

City of Cleveland, Texas

Annual Financial Report

For the Fiscal Year Ended September 30, 2019

City of Cleveland, Texas
 Annual Financial Report
 For the Fiscal Year Ended September 30, 2019
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Introductory Section

City of Cleveland, Texas
Principal City Officials
September 30, 2019

Otis Cohn Mayor

Carolyn McWaters 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 the City of Cleveland, Texas (City), as of and for the fiscal year ended September 30, 2019, 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, 2019, 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.

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.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2020 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
February 13, 2020

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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, 2019.

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 \$30,672,799 (*net position*). As required by the GASB Statement No. 34, net position also reflects \$23,355,292 of net investment in capital assets.
- During the year, the City's revenues of \$13,321,302 exceeded expenses of \$11,255,636 by \$2,065,666.
- The General Fund reported a fund balance this year of \$6,362,501, of which \$6,324,013 was unassigned and approximated 89% of General Fund expenditures. Total fund balance increased \$456,090 from current year operations.
- The Debt Service Fund reported a fund balance this year of \$282,175 which was restricted for debt service fund expenditures. Total fund balance decreased \$312,891 from prior year.
- The Water and Sewer Fund reported an operating income of \$662,020 and an increase in net position of \$150,966.
- The Component Unit - Cleveland Economic Development Corporation reported a net position of \$2,599,854, of which \$1,564,772 was unrestricted. Total net position increased \$811,867 from current operations.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension and other postemployment benefits (OPEB) 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 of resources by \$30,672,799, 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 9,995,198	\$ 9,446,298	\$ 2,243,907	\$ 4,226,565	\$ 12,239,105	\$ 13,672,863
Capital assets	19,155,795	18,910,100	16,124,063	13,954,239	35,279,858	32,864,339
Total assets	29,150,993	28,356,398	18,367,970	18,180,804	47,518,963	46,537,202
Total deferred outflows of resources	808,367	399,879	124,049	55,287	932,416	455,166
Long-term liabilities outstanding	12,477,233	12,998,667	3,861,540	4,336,130	16,338,773	17,334,797
Other liabilities	353,838	416,228	971,765	371,409	1,325,603	787,637
Total liabilities	12,831,071	13,414,895	4,833,305	4,707,539	17,664,376	18,122,434
Total deferred inflows of resources	98,216	226,009	15,988	36,792	114,204	262,801
Net position:						
Net investments in capital assets	10,618,793	8,525,256	12,736,499	12,060,753	23,355,292	20,586,009
Restricted	1,019,640	1,482,062	-	-	1,019,640	1,482,062
Unrestricted	5,391,640	5,108,055	906,227	1,431,007	6,297,867	6,539,062
Total net position	\$ 17,030,073	\$ 15,115,373	\$ 13,642,726	\$ 13,491,760	\$ 30,672,799	\$ 28,607,133

The City's total assets of \$47,518,963 are largely comprised of capital assets, net of accumulated depreciation of \$35,279,858, or 74%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$16,338,773 comprise the largest portion of the City's total liabilities of \$17,664,376 at 92%. Of total long-term liabilities, \$1,544,421 are due within one year, with the remainder \$14,794,352 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 76% of total net position or \$23,355,292 represents net investment in capital assets and approximately 3% of total net position or \$1,019,640 represents restriction for debt services, economic development, police and municipal court. The amount of \$6,297,865 (21%) of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in Net Position. Governmental and business-type activities combined to increase the City's net position by \$2,065,666 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	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,039,000	\$ 1,258,350	\$ 3,545,253	\$ 3,503,244	\$ 4,584,253	\$ 4,761,594
Operating grants and contributions	288,387	230,653	-	-	288,387	230,653
Capital grants and contributions	248,843	-	43,882	-	292,725	-
General revenues:						
Property taxes	3,063,702	2,901,329	-	-	3,063,702	2,901,329
Sales and other taxes	4,348,951	3,268,102	-	-	4,348,951	3,268,102
Franchise taxes	475,052	522,006	-	-	475,052	522,006
Earnings on investments	119,109	65,180	33,129	40,798	152,238	105,978
Gain on sale of assets	5,000	147,514	-	-	5,000	147,514
Grants and contributions not restricted to specific programs	80,930	716,105	-	-	80,930	716,105
Proceeds from insurance	11,112	125,738	3,309	41,037	14,421	166,775
Miscellaneous	15,643	14,960	-	-	15,643	14,960
Total revenues	9,695,729	9,249,937	3,625,573	3,585,079	13,321,302	12,835,016
Expenses:						
General government	1,447,736	1,285,000	-	-	1,447,736	1,285,000
Public safety	3,703,467	3,555,562	-	-	3,703,467	3,555,562
Public works	461,180	485,250	-	-	461,180	485,250
Transportation	757,647	678,439	-	-	757,647	678,439
Culture and recreation	1,395,381	1,243,431	-	-	1,395,381	1,243,431
Grants	-	-	-	-	-	-
Economic development	202,728	272,960	-	-	202,728	272,960
Debt service	286,837	316,888	-	-	286,837	316,888
Water and sewer	-	-	3,000,660	2,854,161	3,000,660	2,854,161
Total expenses	8,254,976	7,837,530	3,000,660	2,854,161	11,255,636	10,691,691
Increase (decrease) in net position before transfers	1,440,753	1,412,407	624,913	730,918	2,065,666	2,143,325
Transfers	473,947	1,543,083	(473,947)	(1,543,083)	-	-
Change in net position	1,914,700	2,955,490	150,966	(812,165)	2,065,666	2,143,325
Net position - beginning	15,115,373	12,356,093	13,491,760	14,335,866	28,607,133	26,691,959
Prior period adjustments (a)	-	(196,210)	-	(31,941)	-	(228,151)
Net position - beginning, as restated	15,115,373	12,159,883	13,491,760	14,303,925	28,607,133	26,463,808
Net position - ending	\$ 17,030,073	\$ 15,115,373	\$ 13,642,726	\$ 13,491,760	\$ 30,672,799	\$ 28,607,133

(a) The restatement of the beginning net position is the result of the District implementing GASB Statement No. 75 in fiscal year 2018.

Governmental Activities. Governmental activities increased the City's net position from current operations by \$1,914,700. The City's total revenues were \$9,695,729 from all governmental activities. A significant portion, \$3,063,702 or 32%, of the City's governmental revenue comes from property taxes. Sales and other tax revenue accounts for \$4,348,951, or 45%, of total revenue for governmental activities. Charges for services accounts for \$1,039,000, or 11%, of total revenue for governmental activities. The remaining 12% is generated from grants and contributions, franchise taxes, earnings on investments, gain on sale of assets, proceeds from insurance and miscellaneous revenues.

The most significant change in governmental activities revenues was the increase in sales tax resulting from economic growth.

The total cost of all governmental programs and services was \$8,254,976. The public safety function accounted for \$3,703,467, or 45% of this total. The general government function accounted for \$1,447,736, or 18% of this total. The culture and recreation function accounted for \$1,395,381, or 17% of this total. There were no significant changes in governmental activities expense.

Business-type Activities. Business-type activities are financed in whole or part by fees charged to external users for goods or services (water and sewer). They are reported in the enterprise fund. Business-type activities increased the City's net position by \$150,966 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 \$3,545,253 are utilized to provide funds for program expenses of \$3,000,660.

Current operations for business-type activities was decreased due to the result of transfers to governmental activities/governmental funds of \$473,947.

