706,951	\$ 8,040,540

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, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	808,035
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 (decreased) by this amount this year.		(27,813)
Contract receivable from EDC incurred as a result of the City's repayment of a grant on behalf of the component unit.		716,105
Payment from EDC for contract receivable.		(350,000)
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	\$ 1,649,264	
Depreciation expense	<u>(839,195)</u>	810,069
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(45,540)
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.		1,145,000
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) decreased	\$ 10,895	
Amortization of premium	40,345	
Amortization of deferred charge on refunding	<u>(13,905)</u>	37,335
The (increase) decrease in compensated absences 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.		(93,842)
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)	\$ (315,294)	
Deferred inflows (increased) decreased	(174,760)	
Net pension liability (increased) decreased	<u>461,157</u>	(28,897)
The net change in net OPEB 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)	12,696	
Net pension liability (increased) decreased	<u>(27,658)</u>	(14,962)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>2,955,490</u>

City of Cleveland, Texas
Statement of Net Position
Proprietary Fund
For the Fiscal Year Ended September 30, 2018

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,588,827
Investments	433
Receivables (net):	
Accounts - utilities	543,703
	<hr/>
Total current assets	2,132,963
Noncurrent assets:	
Restricted assets:	
Cash - construction	2,162,574
Capital assets:	
Land	178,621
Buildings and improvements	47,997
Furniture and equipment	1,628,502
Water system	11,841,356
Sewer system	15,840,051
Construction in progress	230,852
Accumulated depreciation	(15,813,140)
	<hr/>
Total noncurrent assets	16,116,813
	<hr/>
Total assets	18,249,776
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pension activities	14,348
Deferred outflow for pension contributions after the measurement date	38,446
Deferred outflows for OPEB activities	2,097
Deferred outflow for OPEB contributions after the measurement date	396
	<hr/>
Total deferred outflows of resources	55,287
LIABILITIES	
Current liabilities:	
Accounts payable	74,393
Accrued liabilities	15,612
Refundable deposits	271,084
Accrued interest payable	10,320
Due to other funds	68,972
Compensated absences - current	15,109
Certificates of obligation payable - current	240,000
Note payable - current	11,207
	<hr/>
Total current liabilities	706,697
Noncurrent liabilities:	
Certificates of obligation payable - long-term	3,804,853
Net pension liability - long-term	228,091
Net OPEB liability - long-term	36,870
	<hr/>
Total noncurrent liabilities	4,069,814
	<hr/>
Total liabilities	4,776,511
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions	36,792
	<hr/>
Total deferred inflows of resources	36,792
NET POSITION	
Net investment in capital assets	12,060,753
Unrestricted	1,431,007
	<hr/>
TOTAL NET POSITION	\$ 13,491,760

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, 2018

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,502,945
Miscellaneous	299
Total operating revenues	<u>3,503,244</u>
OPERATING EXPENSES	
Administration	321,573
Water production	760,136
Maintenance	833,755
Sanitation services	238,474
Depreciation	568,314
Total operating expenses	<u>2,722,252</u>
Operating income	780,992
NONOPERATING REVENUES (EXPENSES)	
Proceeds from insurance	41,037
Earnings on investments	40,798
Interest and fees on debt	(124,007)
Gain (loss) on sale of assets	(7,902)
Total nonoperating revenues (expenses)	<u>(50,074)</u>
Income before capital contributions and transfers	730,918
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Transfers in (out)	<u>(1,543,083)</u>
Total capital contributions and transfers	<u>(1,543,083)</u>
Change in net position	(812,165)
Net position - beginning	14,335,866
Prior period adjustment - implement GASB 75 for OPEB	(31,941)
Net Position - Beginning, as restated	<u>14,303,925</u>
NET POSITION - ENDING	<u><u>\$ 13,491,760</u></u>

City of Cleveland, Texas
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2018

