

City of Cleveland
Cleveland, Oklahoma

Audit Report
for the year ended June 30, 2015

CITY OF CLEVELAND
Cleveland, Oklahoma

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Independent Auditor's Report

The Honorable City Council
City of Cleveland
Cleveland, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cleveland, State of Oklahoma, (City) as of and for the year ended June 30, 2015, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 of the United States. Those standards require that I 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 controls 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Unqualified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cleveland, State of Oklahoma, as of June 30, 2015, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, in the current fiscal year the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition from Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and 71 resulted in the restatement of beginning net position. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (pages fifty-five to fifty-seven), and the related notes (page fifty-eight) 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and were derived from and relate 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 my opinion, the combining statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 9, 2015, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

Independent Auditor's Report

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November 9, 2015

describe the scope of my testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the 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.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff, CPA, A Professional Corporation

Oklahoma City, Oklahoma 73172

November 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

As management of the City of Cleveland (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 June 30, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

The total net position of the City increased \$1,079,243. Net position of governmental activities increased \$821,945 or 27.53% over the fiscal year.

General revenues accounted for \$2,600,811 or 86.48% of total governmental activities revenue. Program specific revenues accounted for \$351,540 or 13.52% of total governmental activities revenue.

Governmental activities capital assets, net increased \$109,094, which includes purchases of police and fire vehicles, mower, copier, improvements to fire, police and city hall and depreciation. Business-type activities capital assets, net-increased \$543,766, included are airport improvements, city hall improvements, street improvements, water plant improvements and depreciation.

The City had \$2,340,955 in expenses related to governmental activities; \$351,540 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,989,415 were offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$2,600,811.

Net position for the business activities, which are made up of the Municipal Authority and the Airport Authority increased over the fiscal year by \$257,298 or 4.31%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information as well as other supplemental information.

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 information on all of the City's assets and liabilities, with the difference between the two 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

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 (fire, ambulance, police and animal control), streets, judicial, culture, parks and recreation, public improvements and planning and zoning. The business-type activities of the City include public works (electric, water, gas, sewer and refuse) and airport rentals.

The government-wide financial statements can be found on page 10–12 of this report.

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

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 evaluating a government's near-term financing requirements.

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

The City maintains seven 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, which is considered to be major funds. Data from the other six funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, Special Revenue and Capital Projects Funds. Budgetary comparison schedules have been provided for the General Fund, each major Special Revenue Fund and Capital Projects Fund that adopts a budget to demonstrate compliance with the budget and are presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 13–16 of this report.

Proprietary Funds – The City maintains two different types of 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 electric, water, sewer and refuse, industrial building rentals and golf course rental.

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 Cleveland Municipal Authority and the Cleveland Airport Authority since they are considered to be major funds of the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

The basic proprietary fund financial statements can be found on pages 17–19 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 20 of this report.

Component Units – The City includes two separate legal entities in its report – the Cleveland Municipal Authority and the Airport Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21–36 of this report.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparisons, progress in funding its obligation to provide pension benefits to its employees and corresponding notes. Required supplementary information can be found on pages 37–40 of this report.

Other Information – The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining and individual statements and schedules can be found on pages 41–42 of this report.

Governmental-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Cleveland, assets exceed liabilities by \$10,038,488 as of June 30, 2015.

The largest portion of the City's net position reflects its investments in capital assets (e.g., land, buildings, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