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 \$8,684,620, which is an increase of \$644,080 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 \$6,324,013 and total fund balance was \$6,362,501. 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 89% of total general fund expenditures. The fund balance of the City's general fund increased by \$456,090 during the current fiscal year from current operations. For the most part, the increase in fund balance was the result of an increase in sales tax revenues resulting from economic growth.

The debt service fund ending fund balance was \$282,175, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance decreased \$312,891 during the year, primarily due to debt payments made throughout the year.

The capital projects ending fund balance was \$1,473,514. The net increase in fund balance during the current year in the capital projects fund was \$641,402. The increase in fund balance is the result of transfers made from the general fund and water and sewer fund.

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

Unrestricted net position of the Water and Sewer Funds at the end of the current fiscal year amounted to \$906,227. The total increase in net position for the Water and Sewer Funds was \$150,966. 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. The most significant individual variations between the original budget and final budget was to increase appropriations for grants. The most significant individual variations between the final budget and actual results relates to unspent grant appropriations.

Capital Assets and Debt Administration

Capital Assets. At the end of 2019, the City had invested \$35,279,858 in a broad range of capital assets.

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 2,280,011	\$ 2,179,941	\$ 178,621	\$ 178,621	\$ 2,458,632	\$ 2,358,562
Buildings and improvements	15,484,865	14,274,411	16,277	17,685	15,501,142	14,292,096
Furniture and equipment	1,333,759	1,050,452	615,943	675,294	1,949,702	1,725,746
Water system	-	-	7,960,882	8,153,145	7,960,882	8,153,145
Sewer system	-	-	4,456,775	4,698,642	4,456,775	4,698,642
Construction in progress	57,160	1,405,296	2,895,565	230,852	2,952,725	1,636,148
Totals	\$ 19,155,795	\$ 18,910,100	\$ 16,124,063	\$ 13,954,239	\$ 35,279,858	\$ 32,864,339

Major capital asset purchases during the year included the following:

- Completion of airport hangar
- Water and sewer system improvements
- Police vehicles and equipment
- Cemetery and park improvements

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

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	
	2019	2018	2019	2018	2019	2018
Tax note, certificates, and bonds payable	\$ 10,056,865	\$ 11,277,210	\$ 3,465,008	\$ 4,044,853	\$ 13,521,873	\$ 15,322,063
Compensated absences	96,236	93,842	18,185	15,109	114,421	108,951
Note payable	-	-	-	11,207	-	11,207
Net pension liability	2,119,125	1,401,130	344,974	228,091	2,464,099	1,629,221
Total OPEB liability	205,007	226,485	33,373	36,870	238,380	263,355
Totals	\$ 12,477,233	\$ 12,998,667	\$ 3,861,540	\$ 4,336,130	\$ 16,338,773	\$ 17,334,797

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 2019 (\$0.5581 for maintenance and operations and \$0.2119 for interest and sinking).
- The unemployment rate for the County is currently 4.8%, which is a decrease from a rate of 5.5% a year ago. This compares unfavorably to the state's average unemployment rate of 3.4%, which is a decrease from a rate of 3.7% a year ago.
- These indicators were taken into account when adopting the general fund budget for 2020. Amounts available for appropriation in the general fund budget are \$6,324,013 at September 30, 2019.

Requests for Information

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

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Basic Financial Statements

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City of Cleveland, Texas
Statement of Net Position
For the Fiscal Year Ended September 30, 2019

	Governmental Activities	Business-type Activities	Total	Component Unit Cleveland EDC
ASSETS				
Cash and cash equivalents	\$ 7,562,179	\$ 875,489	\$ 8,437,668	\$ 1,575,465
Investments	681,194	715,940	1,397,134	308,583
Receivables (net):				
Property taxes	654,403	-	654,403	-
Sales and other taxes	763,872	-	763,872	-
Accounts	-	582,424	582,424	-
Other	55	-	55	-
Internal balances	7,390	(7,390)	-	-
Due from primary government	-	-	-	10,669
Noncurrent assets:				
Contract receivable from EDC	326,105	-	326,105	-
Restricted assets:				
Cash - construction	-	77,444	77,444	-
Capital assets:				
Land	2,280,011	178,621	2,458,632	949,951
Buildings and improvements	21,664,333	47,997	21,712,330	-
Furniture and equipment	5,167,807	1,709,195	6,877,002	-
Water system	-	11,841,356	11,841,356	-
Sewer system	-	15,840,051	15,840,051	-
Construction in progress	57,160	2,895,565	2,952,725	93,861
Accumulated depreciation	(10,013,516)	(16,388,722)	(26,402,238)	-
Total assets	29,150,993	18,367,970	47,518,963	2,938,529
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	46,349	-	46,349	-
Deferred outflows for pension activities	496,250	80,785	577,035	-
Deferred outflow for pension contributions after the measurement date	263,076	42,826	305,902	-
Deferred outflow for OPEB contributions after the measurement date	2,692	438	3,130	-
Total deferred outflows of resources	808,367	124,049	932,416	-
LIABILITIES				
Accounts payable	237,656	651,139	888,795	3,840
Escrow liability - seizure funds	4,406	-	4,406	-
Accrued liabilities	77,339	20,443	97,782	-
Refundable deposits	-	291,508	291,508	-
Accrued interest payable	23,768	8,675	32,443	-
Due to component unit	10,669	-	10,669	-
Noncurrent liabilities:				
Due within one year	1,306,236	238,185	1,544,421	163,730
Due in more than one year	8,846,865	3,245,008	12,091,873	171,105
Net pension liability - long-term	2,119,125	344,974	2,464,099	-
Total OPEB liability - long term	205,007	33,373	238,380	-
Total liabilities	12,831,071	4,833,305	17,664,376	338,675
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pension activities	80,147	13,047	93,194	-
Deferred inflows for OPEB activities	18,069	2,941	21,010	-
Total deferred inflows of resources	98,216	15,988	114,204	-
NET POSITION				
Net investment in capital assets	10,618,793	12,736,499	23,355,292	1,035,082
Restricted for:				
Debt services	453,995	-	453,995	-
Economic development	436,959	-	436,959	-
Police	98,181	-	98,181	-
Municipal court	30,505	-	30,505	-
Unrestricted	5,391,640	906,227	6,297,867	1,564,772
TOTAL NET POSITION	\$ 17,030,073	\$ 13,642,726	\$ 30,672,799	\$ 2,599,854

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, 2019

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government:				
City council	\$ 30,910	\$ -	\$ -	\$ -
Administration	1,011,171	-	-	-
Technology	405,655	-	-	-
Public safety:				
Municipal court	279,122	21,483	-	-
Police department	2,403,790	322,082	2,053	189,493
Animal control	61,991	40	-	-
Fire and ambulance	945,376	134,476	10,684	-
Emergency management	13,188	-	-	-
Public works:				
Development services	251,159	218,940	-	-
Garage department	40,956	-	-	-
Maintenance	169,065	-	-	-
Transportation:				
Street department	559,344	-	-	-
Airport department	198,303	149,134	-	-
Culture and recreation:				
Library department	432,090	19,839	18,425	50,000
Cemetery and parks	449,161	41,291	26,004	-
Civic/community	348,821	131,715	25,621	9,350
Sports facilities	165,309	-	-	-
Economic development	202,728	-	-	-
Debt service:				
Interest and fiscal charges	286,837	-	205,600	-
Total governmental activities	8,254,976	1,039,000	288,387	248,843
Business-type activities:				
Water and sewer	3,000,660	3,545,253	-	43,882
Total business-type activities	3,000,660	3,545,253	-	43,882
TOTAL PRIMARY GOVERNMENT	\$ 11,255,636	\$ 4,584,253	\$ 288,387	\$ 292,725
COMPONENT UNIT				
Cleveland Economic Development Corp.	\$ 531,758	\$ 730	\$ -	\$ -