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services	\$ 3,504,637
Cash payments to suppliers for goods and services	(1,232,173)
Cash payments to employees for salaries and benefits	(1,111,190)
	<hr/>
Net cash provided by (used for) operating activities	1,161,274
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Insurance proceeds	41,037
Transfers from (to) other funds	(1,543,083)
	<hr/>
Net cash provided by (used for) noncapital financing activities	(1,502,046)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - grants	43,703
Purchase of capital assets	(559,095)
Principal paid on capital debt	(261,887)
Interest and fees paid on capital debt	(124,417)
	<hr/>
Net cash provided by (used for) capital and related financing activities	(901,696)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	40,798
	<hr/>
Net cash provided by (used for) investing activities	40,798
	<hr/>
Net increase (decrease) in cash and cash equivalents	(1,201,670)
Cash and cash equivalents at beginning of year, including restricted cash	4,953,071
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH	<u>\$ 3,751,401</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 780,992
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	568,314
Change in assets and liabilities:	
Decrease (increase) in accounts and other receivables, net	(18,061)
Decrease (increase) in deferred outflows	48,835
Increase (decrease) in accounts payable	(48,652)
Increase (decrease) in accrued liabilities	(13,615)
Increase (decrease) in refundable deposits	19,454
Increase (decrease) in due to other funds	(134,298)
Increase (decrease) in net pension liability	(75,073)
Increase (decrease) in net OPEB liability	4,929
Increase (decrease) in deferred inflows	28,449
	<hr/>
Total adjustments	380,282
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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,161,274</u>

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

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City of Cleveland, Texas
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

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

C. Basis of Presentation – Government-wide Financial Statements

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

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. Change in Accounting Principle

In fiscal year 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which supersedes GASB Statement No. 45.

City of Cleveland, Texas

Notes to Financial Statements

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and required supplementary information requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined actuarially and approved by City Council. Refer to Note 4.D. for more information regarding the City's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive restatement of the City's beginning net position by \$228,151. See Note 4.E. for details of the City's prior period adjustment and restatement of beginning net position.

F. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available, excluding property taxes, if they are collected within 120 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 120 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 120 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*.

City of Cleveland, Texas
Notes to Financial Statements

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand and 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, construction in progress, buildings and improvements, furniture and equipment, water system, and sewer system, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

Land 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.

City of Cleveland, Texas

Notes to Financial Statements

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- City contributions to the pension and OPEB plans 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.

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.

City of Cleveland, Texas

Notes to Financial Statements

In the general fund, the City shall maintain an unassigned fund balance equivalent to a minimum of 3 months operating expenditures of the current fiscal year expenditures less any transfers out budgeted for the fund.

9. Pensions and OPEB

For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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.

H. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Liberty County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the fiscal year ended September 30, 2018 was \$0.77 per \$100, allocated \$0.53568 for the General Fund and \$0.23432 for the Debt Service Fund.

3. Compensated Absences

The City employees are paid for absences due to vacation according to a prescribed policy. Accordingly, the government-wide and proprietary fund financial statements reflect the accrual for vacation leave at September 30, 2018. 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, 2018, significant encumbrances total \$324,080 and are included in restricted capital projects fund balance.

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, 2018	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 808	100%	0.08	AAAm
Total Value	\$ 808	100%		
Portfolio Weighted Average Maturity			0.08	

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 2018, 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, 2018, City’s deposits of \$11,546,631 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, 2018, the Cleveland Economic Development Corporation (CEDC) bank balance of \$1,175,890 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, 2018	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 1,798	100%	0.08	AAAm
Total value	\$ 1,798	100%		
Portfolio weighted average maturity			0.08	

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 property tax revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to General Fund property taxes	\$ 7,000
Change in uncollectibles related to Debt Service property taxes	<u>3,000</u>
Total change in uncollectibles of the current fiscal year increased (decreased) revenues	<u><u>\$ 10,000</u></u>

Total change in uncollectible amounts related to water and sewer revenues of the current period decreased water and sewer revenues \$417.

Allowances for uncollectibles September 30, 2018 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	\$ 28,000	\$ 13,000	\$ -	\$ 41,000
Accounts - utilities	-	-	103,417	103,417

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

C. Interfund Balances and Activity

Primary Government

1. Due To and From Other Funds at September 30, 2018 consisted of the following:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 77,979	\$ 26,688
Debt Service Fund	2,449	-
Nonmajor Funds	24,239	9,007
Water and Sewer Fund	<u>-</u>	<u>68,972</u>
Totals	<u><u>\$ 104,667</u></u>	<u><u>\$ 104,667</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, 2018.

Transfers From	Transfers To	Amount
Water and Sewer Fund	General Fund	\$ 430,000
Water and Sewer Fund	Debt Service Fund	413,083
Water and Sewer Fund	Capital Project Fund	700,000
		<u>\$ 1,543,083</u>

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures of the General Fund, Debt Service Fund, and Capital Projects Funds.