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

NET POSITION - ENDING

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

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Cleveland EDC
\$ (30,910)	\$ -	\$ (30,910)	\$ -
(1,011,171)	-	(1,011,171)	-
(405,655)	-	(405,655)	-
(257,639)	-	(257,639)	-
(1,890,162)	-	(1,890,162)	-
(61,951)	-	(61,951)	-
(800,216)	-	(800,216)	-
(13,188)	-	(13,188)	-
(32,219)	-	(32,219)	-
(40,956)	-	(40,956)	-
(169,065)	-	(169,065)	-
(559,344)	-	(559,344)	-
(49,169)	-	(49,169)	-
(343,826)	-	(343,826)	-
(381,866)	-	(381,866)	-
(182,135)	-	(182,135)	-
(165,309)	-	(165,309)	-
(202,728)	-	(202,728)	-
(81,237)	-	(81,237)	-
(6,678,746)	-	(6,678,746)	-
-	588,475	588,475	-
-	588,475	588,475	-
(6,678,746)	588,475	(6,090,271)	-
			(531,028)
3,063,702	-	3,063,702	-
4,348,951	-	4,348,951	789,329
475,052	-	475,052	-
119,109	33,129	152,238	17,660
5,000	-	5,000	535,906
80,930	-	80,930	-
11,112	3,309	14,421	-
15,643	-	15,643	-
473,947	(473,947)	-	-
8,593,446	(437,509)	8,155,937	1,342,895
1,914,700	150,966	2,065,666	811,867
15,115,373	13,491,760	28,607,133	1,787,987
\$ 17,030,073	\$ 13,642,726	\$ 30,672,799	\$ 2,599,854

City of Cleveland, Texas
 Balance Sheet - Governmental Funds
 September 30, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash and cash equivalents	\$ 5,257,921	\$ 283,865
Investments	681,194	-
Receivable (net):		
Property taxes	458,815	195,588
Sales and other taxes	742,785	-
Contract receivable - EDC	326,105	-
Other	55	-
Due from other funds	7,390	1,810
TOTAL ASSETS	\$ 7,474,265	\$ 481,263
LIABILITIES		
Accounts payable	\$ 206,864	\$ 3,500
Accrued liabilities	76,046	-
Escrow liability - seizure funds	-	-
Due to other funds	33,265	-
Due to component unit	10,669	-
Total liabilities	326,844	3,500
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	458,815	195,588
Unavailable revenue - EDC	326,105	-
Total deferred inflows of resources	784,920	195,588
FUND BALANCES		
Restricted for debt	-	282,175
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	6,324,013	-
Total fund balances	6,362,501	282,175
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 7,474,265	\$ 481,263

Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 1,499,668	\$ 520,725	\$ 7,562,179
-	-	681,194
-	-	654,403
-	21,087	763,872
-	-	326,105
-	-	55
-	31,455	40,655
<u>\$ 1,499,668</u>	<u>\$ 573,267</u>	<u>\$ 10,028,463</u>
\$ 26,154	\$ 1,138	\$ 237,656
-	1,293	77,339
-	4,406	4,406
-	-	33,265
-	-	10,669
<u>26,154</u>	<u>6,837</u>	<u>363,335</u>
-	-	654,403
-	-	326,105
-	-	980,508
-	-	282,175
1,473,514	-	1,473,514
-	436,959	436,959
-	98,181	98,181
-	30,505	30,505
-	785	785
-	-	38,488
-	-	6,324,013
<u>1,473,514</u>	<u>566,430</u>	<u>8,684,620</u>
<u>\$ 1,499,668</u>	<u>\$ 573,267</u>	<u>\$ 10,028,463</u>

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City of Cleveland, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,684,620

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	\$ 29,169,311	
Accumulated depreciation of governmental capital assets	(10,013,516)	19,155,795

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.		654,403
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Other long-term asset, which will be collected subsequent to year-end is not available soon enough to pay expenditures and therefore, is deferred in the funds.		326,105
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Long-term liabilities, including tax note, certificates of obligation, general obligation bond payable, compensated absences, net pension liability, and total 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	\$ (9,655,000)	
Premium on debt issues	(401,865)	
Accrued interest on debt	(23,768)	
Compensated absences	(96,236)	
Net pension liability	(2,119,125)	
Total OPEB liability	(205,007)	(12,501,001)

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.		46,349
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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.		759,326
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Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(80,147)
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Deferred inflows for OPEB 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.		(18,069)
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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.		2,692
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 17,030,073

City of Cleveland, Texas
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Taxes:		
Property taxes	\$ 2,163,172	\$ 896,166
Sales and other taxes	4,091,727	-
Franchise taxes	475,052	-
License and permits	210,299	-
Charges for services	476,495	-
Fines and forfeitures	322,322	-
Intergovernmental	277,381	-
Earnings on investments	100,541	5,614
Contributions	173,126	205,600
Miscellaneous	41,528	-
	<hr/>	<hr/>
Total revenues	8,331,643	1,107,380
EXPENDITURES		
General government:		
City council	30,241	-
Administration	956,804	-
Technology	375,175	-
Public safety:		
Municipal court	265,249	-
Police department	2,235,891	-
Animal control	52,896	-
Fire and ambulance	810,745	-
Emergency management	13,181	-
Public works:		
Development services	237,485	-
Garage department	39,605	-
Maintenance	-	-
Transportation:		
Street department	426,168	-
Airport department	46,148	-
Culture and recreation:		
Library department	381,349	-
Cemetery and parks	399,650	-
Civic/community	264,162	-
Sports facilities	28,685	-
Economic development	-	-
Capital outlay:		
Civic/community	-	-
Technology	10,714	-
Police department	97,295	-
Garage department	100,070	-
Street department	57,160	-
Airport department	17,988	-
Cemetery and parks	70,532	-
Fire and ambulance	41,511	-
Sports facilities	154,813	-
Debt service:		
Principal retirement	-	1,180,000
Interest and fiscal charges	-	316,123
	<hr/>	<hr/>
Total expenditures	7,113,517	1,496,123
	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	1,218,126	(388,743)
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	5,000	-
Transfers in (out)	(767,036)	75,852
	<hr/>	<hr/>
Total other financing sources (uses)	(762,036)	75,852
	<hr/>	<hr/>
Net change in fund balances	456,090	(312,891)
Fund balances - beginning of year	5,906,411	595,066
	<hr/>	<hr/>
FUND BALANCES - END OF YEAR	\$ 6,362,501	\$ 282,175