Discretely Presented Component Unit (CEDC)

Amounts receivable and payable between the City and its component unit at September 30, 2018 were as follows:

Primary Government/Component Unit	Receivables	Payables
City - General Fund	\$ -	\$ 7,924
Component unit - CEDC	7,924	-
Totals	<u>\$ 7,924</u>	<u>\$ 7,924</u>

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

D. Noncurrent assets - Contract receivable from CEDC

Contract receivable of \$366,105 is expected to be collected from the CEDC in more than one year. The City was required to return federal funding of \$716,105 received in prior years due to a failure to fulfill the terms for which the funding was received. The City and the CEDC entered into a contract to reimburse the City the amount of \$716,105 with annual payments that will conclude in 2021. The CEDC made a payment of \$350,000 in the current year.

Year Ending September 30,	Principal	Total
2019	\$ 40,000	\$ 40,000
2020	155,000	155,000
2021	171,105	171,105
Totals	<u>\$ 366,105</u>	<u>\$ 366,105</u>

City of Cleveland, Texas
Notes to Financial Statements

E. Capital Assets

Primary Government

Capital asset activity for the period ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,179,941	\$ -	\$ -	\$ 2,179,941
Construction in progress	-	1,405,296	-	1,405,296
Total capital assets, not being depreciated	2,179,941	1,405,296	-	3,585,237
Capital assets, being depreciated				
Buildings and improvements	19,766,945	92,341	(30,999)	19,828,287
Furniture and equipment	4,578,946	151,627	(40,389)	4,690,184
Total capital assets, being depreciated	24,345,891	243,968	(71,388)	24,518,471
Less accumulated depreciation for				
Buildings and improvements	(4,944,702)	(617,828)	8,654	(5,553,876)
Furniture and equipment	(3,435,559)	(221,367)	17,194	(3,639,732)
Total accumulated depreciation	(8,380,261)	(839,195)	25,848	(9,193,608)
Total capital assets, being depreciated, net	15,965,630	(595,227)	(45,540)	15,324,863
Governmental activities capital assets, net	\$ 18,145,571	\$ 810,069	\$ (45,540)	\$ 18,910,100

Depreciation was charged to governmental-type activities as follows:

Governmental activities:	
City council	\$ 669
Administration	42,423
Technology	28,483
Police	99,209
Animal control	6,288
Fire and ambulance	104,118
Garage department	1,351
Street department	124,846
Airport department	148,622
Library department	36,507
Cemetery and parks	35,111
Civic center	71,536
Inspection	7,626
Sports facilities	132,406
Total depreciation expense	\$ 839,195

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	\$ 178,621	\$ -	\$ -	\$ 178,621
Construction in progress	-	230,852	-	230,852
Total capital assets, not being depreciated	178,621	230,852	-	409,473
Capital assets, being depreciated:				
Buildings and improvements	47,997	-	-	47,997
Furniture and equipment	1,565,865	77,723	(15,086)	1,628,502
Water system	11,841,356	-	-	11,841,356
Sewer system	15,589,531	250,520	-	15,840,051
Total capital assets, being depreciated	29,044,749	328,243	(15,086)	29,357,906
Less accumulated depreciation for:				
Buildings and improvements	(28,903)	(1,409)	-	(30,312)
Furniture and equipment	(823,495)	(136,897)	7,184	(953,208)
Water system	(3,495,949)	(192,262)	-	(3,688,211)
Sewer system	(10,903,663)	(237,746)	-	(11,141,409)
Total accumulated depreciation	(15,252,010)	(568,314)	7,184	(15,813,140)
Total capital assets, being depreciated, net	13,792,739	(240,071)	(7,902)	13,544,766
Business-type activities capital assets, net	\$ 13,971,360	\$ (9,219)	\$ (7,902)	\$ 13,954,239

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$ 568,314
Total depreciation expense	\$ 568,314

Discretely Presented Component Unit - CEDC

Land owned by the Cleveland Economic Development Corporation decreased by \$15,104 due to a sale of land while construction in progress increased \$56,862 for Cleveland Industrial Park drainage. The ending balance of land (\$949,951) and construction in progress (\$90,592) for total assets of \$1,040,543 at September 30, 2018.

Construction Commitments

The City has an active construction project as of September 30, 2018. The project includes the construction of an airport hangar at the City's municipal airport. At year end, the City's commitments with contractors are \$324,080. The commitment for construction of the airport hangar is being financed by Tax and Revenue Certificates of Obligation secured by tax revenues and utility revenues.

City of Cleveland, Texas
Notes to Financial Statements

F. Long-Term Liabilities

Primary Government and Discretely Presented Component Unit (CEDC)

1. Long-term Liabilities Activity

Long-term liabilities include a tax note, certificates of obligation, a general obligation bond, notes payable, compensated absences, net pension liability, and net OPEB 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 compensated absences, net pension liability, and net OPEB liability are accounted for in the General Fund and the Water and Sewer Fund. The requirements for the contract payable to the primary government is accounted for by the Discretely Presented Component Unit (CEDC).