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>
\$ -	\$ -	\$ 3,059,338
-	257,224	4,348,951
-	-	475,052
-	-	210,299
-	12,963	489,458
-	2,148	324,470
-	2,053	279,434
8,939	4,015	119,109
-	-	378,726
-	-	41,528
<hr/>	<hr/>	<hr/>
8,939	278,403	9,726,365
-	-	30,241
-	-	956,804
-	-	375,175
-	6,697	271,946
-	-	2,235,891
-	-	52,896
-	-	810,745
-	-	13,181
-	-	237,485
-	-	39,605
169,065	-	169,065
-	-	426,168
-	-	46,148
-	-	381,349
-	-	399,650
-	-	264,162
-	-	28,685
-	200,911	200,911
-	97,000	97,000
-	-	10,714
-	65,157	162,452
-	-	100,070
-	-	57,160
363,603	-	381,591
-	49,159	119,691
-	-	41,511
-	-	154,813
-	-	1,180,000
-	-	316,123
<hr/>	<hr/>	<hr/>
532,668	418,924	9,561,232
<hr/>	<hr/>	<hr/>
(523,729)	(140,521)	165,133
-	-	5,000
1,165,131	-	473,947
<hr/>	<hr/>	<hr/>
1,165,131	-	478,947
641,402	(140,521)	644,080
832,112	706,951	8,040,540
<hr/>	<hr/>	<hr/>
\$ 1,473,514	\$ 566,430	\$ 8,684,620

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, 2019

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	644,080
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.		4,364
Payment from EDC for contract receivable.		(40,000)
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	\$ 1,125,002	
Depreciation expense	<u>(859,044)</u>	265,958
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(20,263)
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.		1,180,000
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	\$ 2,846	
Amortization of premium	40,345	
Amortization of deferred charge on refunding	<u>(13,905)</u>	29,286
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.		(2,394)
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)	\$ 435,014	
Deferred inflows (increased) decreased	145,862	
Net pension liability (increased) decreased	<u>(717,995)</u>	(137,119)
The net change in total 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)	\$ (12,621)	
Deferred inflows (increased) decreased	(18,069)	
Total OPEB liability (increased) decreased	<u>21,478</u>	(9,212)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,914,700</u>

City of Cleveland, Texas
Statement of Net Position
Proprietary Fund
September 30, 2019

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 875,489
Investments	715,940
Receivables (net):	
Accounts - utilities	582,424
	<hr/>
Total current assets	2,173,853
Noncurrent assets:	
Restricted assets:	
Cash - construction	77,444
Capital assets:	
Land	178,621
Buildings and improvements	47,997
Furniture and equipment	1,709,195
Water system	11,841,356
Sewer system	15,840,051
Construction in progress	2,895,565
Accumulated depreciation	(16,388,722)
	<hr/>
Total noncurrent assets	16,201,507
	<hr/>
Total assets	18,375,360
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pension activities	80,785
Deferred outflow for pension contributions after the measurement date	42,826
Deferred outflow for OPEB contributions after the measurement date	438
	<hr/>
Total deferred outflows of resources	124,049
LIABILITIES	
Current liabilities:	
Accounts payable	651,139
Accrued liabilities	20,443
Refundable deposits	291,508
Accrued interest payable	8,675
Due to other funds	7,390
Compensated absences - current	18,185
Certificates of obligation payable - current	220,000
	<hr/>
Total current liabilities	1,217,340
Noncurrent liabilities:	
Certificates of obligation payable - long-term	3,245,008
Net pension liability - long-term	344,974
Total OPEB liability - long-term	33,373
	<hr/>
Total noncurrent liabilities	3,623,355
	<hr/>
Total liabilities	4,840,695
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pension activities	13,047
Deferred inflows for OPEB activities	2,941
	<hr/>
Total deferred inflows of resources	15,988
NET POSITION	
Net investment in capital assets	12,736,499
Unrestricted	906,227
	<hr/>
TOTAL NET POSITION	<u>\$ 13,642,726</u>

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

City of Cleveland, Texas

Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Fund
For the Fiscal Year Ended September 30, 2019

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 3,545,253
Total operating revenues	3,545,253
OPERATING EXPENSES	
Administration	338,064
Water production	898,162
Maintenance	806,790
Sanitation services	264,635
Depreciation	575,582
Total operating expenses	2,883,233
Operating income	662,020
NONOPERATING REVENUES (EXPENSES)	
Proceeds from insurance	3,309
Earnings on investments	33,129
Interest and fees on debt	(117,427)
Total nonoperating revenues (expenses)	(80,989)
Income before capital contributions and transfers	581,031
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions - grants	43,882
Transfers in (out)	(473,947)
Total capital contributions and transfers	(430,065)
Change in net position	150,966
Net position - beginning	13,491,760
NET POSITION - ENDING	\$ 13,642,726

City of Cleveland, Texas
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2019

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services	\$ 3,526,956
Cash payments to suppliers for goods and services	(585,599)
Cash payments to employees for salaries and benefits	(1,175,161)
	<hr/>
Net cash provided by (used for) operating activities	1,766,196
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Insurance proceeds	3,309
Transfers from (to) other funds	(473,947)
	<hr/>
Net cash provided by (used for) noncapital financing activities	(470,638)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - grants	43,882
Purchase of capital assets	(2,745,406)
Principal paid on capital debt	(586,207)
Interest and fees paid on capital debt	(123,917)
	<hr/>
Net cash provided by (used for) capital and related financing activities	(3,411,648)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	33,129
Sale (purchase) of investments	(715,507)
	<hr/>
Net cash provided by (used for) investing activities	(682,378)
Net increase (decrease) in cash and cash equivalents	(2,798,468)
Cash and cash equivalents at beginning of year, including restricted cash	3,751,401
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH	\$ 952,933
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 662,020
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	575,582
Change in assets and liabilities:	
Decrease (increase) in accounts, net	(38,721)
Decrease (increase) in deferred outflows	(68,762)
Increase (decrease) in accounts payable	576,746
Increase (decrease) in accrued liabilities	4,831
Increase (decrease) in refundable deposits	20,424
Increase (decrease) in compensated absences	3,076
Increase (decrease) in due to other funds	(61,582)
Increase (decrease) in net pension liability	116,883
Increase (decrease) in total OPEB liability	(3,497)
Increase (decrease) in deferred inflows	(20,804)
	<hr/>
Total adjustments	1,104,176
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,766,196
	<hr/>

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

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Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the primary government and its component unit. *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 the legally separate *component unit* 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 CEDC is to (1) enhance appearance, housing and education, (2) envision improvements and plan for progress in the local economy and (3) create and develop opportunities for enhancing the quality of life. The CEDC receives funding primarily through sales and use taxes levied for the benefit of the CEDC. The CEDC is exempt from Federal income taxes under Section 501(c) 6 of the Internal Revenue Code. The CEDC is managed by a five member board of directors who are appointed by the City Council of the City of Cleveland, Texas.

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

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

E. Measurement Focus and Basis of Accounting

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

City of Cleveland, Texas

Notes to Financial Statements

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

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

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand 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 one year.

City of Cleveland, Texas
Notes to Financial Statements

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

Land and 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.

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 either 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

The City funds 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.

City of Cleveland, Texas

Notes to Financial Statements

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

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

9. Pension and OPEB

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

City of Cleveland, Texas

Notes to Financial Statements

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, 2019 was \$0.77 per \$100, allocated \$0.5445 for the General Fund and \$0.2255 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, 2019. 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 proprietary fund include the operating cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

5. Use of Estimates

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Data

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

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a ordinance by the City Council.
4. The City Manager may approve a department's request to transfer an unencumbered balance, or portion thereof within any department; however, City Council must approve a transfer of funds between departments.

City of Cleveland, Texas

Notes to Financial Statements

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, 2019, the City did not have any outstanding encumbrances.

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Primary Government

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

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.

City of Cleveland, Texas

Notes to Financial Statements

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, 2019	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 1,397,134	100%	0.09	AAAm
Total Value	\$ 1,397,134	100%		
Portfolio Weighted Average Maturity			0.09	

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 2019, 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, 2019, City's deposits of \$8,541,875 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, 2019, the Cleveland Economic Development Corporation (CEDC) bank balance of \$1,579,734 was covered by federal deposit insurance, or pledged collateral held by the CEDC's agent and in the CEDC's name.

City of Cleveland, Texas
Notes to Financial Statements

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

	September 30, 2019	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost:				
TexPool - LGIP	\$ 308,583	100%	0.09	AAAm
Total value	\$ 308,583	100%		
Portfolio weighted average maturity			0.09	

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	\$ (1,000)
Change in uncollectibles related to Debt Service property taxes	1,000
Total change in uncollectibles of the current fiscal year increased (decreased) revenues	\$ -

Total change in uncollectible amounts related to water and sewer revenues of the current period decreased water and sewer revenues \$14,583.

Allowances for uncollectibles September 30, 2019 for the City's individual major governmental and proprietary funds are as follows:

	General	Debt Service Fund	Water and Sewer Fund	Total
Property taxes	\$ 29,000	\$ 12,000	\$ -	\$ 41,000
Accounts - utilities	-	-	118,000	118,000

Approximately 79% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

City of Cleveland, Texas
Notes to Financial Statements

C. Interfund Balances and Activity

Primary Government

1. Due To and From Other Funds at September 30, 2019 consisted of the following:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 7,390	\$ 33,265
Debt Service Fund	1,810	-
Nonmajor Funds	31,455	-
Water and Sewer Fund	-	7,390
Totals	<u><u>\$ 40,655</u></u>	<u><u>\$ 40,655</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.

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, 2019.

Transfers From	Transfers To	Amount
Water and Sewer Fund	General Fund	\$ 30,000
Water and Sewer Fund	Debt Service Fund	411,551
Water and Sewer Fund	Capital Project Fund	375,000
General Fund	Capital Project Fund	797,036
Debt Service Fund	Water and Sewer Fund	335,699
Capital Project Fund	Water and Sewer Fund	6,905

Transfers from the Water and Sewer Fund were utilized to pay budgeted expenditures in other funds. Transfers from the General Fund to the Capital Projects Fund were utilized for construction projects. Transfer from the Debt Service Fund to the Water and Sewer Fund were utilized for debt payments.

Discretely Presented Component Unit (CEDC)

Amounts receivable and payable between the City and its component unit at September 30, 2019 were as follows:

Primary Government/Component Unit	Receivables	Payables
City - General Fund	\$ -	\$ 10,669
Component unit - CEDC	10,669	-
Totals	<u><u>\$ 10,669</u></u>	<u><u>\$ 10,669</u></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.

City of Cleveland, Texas
Notes to Financial Statements

D. Noncurrent assets - Contract receivable from CEDC

Contract receivable of \$326,105 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 \$40,000 in the current year.

Year Ending September 30,	Principal	Total
2020	\$ 155,000	\$ 155,000
2021	171,105	171,105
Totals	\$ 326,105	\$ 326,105

E. Capital Assets

Primary Government

Capital asset activity for the period ended September 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,179,941	\$ 100,070	\$ -	\$ 2,280,011
Construction in progress	1,405,296	438,751	(1,786,887)	57,160
Total capital assets, not being depreciated	3,585,237	538,821	(1,786,887)	2,337,171
Capital assets, being depreciated				
Buildings and improvements	19,828,287	49,159	1,786,887	21,664,333
Furniture and equipment	4,690,184	537,022	(59,399)	5,167,807
Total capital assets, being depreciated	24,518,471	586,181	1,727,488	26,832,140
Less accumulated depreciation for				
Buildings and improvements	(5,553,876)	(625,592)	-	(6,179,468)
Furniture and equipment	(3,639,732)	(233,452)	39,136	(3,834,048)
Total accumulated depreciation	(9,193,608)	(859,044)	39,136	(10,013,516)
Total capital assets, being depreciated, net	15,324,863	(272,863)	1,766,624	16,818,624
Governmental activities capital assets, net	\$ 18,910,100	\$ 265,958	\$ (20,263)	\$ 19,155,795

City of Cleveland, Texas
Notes to Financial Statements

Depreciation was charged to governmental-type activities as follows:

Governmental activities:	
City council	\$ 669
Administration	41,741
Technology	27,261
Police	98,562
Animal control	5,426
Fire and ambulance	104,573
Garage department	1,351
Street department	124,846
Airport department	151,600
Library department	36,507
Cemetery and parks	42,320
Civic center	79,620
Inspection	8,277
Sports facilities	136,291
	136,291
Total depreciation expense	\$ 859,044

	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	2,664,713	-	2,895,565
	409,473	2,664,713	-	3,074,186
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings and improvements	47,997	-	-	47,997
Furniture and equipment	1,628,502	80,693	-	1,709,195
Water system	11,841,356	-	-	11,841,356
Sewer system	15,840,051	-	-	15,840,051
	29,357,906	80,693	-	29,438,599
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(30,312)	(1,408)	-	(31,720)
Furniture and equipment	(953,208)	(140,044)	-	(1,093,252)
Water system	(3,688,211)	(192,263)	-	(3,880,474)
Sewer system	(11,141,409)	(241,867)	-	(11,383,276)
	(15,813,140)	(575,582)	-	(16,388,722)
Total accumulated depreciation				
Total capital assets, being depreciated, net	13,544,766	(494,889)	-	13,049,877
Business-type activities capital assets, net	\$ 13,954,239	\$ 2,169,824	\$ -	\$ 16,124,063

City of Cleveland, Texas
Notes to Financial Statements

Depreciation was charged to business-type activities as follows:

Water and Sewer Fund	\$	575,582
		<hr/>
Total depreciation expense	\$	575,582
		<hr/> <hr/>

Discretely Presented Component Unit - CEDC

Cleveland Economic Development Corporation construction in progress increased \$3,269 for Cleveland Industrial Park drainage. The ending balance of land (\$949,951) and construction in progress (\$93,861) for total assets of \$1,043,812 at September 30, 2019.

Construction Commitments

The City's Water and Sewer department has an active construction project as of September 30, 2019. The project includes the construction of Water Plant No. 2 and Supervisory Control and Data Acquisition (SCADA) improvements. At year end, the City's commitment with the contractors is \$957,860. The commitment for construction of the water plant and SCADA improvements is being financed by Tax and Revenue Certificates of Obligation secured by tax revenues and utility revenues.

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 total 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 total 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).