Changes in long-term obligations for the period ended September 30, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Tax note	\$ 590,000	\$ -	\$ (195,000)	\$ 395,000	\$ 195,000
Certificates of obligation	6,275,000	-	(340,000)	5,935,000	365,000
General obligation bond	5,115,000	-	(610,000)	4,505,000	620,000
Issuance premiums	482,555	-	(40,345)	442,210	-
Total tax note, certificates, and bonds payable, gross	12,462,555	-	(1,185,345)	11,277,210	1,180,000
Compensated absences	-	187,844	(94,002)	93,842	93,842
Net pension liability	1,862,287	1,440,352	(1,901,509)	1,401,130	-
Net OPEB liability*	198,827	31,086	(3,428)	226,485	-
Total governmental activities	\$ 14,523,669	\$ 1,659,282	\$ (3,184,284)	\$ 12,998,667	\$ 1,273,842
Business-type activities:					
Certificates of obligation	\$ 4,210,000	\$ -	\$ (235,000)	\$ 3,975,000	\$ 240,000
Issuance premiums	74,698	-	(4,845)	69,853	-
Total certificates	4,284,698	-	(239,845)	4,044,853	240,000
Compensated absences	22,860	20,973	(28,724)	15,109	15,109
Note payable	33,249	-	(22,042)	11,207	11,207
Net pension liability	303,164	234,476	(309,549)	228,091	-
Net OPEB liability*	32,367	5,060	(557)	36,870	-
Total business-type activities	\$ 4,676,338	\$ 260,509	\$ (600,717)	\$ 4,336,130	\$ 266,316
Discretely presented component unit (CEDC):					
Note payable	\$ 107,910	\$ -	\$ (48,328)	\$ 59,582	\$ 50,852
Contract payable to primary government**	-	716,105	(350,000)	366,105	40,000
Total discretely presented component unit	\$ 107,910	\$ 716,105	\$ (398,328)	\$ 425,687	\$ 90,852

* Per GASB 75, beginning balance for net OPEB liability includes the restatement of net OPEB liability as of October 1, 2017.

** See Note 3.D. Contract Receivable between the City and CEDC.

2. Governmental Activities

The City's governmental activities debt consists of a tax note, certificates of obligation, and a general obligation bond. 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.

City of Cleveland, Texas
Notes to Financial Statements

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	\$ 590,000	\$ -	\$ (195,000)	\$ 395,000
Certificates of obligation: 2012	2.00-4.00%	2032	3,370,000	2,355,000	-	(120,000)	2,235,000
2017	3.00-3.25%	2037	3,920,000	3,920,000	-	(220,000)	3,700,000
General obligation bond: 2013 REF	2.00-3.00%	2026	7,860,000	5,115,000	-	(610,000)	4,505,000
Totals				<u>\$ 11,980,000</u>	<u>\$ -</u>	<u>\$ (1,145,000)</u>	<u>\$ 10,835,000</u>

Debt service requirements for the tax note, certificates of obligation, and the general obligation bond at September 30, 2018 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
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>\$ 10,835,000</u>	<u>\$ 1,947,948</u>	<u>\$ 12,782,948</u>

In addition, the City has an Intra-Local Agreement with the Cleveland Economic Development Corporation (CEDC) whereas the CEDC is pledging to contribute funds to the City for the future payment of the 2012 Series principal and interest as noted in the preceding tables. The CEDC portion of the 2012 Series had a balance of \$2,235,000 as of September 30, 2018. The CEDC is pledging sales tax revenue to fund the debt requirements.

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	\$ 385,000	\$ -	\$ (25,000)	\$ 360,000
2011	0.100-3.90%	2031	2,360,000	1,765,000	-	(105,000)	1,660,000
2012A	2.000-3.25%	2033	2,470,000	2,060,000	-	(105,000)	1,955,000
Totals				<u>\$ 4,210,000</u>	<u>\$ -</u>	<u>\$ (235,000)</u>	<u>\$ 3,975,000</u>

Debt service requirements for revenue bonds at September 30, 2018 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
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>\$ 3,975,000</u>	<u>\$ 976,740</u>	<u>\$ 4,951,740</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	\$ 33,249	\$ -	\$ (22,042)	\$ 11,207
Totals			<u>\$ 33,249</u>	<u>\$ -</u>	<u>\$ (22,042)</u>	<u>\$ 11,207</u>