City of Cleveland, Texas
Notes to Financial Statements

Changes in long-term obligations for the period ended September 30, 2019 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Tax note	\$ 395,000	\$ -	\$ (195,000)	\$ 200,000	\$ 200,000
Certificates of obligation	5,935,000	-	(365,000)	5,570,000	380,000
General obligation bond	4,505,000	-	(620,000)	3,885,000	630,000
Issuance premiums	442,210	-	(40,345)	401,865	-
Total tax note, certificates, and bonds payable	11,277,210	-	(1,220,345)	10,056,865	1,210,000
Compensated absences	93,842	96,528	(94,134)	96,236	96,236
Net pension liability	1,401,130	1,723,087	(1,005,092)	2,119,125	-
Total OPEB liability	226,485	16,375	(37,853)	205,007	-
Total governmental activities	\$ 12,998,667	\$ 1,835,990	\$ (2,357,424)	\$ 12,477,233	\$ 1,306,236
Business-type activities:					
Certificates of obligation	\$ 3,975,000	\$ -	\$ (575,000)	\$ 3,400,000	\$ 220,000
Issuance premiums	69,853	-	(4,845)	65,008	-
Total certificates	4,044,853	-	(579,845)	3,465,008	220,000
Note payable	11,207	-	(11,207)	-	-
Compensated absences	15,109	28,576	(25,500)	18,185	18,185
Net pension liability	228,091	280,502	(163,619)	344,974	-
Total OPEB liability	36,870	2,666	(6,163)	33,373	-
Total business-type activities	\$ 4,336,130	\$ 311,744	\$ (786,334)	\$ 3,861,540	\$ 238,185
Discretely presented component unit (CEDC):					
Note payable	\$ 59,582	\$ -	\$ (50,852)	\$ 8,730	\$ 8,730
Contract payable to primary government*	366,105	-	(40,000)	326,105	155,000
Total discretely presented component unit	\$ 425,687	\$ -	\$ (90,852)	\$ 334,835	\$ 146,270

* 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.

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	\$ 395,000	\$ -	\$ (195,000)	\$ 200,000
Certificates of obligation:							
2012	2.00-4.00%	2032	3,370,000	2,235,000	-	(125,000)	2,110,000
2017	3.00-3.25%	2037	3,920,000	3,700,000	-	(240,000)	3,460,000
General obligation bond:							
2013 REF	2.00-3.00%	2026	7,860,000	4,505,000	-	(620,000)	3,885,000
Totals				\$ 10,835,000	\$ -	\$ (1,180,000)	\$ 9,655,000

City of Cleveland, Texas
Notes to Financial Statements

Debt service requirements for the tax note, certificates of obligation, and the general obligation bond at September 30, 2019 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
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	\$ 9,655,000	\$ 1,644,814	\$ 11,299,814

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 payments of the 2012 Series principal and interest as noted in the preceding tables. The CEDC is pledging sales tax revenue to fund the debt requirements. The CEDC contributed \$205,600 in the current year.

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	\$ 360,000	\$ -	\$ (360,000)	\$ -
2011	0.100-3.90%	2031	2,360,000	1,660,000	-	(105,000)	1,555,000
2012A	2.000-3.25%	2033	2,470,000	1,955,000	-	(110,000)	1,845,000
Totals				\$ 3,975,000	\$ -	\$ (575,000)	\$ 3,400,000

City of Cleveland, Texas
Notes to Financial Statements

Debt service requirements for revenue bonds at September 30, 2019 are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2020	\$ 220,000	\$ 102,675	\$ 322,675
2021	225,000	97,428	322,428
2022	230,000	91,748	321,748
2023	240,000	85,608	325,608
2024	240,000	78,887	318,887
2025	250,000	71,598	321,598
2026	255,000	63,665	318,665
2027	265,000	55,069	320,069
2028	275,000	46,005	321,005
2029	285,000	36,500	321,500
2030	295,000	26,401	321,401
2031	305,000	15,698	320,698
2032	155,000	7,719	162,719
2033	160,000	\$2,600	162,600
Totals	\$ 3,400,000	\$ 781,601	\$ 4,181,601

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	\$ 11,207	\$ -	\$ (11,207)	\$ -
Totals			\$ 11,207	\$ -	\$ (11,207)	\$ -

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	\$ 59,582	\$ -	\$ (50,852)	\$ 8,730
Totals			\$ 59,582	\$ -	\$ (50,852)	\$ 8,730

City of Cleveland, Texas
Notes to Financial Statements

Debt service requirements for notes payable at September 30, 2019 are as follows:

Year Ending September 30,	Discretely Presented Component Unit		
	Principal	Interest	Total
2020	\$ 8,730	\$ 56	\$ 8,786
Totals	\$ 8,730	\$ 56	\$ 8,786

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 2019, 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 expired September 30, 2019 continuing month to month until it is cancelled with just cause and prior notice by either party. In August, Council approved to award EMS Services subsequent to year end to Allegiance Mobile Health.

C. Pension Information

Plan Description

The City of Cleveland participates as one of 887 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.

City of Cleveland, Texas
Notes to Financial Statements

Benefits Provided

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

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

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

	Plan Year 2018	Plan Year 2017
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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	46
Inactive employees entitled to but not yet receiving benefits	79
Active employees	83
	208

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.

City of Cleveland, Texas

Notes to Financial Statements

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 10.68% and 10.77% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019, were \$587,839, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2018 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 2018 are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	18.00%
International equity	17.5%	15.50%
Core fixed income	10.0%	15.70%
Non-core fixed income	20.0%	18.30%
Real return	10.0%	10.40%
Real estate	10.0%	9.60%
Absolute return	10.0%	9.10%
Private equity	5.0%	2.10%
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, 2017	\$ 11,866,207	\$ 10,236,986	\$ 1,629,221
Changes for the year:			
Service cost	395,063	-	395,063
Interest	797,496	-	797,496
Difference between expected and actual experience	(136,743)	-	(136,743)
Contributions - employer	-	363,729	(363,729)
Contributions - employee	-	170,286	(170,286)
Net investment income	-	(306,841)	306,841
Benefit payments, including refunds of employee contributions	(497,953)	(497,953)	-
Administrative expense	-	(5,926)	5,926
Other changes	-	(310)	310
Net changes	557,863	(277,015)	834,878
Balance at December 31, 2018	\$ 12,424,070	\$ 9,959,971	\$ 2,464,099

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	\$ 4,275,337	\$ 2,464,099	\$ 987,681

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, 2019, the City recognized pension expense of \$554,454.

At September 30, 2019, 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	\$ 45,342	\$ 93,194
Difference between projected and actual investment earnings	531,693	-
Contributions subsequent to the measurement date	305,902	-
Totals	\$ 882,937	\$ 93,194

\$305,902 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2020. 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:	
2020	\$ 182,112
2021	35,965
2022	66,195
2023	199,569
Totals	\$ 483,841

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.

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.

City of Cleveland, Texas
Notes to Financial Statements

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	11
Active employees	83
	130

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 0.11% in calendar years 2018 and 2019. The City's contributions to the SDBF for the year ended September 30, 2019 were \$4,041, and were equal to the required contributions.

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2018 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	3.71%
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.

City of Cleveland, Texas
Notes to Financial Statements

The actuarial assumptions used in the December 31, 2018, 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 3.71% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

Changes in Total OPEB Liability

	Increase (Decrease)
	<u>Total OPEB Liability</u>
Balance at December 31, 2017	\$ 263,355
Changes for the year:	
Service cost	10,217
Interest on Total OPEB Liability	8,824
Difference between expected and actual experience	(25,357)
Changes of assumptions or other inputs	(14,913)
Benefit payments	<u>(3,746)</u>
Net changes	<u>(24,975)</u>
Balance at December 31, 2018	<u>\$ 238,380</u>

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 3.71%, 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 (2.71%) or 1 percentage-point higher (4.71%) than the current rate:

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
Total OPEB liability	\$ 278,441	\$ 238,380	\$ 206,474

City of Cleveland, Texas
Notes to Financial Statements

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$14,758. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 20,326
Changes in actuarial assumptions and other inputs	-	684
Contributions subsequent to the measurement date	3,130	-
Totals	<u>\$ 3,130</u>	<u>\$ 21,010</u>

The \$3,130 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, 2020. 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:	
2020	\$ (4,283)
2021	(4,283)
2022	(4,283)
2023	(7,841)
2024	(320)
Totals	<u>\$ (21,010)</u>

E. Subsequent Event

Bond Issuance

In November 2019 the City approved the issuance of the General Obligation Refunding Bond Series 2019 for \$2,030,000, refunding the Series 2012 for \$1,980,000.

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Required Supplementary Information

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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, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 2,138,628	\$ 2,138,628	\$ 2,163,172	\$ 24,544
Sales and other taxes	2,855,550	3,503,241	4,091,727	588,486
Franchise taxes	480,600	480,600	475,052	(5,548)
License and permits	210,500	210,500	210,299	(201)
Charges for services	535,444	535,444	476,495	(58,949)
Fines and forfeitures	337,430	337,430	322,322	(15,108)
Intergovernmental	98,160	98,160	277,381	179,221
Earnings on investments	57,050	57,050	100,541	43,491
Contributions	-	-	173,126	173,126
Miscellaneous	465,000	90,000	41,528	(48,472)
Total revenues	<u>7,178,362</u>	<u>7,451,053</u>	<u>8,331,643</u>	<u>880,590</u>
EXPENDITURES				
General Government:				
City council	35,950	35,950	30,241	5,709
Administration	962,908	962,908	956,804	6,104
Technology	380,281	380,281	375,175	5,106
Public Safety:				
Municipal court	289,701	289,701	265,249	24,452
Police department	2,430,921	2,435,129	2,235,891	199,238
Animal control	60,149	60,149	52,896	7,253
Fire and ambulance	760,166	761,676	810,745	(49,069)
Emergency management	30,067	30,067	13,181	16,886
Public Works:				
Development services	253,833	230,394	237,485	(7,091)
Garage department	12,300	12,300	39,605	(27,305)
Transportation:				
Street department	433,556	433,556	426,168	7,388
Airport department	45,000	45,000	46,148	(1,148)
Culture and Recreation:				
Library department	391,423	391,423	381,349	10,074
Cemetery and parks	413,275	413,275	399,650	13,625
Civic/community	233,206	233,206	264,162	(30,956)
Sports facilities	25,950	25,950	28,685	(2,735)
Grants	34,700	831,736	-	831,736
Capital Outlay:				
Technology	-	-	10,714	(10,714)
Police department	102,700	102,700	97,295	5,405
Garage department	120,000	120,000	100,070	19,930
Street department	75,000	75,000	57,160	17,840
Airport department	20,000	20,000	17,988	2,012
Cemetery and parks	60,000	120,000	70,532	49,468
Fire and ambulance	25,000	25,000	41,511	(16,511)
Sports facilities	-	180,000	154,813	25,187
Grants	80,000	80,000	-	80,000
Total expenditures	<u>7,276,086</u>	<u>8,295,401</u>	<u>7,113,517</u>	<u>1,181,884</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(97,724)</u>	<u>(844,348)</u>	<u>1,218,126</u>	<u>2,062,474</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	5,000	5,000
Transfers in (out)	-	-	(767,036)	(767,036)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(762,036)</u>	<u>(762,036)</u>
NET CHANGE IN FUND BALANCE	<u>(97,724)</u>	<u>(844,348)</u>	<u>456,090</u>	<u>1,300,438</u>
Fund balance - beginning	<u>5,906,411</u>	<u>5,906,411</u>	<u>5,906,411</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 5,808,687</u>	<u>\$ 5,062,063</u>	<u>\$ 6,362,501</u>	<u>\$ 1,300,438</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 Five Fiscal Years*

	<u>2019</u>	<u>2018</u>
Total Pension Liability:		
Service cost	\$ 395,063	\$ 385,239
Interest	797,496	747,381
Differences between expected and actual experience	(136,743)	81,087
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(497,953)	(454,374)
	<u>557,863</u>	<u>759,333</u>
Net change in total pension liability	557,863	759,333
Total pension liability - beginning	11,866,207	11,106,874
Total pension liability - ending (a)	<u>\$ 12,424,070</u>	<u>\$ 11,866,207</u>
Plan fiduciary net position:		
Contributions - employer	\$ 363,729	\$ 350,699
Contributions - employee	170,286	166,051
Net investment income	(306,841)	1,239,934
Benefits payments, including refunds of employee contributions	(497,953)	(454,374)
Administrative expense	(5,926)	(6,422)
Other	(310)	(325)
	<u>(277,015)</u>	<u>1,295,563</u>
Net change in plan fiduciary net position	(277,015)	1,295,563
Plan fiduciary net position - beginning	10,236,986	8,941,423
Plan fiduciary net position - ending (b)	<u>\$ 9,959,971</u>	<u>\$ 10,236,986</u>
Net pension liability - ending (a)-(b)	<u>\$ 2,464,099</u>	<u>\$ 1,629,221</u>
Plan fiduciary net position as a percentage of total pension liability	80.17%	86.27%
Covered payroll	\$ 3,405,719	\$ 3,321,023
Net pension liability as a percentage of covered payroll	72.35%	49.06%

*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.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 361,883	\$ 310,615	\$ 289,352
699,231	693,226	668,798
106,870	(125,466)	(146,722)
-	36,902	-
(478,284)	(492,054)	(454,110)
689,700	423,223	357,318
10,417,174	9,993,951	9,636,633
<u>\$ 11,106,874</u>	<u>\$ 10,417,174</u>	<u>\$ 9,993,951</u>
\$ 308,931	\$ 306,308	\$ 285,365
156,659	143,537	143,400
567,304	12,441	457,872
(478,284)	(492,054)	(454,110)
(6,406)	(7,578)	(4,780)
(345)	(373)	(393)
547,859	(37,719)	427,354
8,393,564	8,431,283	8,003,929
<u>\$ 8,941,423</u>	<u>\$ 8,393,564</u>	<u>\$ 8,431,283</u>
<u>\$ 2,165,451</u>	<u>\$ 2,023,610</u>	<u>\$ 1,562,668</u>
80.50%	80.57%	84.36%
\$ 3,133,188	\$ 2,870,749	\$ 2,868,009
69.11%	70.49%	54.49%

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

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 395,012	\$ 357,632
Contributions in relation to the actuarially determined contribution	<u>(395,012)</u>	<u>(357,632)</u>
CONTRIBUTIONS DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,674,680	\$ 3,357,437
Contributions as a percentage of covered payroll	10.75%	10.65%

*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.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 341,779 (341,779)	\$ 323,843 (323,843)	\$ 293,516 (293,516)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,286,315	\$ 3,215,934	\$ 2,803,135
10.40%	10.07%	10.47%

City of Cleveland, Texas

Schedule of Changes in the City's OPEB (SDBF Plan) Liability and Related Ratios Texas Municipal Retirement System Last Two Fiscal Years*

	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 10,217	\$ 8,635
Interest on Total OPEB Liability	8,824	8,827
Change of benefit terms	-	-
Difference between expected and actual experience	(25,357)	-
Changes of assumptions or other inputs	(14,913)	18,684
Benefit payments	(3,746)	(3,985)
	<u>(24,975)</u>	<u>32,161</u>
Net change in total OPEB liability		
	(24,975)	32,161
Total OPEB liability - beginning	263,355	231,194
	<u>263,355</u>	<u>231,194</u>
TOTAL OPEB LIABILITY - ENDING	\$ 238,380	\$ 263,355
Covered payroll	\$ 3,405,719	\$ 3,321,023
Total OPEB liability as a percentage of covered payroll	7.00%	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.