Debt service requirements for the note payable at September 30, 2018 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2019	\$ 11,207	\$ 114	\$ 11,321
Totals	<u>\$ 11,207</u>	<u>\$ 114</u>	<u>\$ 11,321</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	\$ 107,910	\$ -	\$ (48,328)	\$ 59,582
Totals			<u>\$ 107,910</u>	<u>\$ -</u>	<u>\$ (48,328)</u>	<u>\$ 59,582</u>

Debt service requirements for notes payable at September 30, 2018 are as follows:

Year Ending September 30,	Discretely Presented Component Unit		
	Principal	Interest	Total
2019	\$ 50,852	\$ 1,857	\$ 52,709
2020	8,730	56	8,786
Totals	<u>\$ 59,582</u>	<u>\$ 1,913</u>	<u>\$ 61,495</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 2018, 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 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 883 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 2017	Plan Year 2016
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	81
Active employees	77
	207

Contributions

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

Employees for the City of Cleveland were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Cleveland were 10.56% and 10.68% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018, were \$357,566, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 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 Tables 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2016	\$ 11,106,874	\$ 8,941,423	\$ 2,165,451
Changes for the year:			
Service cost	385,239	-	385,239
Interest	747,381	-	747,381
Change of benefit terms	-	-	-
Difference between expected and actual experience	81,087	-	81,087
Changes of assumptions	-	-	-
Contributions - employer	-	350,699	(350,699)
Contributions - employee	-	166,051	(166,051)
Net investment income	-	1,239,934	(1,239,934)
Benefit payments, including refunds of employee contributions	(454,374)	(454,374)	-
Administrative expense	-	(6,422)	6,422
Other changes	-	(325)	325
Net changes	759,333	1,295,563	(536,230)
Balance at December 31, 2017	\$ 11,866,207	\$ 10,236,986	\$ 1,629,221

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	\$ 3,368,503	\$ 1,629,221	\$ 214,666

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, 2018, the City recognized pension expense of \$391,168.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 101,071	\$ 4,827
Changes in actuarial assumptions	1,418	-
Difference between projected and actual investment earnings	-	257,974
Contributions subsequent to the measurement date	274,617	-
Totals	\$ 377,106	\$ 262,801

\$274,617 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ 60,923
2020	26,094
2021	(120,053)
2022	(127,276)
Totals	\$ (160,312)

City of Cleveland, Texas
Notes to Financial Statements

D. Other Postemployment Benefits (OPEB)-Supplemental Death Benefits Plan

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting. 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.

Benefits Provided

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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	15
Active employees	77
	129

Contributions

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

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The retiree portion of contribution rates to the SDBF for the City was 0.12% and 0.11% in calendar years 2017 and 2018, respectively. The City’s contributions to the SDBF for the year ended September 30, 2018 were \$3,772, and were equal to the required contributions.

Total OPEB Liability

The City’s Total OPEB Liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

City of Cleveland, Texas
Notes to Financial Statements

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%
Retiree's share of benefit-related costs	\$0

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

The discount rate used to measure the Total OPEB Liability was 3.31% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Changes in Total OPEB Liability

	Increase (Decrease)
	<u>Total OPEB Liability</u>
Balance at December 31, 2016	\$ 231,194
Changes for the year:	
Service cost	8,635
Interest on Total OPEB Liability	8,827
Changes of assumptions or other inputs	18,684
Benefit payments	<u>(3,985)</u>
Net changes	<u>32,161</u>
Balance at December 31, 2017	<u>\$ 263,355</u>

City of Cleveland, Texas
Notes to Financial Statements

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.31%) or 1 percentage-point higher (4.31%) than the current rate:

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
Total OPEB liability	\$ 331,025	\$ 263,355	\$ 226,007

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$21,169. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions and other inputs	\$ 14,977	\$ -
Contributions subsequent to the measurement date	2,829	-
Totals	<u>\$ 17,806</u>	<u>\$ -</u>

The \$2,829 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will reduce the Total OPEB liability during the year ending September 30, 2019. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2019	\$ 3,707
2020	3,707
2021	3,707
2022	3,707
2023	149
Totals	<u>\$ 14,977</u>

E. Prior Period Adjustment

Net position at October 1, 2017 was restated per the following table for the implementation of GASB 75, as previously noted in Note 1.E and Note 4.D.:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning net position, as previously reported	\$ 12,356,093	\$ 14,335,866
Implementation of GASB 75 for OPEB	(196,210)	(31,941)
Beginning net position, restated	<u>\$ 12,159,883</u>	<u>\$ 14,303,925</u>