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 (SDBF Plan) Contributions

Texas Municipal Retirement System

Last Two Fiscal Years*

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 4,041	\$ 3,772
Contributions in relation to the actuarially determined contribution	<u>(4,041)</u>	<u>(3,772)</u>
CONTRIBUTIONS DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,674,680	\$ 3,357,437
Contributions as a percentage of covered payroll	0.11%	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.

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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, 2019, 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	\$ 761,676	\$ 810,745	\$ (49,069)
Public Works:			
Development services	230,394	237,485	(7,091)
Garage department	12,300	39,605	(27,305)
Transportation:			
Airport department	45,000	46,148	(1,148)
Culture and Recreation:			
Civic/community	233,206	264,162	(30,956)
Sports facilities	25,950	28,685	(2,735)
Capital Outlay:			
Technology	-	10,714	(10,714)
Fire and ambulance	25,000	41,511	(16,511)

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Supplementary Information

City of Cleveland, Texas
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 September 30, 2019

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
ASSETS		
Cash and cash equivalents	\$ 417,366	\$ 102,574
Receivable:		
Sales and other taxes	21,087	-
Due from other funds	933	17
	<u>439,386</u>	<u>102,591</u>
TOTAL ASSETS	<u>\$ 439,386</u>	<u>\$ 102,591</u>
LIABILITIES		
Accounts payable	\$ 1,134	\$ 4
Accrued liabilities	1,293	-
Escrow liability - seizure funds	-	4,406
	<u>2,427</u>	<u>4,410</u>
Total Liabilities	2,427	4,410
FUND BALANCES		
Restricted for economic development	436,959	-
Restricted for police	-	98,181
Restricted for municipal court	-	-
Committed for fire and ambulance	-	-
	<u>436,959</u>	<u>98,181</u>
Total fund balances	436,959	98,181
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 439,386</u>	<u>\$ 102,591</u>

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ 785	\$ -	\$ -	\$ 520,725
-	-	-	21,087
-	5,310	25,195	31,455
<u>\$ 785</u>	<u>\$ 5,310</u>	<u>\$ 25,195</u>	<u>\$ 573,267</u>
\$ -	\$ -	\$ -	\$ 1,138
-	-	-	1,293
-	-	-	4,406
-	-	-	6,837
-	-	-	436,959
-	-	-	98,181
-	5,310	25,195	30,505
785	-	-	785
<u>785</u>	<u>5,310</u>	<u>25,195</u>	<u>566,430</u>
<u>\$ 785</u>	<u>\$ 5,310</u>	<u>\$ 25,195</u>	<u>\$ 573,267</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, 2019

	<u>Hotel/Motel Fund</u>	<u>Money Seizures Fund</u>
REVENUES		
Sales and other taxes	\$ 257,224	\$ -
Charges for services	-	-
Fines and forfeitures	-	2,148
Intergovernmental	-	2,053
Earnings on investments	3,772	237
	<hr/>	<hr/>
Total revenues	260,996	4,438
EXPENDITURES		
Municipal court	-	-
Economic development	200,911	-
Capital outlay:		
Civic/community	97,000	-
Police department	-	65,157
Cemetery and parks	49,159	-
	<hr/>	<hr/>
Total expenditures	347,070	65,157
Excess (deficiency) of revenues over (under) expenditures	(86,074)	(60,719)
Fund balances, beginning of year	<hr/>	<hr/>
	523,033	158,900
FUND BALANCES, END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 436,959	\$ 98,181

<u>Fire Department Restoration</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ -	\$ 257,224
-	7,406	5,557	12,963
-	-	-	2,148
-	-	-	2,053
6	-	-	4,015
6	7,406	5,557	278,403
-	4,896	1,801	6,697
-	-	-	200,911
-	-	-	97,000
-	-	-	65,157
-	-	-	49,159
-	4,896	1,801	418,924
6	2,510	3,756	(140,521)
779	2,800	21,439	706,951
<u>\$ 785</u>	<u>\$ 5,310</u>	<u>\$ 25,195</u>	<u>\$ 566,430</u>

City of Cleveland, Texas

Statement of Net Position - Component Unit
Cleveland Economic Development Corporation
September 30, 2019

	Component Unit CEDC
ASSETS	
Cash and cash equivalents	\$ 1,575,465
Investments	308,583
Due from primary government	10,669
Capital assets:	
Land	949,951
Construction in progress	93,861
TOTAL ASSETS	\$ 2,938,529
LIABILITIES	
Accounts payable	\$ 3,840
Note payable - current	8,730
Contract payable to primary government - short term	155,000
Total current liabilities	167,570
Noncurrent liabilities:	
Contract payable to primary government - long term	171,105
Total noncurrent liabilities	171,105
Total liabilities	338,675
NET POSITION	
Net investment in capital assets	1,035,082
Unrestricted	1,564,772
Total net position	2,599,854
TOTAL LIABILITIES AND NET POSITION	\$ 2,938,529

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, 2019

	Component Unit
	CEDC
OPERATING REVENUES	
Sales tax	\$ 789,329
Charges for services	730
Total revenues	790,059
OPERATING EXPENSES	
Economic development:	
Professional services	115,689
Other services	30,704
Supplies	274
Utilities	85,622
Consulting	17,887
Contributions to City	199,124
Total expenses	449,300
Operating income	340,759
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	17,660
Gain on sale of assets	535,906
Interest and fiscal charges	(82,458)
Total nonoperating revenues (expenses)	471,108
Change in net position	811,867
Net position - beginning	1,787,987
NET POSITION - ENDING	\$ 2,599,854

City of Cleveland, Texas
 Schedule of Taxes Receivable
 For the Fiscal Year Ended September 30, 2019

Tax Year	Balance 9/30/2018	Tax Levy	Collections	Adjustments	Balance 9/30/2019
2018	\$ -	\$ 3,005,229	\$ 2,857,725	\$ -	\$ 147,504
2017	133,578	-	47,687	(9,348)	76,543
2016	82,249	-	20,940	(2,967)	58,342
2015	56,694	-	10,500	(1,483)	44,711
2014	49,684	-	6,427	(1,534)	41,723
2013	43,883	-	6,300	11	37,594
2012	46,587	-	3,781	(1,117)	41,689
2011	49,311	-	2,500	(980)	45,831
2010	40,945	-	2,000	(1,030)	37,915
2009 & Prior	188,108	-	9,980	(14,577)	163,551
Total	\$ 691,039	\$ 3,005,229	\$ 2,967,840	\$ (33,025)	\$ 695,403
Less allowance for uncollectible accounts					41,000
					\$ 654,403

ASSESSED VALUATION AND RATE SUMMARY

Tax Year	Property Valuations	General Fund	Debt Service Fund	Total
2018	\$ 390,289,481	\$ 0.5445	\$ 0.2255	\$ 0.7700
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

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, 2019 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 13, 2020.

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

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 13, 2020

City of Cleveland, Texas
Schedule of Findings and Reponses
For the Fiscal Year Ended September 30, 2019

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, 2019

Prior Year Findings

None reported