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 2,019,760	\$ 2,019,760	\$ 2,042,444	\$ 22,684
Sales and other taxes	2,649,801	2,649,801	3,039,971	390,170
Franchise taxes	495,000	495,000	522,006	27,006
License and permits	163,952	163,952	427,083	263,131
Charges for services	402,893	402,893	427,723	24,830
Fines and forfeitures	325,900	325,900	372,009	46,109
Intergovernmental	15,000	15,000	1,420	(13,580)
Earnings on investments	43,900	43,900	44,607	707
Contributions	63,300	63,300	373,833	310,533
Miscellaneous	15,294	15,294	22,990	7,696
Total revenues	<u>6,194,800</u>	<u>6,194,800</u>	<u>7,274,086</u>	<u>1,079,286</u>
EXPENDITURES				
General Government:				
City council	35,275	35,275	27,768	7,507
Administration	869,621	869,621	828,813	40,808
Technology	359,189	359,189	337,844	21,345
Public Safety:				
Municipal court	283,617	283,617	247,963	35,654
Police department	2,282,448	2,328,036	2,125,545	202,491
Animal control	61,893	61,893	54,021	7,872
Fire and ambulance	743,527	745,037	751,673	(6,636)
Emergency management	15,272	15,272	14,005	1,267
Public Works:				
Development services	243,228	219,789	221,765	(1,976)
Garage department	11,610	11,610	7,218	4,392
Transportation:				
Street department	365,465	365,465	358,359	7,106
Airport department	56,388	56,388	41,396	14,992
Culture and Recreation:				
Library department	372,663	372,663	352,033	20,630
Cemetery and parks	454,445	454,445	338,413	116,032
Civic/community	247,560	247,560	231,271	16,289
Sports facilities	87,550	237,550	25,650	211,900
Grants	730,000	730,000	-	730,000
Capital Outlay:				
Police department	-	-	79,824	(79,824)
Development services	-	23,439	23,439	-
Sports facilities	170,000	170,000	112,341	57,659
Total expenditures	<u>7,389,751</u>	<u>7,586,849</u>	<u>6,179,341</u>	<u>1,407,508</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,194,951)</u>	<u>(1,392,049)</u>	<u>1,094,745</u>	<u>2,486,794</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	4,200	4,200	147,514	143,314
Proceeds from insurance	26,000	62,197	125,738	63,541
Transfers in (out)	785,000	785,000	430,000	(355,000)
Total other financing sources (uses)	<u>815,200</u>	<u>851,397</u>	<u>703,252</u>	<u>(148,145)</u>
NET CHANGE IN FUND BALANCE	<u>(379,751)</u>	<u>(540,652)</u>	<u>1,797,997</u>	<u>2,338,649</u>
Fund balance - beginning	<u>4,108,414</u>	<u>4,108,414</u>	<u>4,108,414</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 3,728,663</u>	<u>\$ 3,567,762</u>	<u>\$ 5,906,411</u>	<u>\$ 2,338,649</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 Four Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability:				
Service cost	\$ 385,239	\$ 361,883	\$ 310,615	\$ 289,352
Interest	747,381	699,231	693,226	668,798
Differences between expected and actual experience	81,087	106,870	(125,466)	(146,722)
Changes of assumptions	-	-	36,902	-
Benefit payments, including refunds of employee contributions	(454,374)	(478,284)	(492,054)	(454,110)
Net change in total pension liability	759,333	689,700	423,223	357,318
Total pension liability - beginning	11,106,874	10,417,174	9,993,951	9,636,633
Total pension liability - ending (a)	<u>\$ 11,866,207</u>	<u>\$ 11,106,874</u>	<u>\$ 10,417,174</u>	<u>\$ 9,993,951</u>
Plan fiduciary net position:				
Contributions - employer	\$ 350,699	\$ 308,931	\$ 306,308	\$ 285,365
Contributions - employee	166,051	156,659	143,537	143,400
Net investment income	1,239,934	567,304	12,441	457,872
Benefits payments, including refunds of employee contributions	(454,374)	(478,284)	(492,054)	(454,110)
Administrative expense	(6,422)	(6,406)	(7,578)	(4,780)
Other	(325)	(345)	(373)	(393)
Net change in plan fiduciary net position	1,295,563	547,859	(37,719)	427,354
Plan fiduciary net position - beginning	8,941,423	8,393,564	8,431,283	8,003,929
Plan fiduciary net position - ending (b)	<u>\$ 10,236,986</u>	<u>\$ 8,941,423</u>	<u>\$ 8,393,564</u>	<u>\$ 8,431,283</u>
Net pension liability - ending (a)-(b)	<u>\$ 1,629,221</u>	<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	86.27%	80.50%	80.57%	84.36%
Covered payroll	\$ 3,321,023	\$ 3,133,188	\$ 2,870,749	\$ 2,868,009
Net pension liability as a percentage of covered payroll	49.06%	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 Statement No. 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 four years of data are available.

City of Cleveland, Texas
 Schedule of the City's Contributions
 Texas Municipal Retirement System
 Last Four Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 357,632	\$ 341,779	\$ 323,843	\$ 293,516
Contributions in relation to the actuarially determined contribution	(357,632)	(341,779)	(323,843)	(293,516)
CONTRIBUTIONS DEFICIENCY (EXCESS)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,357,437	\$ 3,286,315	\$ 3,215,934	\$ 2,803,135
Contributions as a percentage of covered payroll	10.65%	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 Statement No. 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

Schedule of Changes in the City's OPEB Liability and Related Ratios

Texas Municipal Retirement System

Current Fiscal Year*

	<u>2018</u>
Total OPEB Liability:	
Service cost	\$ 8,635
Interest on Total OPEB Liability	8,827
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	18,684
Benefit payments	<u>(3,985)</u>
Net change in total OPEB liability	32,161
Total OPEB liability - beginning	<u>231,194</u>
TOTAL OPEB LIABILITY - ENDING	<u>\$ 263,355</u>
Covered payroll	\$ 3,321,023
Net pension liability as a percentage of covered payroll	7.93%

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end December 31. GASB Statement No. 75 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 one year of data is available.

The TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

City of Cleveland, Texas
 Schedule of the City's OPEB Contributions
 Texas Municipal Retirement System
 Last Ten Fiscal Years*

	<u>2018</u>
Actuarially determined contribution	\$ 3,772
Contributions in relation to the actuarially determined contribution	<u>(3,772)</u>
CONTRIBUTIONS DEFICIENCY (EXCESS)	<u>\$ -</u>
Covered payroll	\$ 3,357,437
Contributions as a percentage of covered payroll	0.11%

*The amounts presented for the fiscal year were determined as of the City's fiscal year end September 30. GASB Statement No. 75 requires 10 fiscal years of data to be provided in this schedule. GASB Statement No. 75 was implemented at the beginning of fiscal year 2018 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. Excess of Expenditures Over Appropriations

For the fiscal year ended September 30, 2018, 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	\$ 745,037	\$ 751,673	\$ (6,636)
Development services	219,789	221,765	(1,976)
Capital outlay:			
Airport department	-	79,824	(79,824)

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Supplementary Information

City of Cleveland, Texas
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 September 30, 2018

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
ASSETS		
Cash and cash equivalents	\$ 521,721	\$ 166,641
Receivable:		
Sales and other taxes	17,686	-
Due from other funds	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 539,407</u>	<u>\$ 166,641</u>
LIABILITIES		
Accounts payable	\$ 5,973	\$ -
Accrued liabilities	1,394	-
Escrow liability - seizure funds	-	7,741
Due to other funds	9,007	-
	<hr/>	<hr/>
Total Liabilities	16,374	7,741
FUND BALANCES		
Restricted for economic development	523,033	-
Restricted for police	-	158,900
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
	<hr/>	<hr/>
Total fund balances	523,033	158,900
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 539,407</u>	<u>\$ 166,641</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ 779	\$ -	\$ -	\$ 689,141
-	-	-	17,686
-	2,800	21,439	24,239
<u>\$ 779</u>	<u>\$ 2,800</u>	<u>\$ 21,439</u>	<u>\$ 731,066</u>
\$ -	\$ -	\$ -	\$ 5,973
-	-	-	1,394
-	-	-	7,741
-	-	-	9,007
-	-	-	24,115
-	-	-	523,033
-	-	-	158,900
-	2,800	21,439	24,239
779	-	-	779
<u>779</u>	<u>2,800</u>	<u>21,439</u>	<u>706,951</u>
<u>\$ 779</u>	<u>\$ 2,800</u>	<u>\$ 21,439</u>	<u>\$ 731,066</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, 2018

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
REVENUES		
Sales and other taxes	\$ 228,131	\$ -
Charges for services	-	-
Fines and forfeitures	-	9,181
Intergovernmental	-	1,725
Earnings on investments	4,078	312
	<hr/>	<hr/>
Total revenues	232,209	11,218
EXPENDITURES		
Municipal court	-	-
Police department	-	16,639
Economic development	269,810	-
Capital outlay	-	22,429
	<hr/>	<hr/>
Total expenditures	269,810	39,068
Excess (deficiency) of revenues over (under) expenditures	(37,601)	(27,850)
Fund balances, beginning of year	<hr/>	<hr/>
	560,634	186,750
FUND BALANCES, END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 523,033	\$ 158,900

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ -	\$ 228,131
-	8,183	6,141	14,324
-	-	-	9,181
-	-	-	1,725
6	-	-	4,396
<hr/>	<hr/>	<hr/>	<hr/>
6	8,183	6,141	257,757
-	5,963	911	6,874
-	-	-	16,639
-	-	-	269,810
-	-	-	22,429
<hr/>	<hr/>	<hr/>	<hr/>
-	5,963	911	315,752
<hr/>	<hr/>	<hr/>	<hr/>
6	2,220	5,230	(57,995)
773	580	16,209	764,946
<hr/>	<hr/>	<hr/>	<hr/>
<u>\$ 779</u>	<u>\$ 2,800</u>	<u>\$ 21,439</u>	<u>\$ 706,951</u>

City of Cleveland, Texas

Statement of Net Position - Component Unit
Cleveland Economic Development Corporation
September 30, 2018

	Component Unit CEDC
ASSETS	
Cash and cash equivalents	\$ 1,163,409
Investments	1,798
Due from primary government	7,924
Capital assets:	
Land	949,951
Construction in progress	90,592
TOTAL ASSETS	\$ 2,213,674
LIABILITIES	
Note payable - current	\$ 50,852
Contract payable to primary government - short term	40,000
Total current liabilities	90,852
Noncurrent liabilities:	
Note payable - long-term	8,730
Contract payable to primary government - long term	326,105
Total noncurrent liabilities	334,835
Total liabilities	425,687
NET POSITION	
Net investment in capital assets	980,961
Unrestricted	807,026
Total net position	1,787,987
TOTAL LIABILITIES AND NET POSITION	\$ 2,213,674

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, 2018

	Component Unit
	CEDC
OPERATING REVENUES	
Sales tax	\$ 578,307
Charges for services	2,123
	<hr/>
Total revenues	580,430
OPERATING EXPENSES	
Economic development:	
Professional services	63,404
Other services	40,505
Supplies	47
Utilities	8,651
Contributions to City	979,899
	<hr/>
Total expenses	1,092,506
	<hr/>
Operating income	(512,076)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	9,712
Gain on sale of assets	313,332
Interest and fiscal charges	(4,382)
	<hr/>
Total nonoperating revenues (expenses)	318,662
	<hr/>
Change in net position	(193,414)
Net position - beginning	1,981,401
	<hr/>
NET POSITION - ENDING	\$ 1,787,987
	<hr/> <hr/>

City of Cleveland, Texas
 Schedule of Taxes Receivable
 For the Fiscal Year Ended September 30, 2018

Tax Year	Balance 9/30/2017	Tax Levy	Collections	Adjustments	Balance 9/30/2018
2017	\$ -	\$ 2,828,823	\$ 2,695,245	\$ -	\$ 133,578
2016	180,142	-	90,175	(7,718)	82,249
2015	84,699	-	23,921	(4,084)	56,694
2014	60,987	-	8,721	(2,582)	49,684
2013	51,063	-	4,337	(2,843)	43,883
2012	50,946	-	3,760	(599)	46,587
2011	52,261	-	2,861	(89)	49,311
2010	42,958	-	2,006	(7)	40,945
2009	42,969	-	1,496	(1)	41,472
2008 & Prior	162,827	-	7,564	(8,627)	146,636
Total	<u>\$ 728,852</u>	<u>\$ 2,828,823</u>	<u>\$ 2,840,086</u>	<u>\$ (26,550)</u>	<u>\$ 691,039</u>
Less allowance for uncollectible accounts					41,000
					<u>\$ 650,039</u>

ASSESSED VALUATION AND RATE SUMMARY

Tax Year	Property Valuations	General Fund	Debt Service Fund	Total
2017	\$ 367,379,610	\$ 0.5357	\$ 0.2343	\$ 0.7700
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

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, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 19, 2019.

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 entity'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 entity'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 19, 2019

City of Cleveland, Texas
Schedule of Findings and Reponses
For the Fiscal Year Ended September 30, 2018

Section 1 – Summary of Auditor’s Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditor’s report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| <i>a.</i> Material weakness(es) identified? | No |
| <i>b.</i> 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, 2018

Prior Year Findings

None reported