City of Cleveland's Changes in Net position

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Revenues:						
Program revenues						
Charges for services	\$ 333,626	\$ 352,111	\$ 2,874,613	\$ 3,126,843	\$ 3,208,239	\$ 3,478,954
Operating grants and contributions	9,684	10,142	-	-	9,684	10,142
Capital grants and contributions	8,230	11,099	68,659	216,044	76,889	227,142
General revenues:						
Sales, use and cigarette taxes	1,927,031	1,862,356	-	-	1,927,031	1,862,356
Franchise fees	74,989	77,625	-	-	74,989	77,625
Cigarette taxes	21,798	20,951	-	-	-	-
Intergovernmental	69,431	68,835	-	-	69,431	68,835
Hotel/motel tax	4,114	4,768	-	-	4,114	4,768
Investment earnings	2,424	2,976	2,941	2,675	5,365	5,651
Miscellaneous	141,136	162,391	80,085	-	221,221	162,391
Penalties	-	-	56,264	-	56,264	-
Sale of surplus	-	3,000	-	-	-	3,000
Pension change	827,688	-	-	-	827,688	-
Rental income	8,348	10,542	5,850	-	14,198	10,542
Total revenues	3,428,499	2,586,796	3,088,412	3,345,562	6,495,113	5,911,407
Expenses:						
General government	141,309	134,188	-	-	141,309	134,188
Public safety and judiciary	1,203,053	1,239,017	-	-	1,203,053	1,239,017
Transportation	78,927	76,212	-	-	78,927	76,212
Cultural, parks and recreation	277,491	292,636	-	-	277,491	292,636
Hospital/economic development	521,068	507,785	-	-	521,068	507,785
Unallocated depreciation	119,107	113,402	246,434	231,529	365,541	344,931
Airport activities	-	-	42,932	39,041	42,932	39,041
Utilities	-	-	2,786,238	2,783,266	2,786,238	2,783,266
Financing	-	-	21,109	26,567	21,109	26,567
Total expenses	2,340,955	2,363,240	3,096,713	3,080,403	5,437,668	5,443,643
Increases in net assets						
before transfers	1,087,544	223,556	(8,301)	265,159	1,057,445	467,764
Transfers	(265,599)	(278,523)	265,599	278,523	-	-
Increase in net assets	821,945	(54,967)	257,298	543,682	1,057,445	467,764
Net assets - beginning of year	2,985,552	3,040,519	5,973,693	5,430,011	8,959,245	8,470,530
Net assets - end of year	\$ 3,807,497	\$ 2,985,552	\$ 6,230,991	\$ 5,973,693	\$ 10,016,690	\$ 8,938,294

Financial Analysis of the Government's Funds

Governmental Funds – The focus of the City of Cleveland'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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Cleveland's governmental funds reported combined ending fund balances of \$910,048. Approximately 45% of the total amount (\$413,805) constitutes unrestricted fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted 1) for Special Projects (\$496,243).

In the general fund, the City budgeted for a break even in the fund balance which includes subsidies from the Cleveland Municipal Authority.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

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

Unrestricted net positions of the respective proprietary funds are Cleveland Municipal Authority – \$731,130 and the Airport Authority – \$4,052.

Capital Assets

The City of Cleveland's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$10,638,544 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. Major capital asset events during the current fiscal year included the following:

Governmental activities include: police and fire vehicles, mower, a copier, and improvements to fire, police and city hall.

Business-type activities include: airport improvements, city hall improvements, street improvements, and water plant improvements.

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Land	\$ -	\$ -	\$ 768,000	\$ 763,000	\$ 768,000	\$ 763,000
Construction in process	-	-	-	-	-	-
Equipment	-	-	77,897	69,970	77,897	69,970
Water improvements	-	-	2,425,608	1,810,931	2,425,608	1,810,931
Sewer improvements	-	-	1,590,500	1,660,675	1,590,500	1,660,675
Gas improvements	-	-	-	-	-	-
Airport improvements	-	-	1,257,782	1,267,738	1,257,782	1,267,738
General government assets	4,430,345	4,321,250	-	-	4,430,345	4,321,250
Other improvements	-	-	88,412	92,119	88,412	92,119
Total	\$ 4,430,345	\$ 4,321,250	\$ 6,208,199	\$ 5,664,433	\$ 10,638,544	\$ 9,985,683

Additional information on the City of Cleveland's capital assets can be found in note 2 on page 29 of this report.

Debt Administration

At the end of the current fiscal year, the City of Cleveland had total bonded debt and notes payable of \$830,672. Of this amount, \$148,858 comprises the bonded debt backed by the full faith and credit of the government and \$681,814 represents notes secured solely by enterprise revenues and the assets purchased.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

Outstanding Debt at Year-end Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Notes payable	\$ -	\$ -	\$ 712,391	\$ 480,266	\$ 712,391	\$ 480,266
Total	\$ -	\$ -	\$ 712,391	\$ 480,266	\$ 712,391	\$ 480,266

Additional information on the City of Cleveland's long-term debt can be found in footnote 2 and 3 on pages 30-32 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2015-16 Budget, General Fund revenues and transfers in are budgeted to increase from the 2014-15 budget year with sales taxes making up about 65% of general fund budgeted revenues and transfers in. The City's budgets for all funds have benefited from an upward moving economy over the past year, sales tax receipts are expected to even out. This revenue source is the most volatile and subject to decline if an economic slowdown happens, such as the recession.

As a result of the potential impact in revenue, the City has made a concerted effort to limit appropriations to only those items truly necessary. This includes a reduction in the amount spent by the City in all areas.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact Elzie Smith, City Manager, P.O. Drawer 190, Cleveland, OK 74020, or call 918-358-3506

City of Cleveland
Cleveland, Oklahoma

Basic Financial Statements

CITY OF CLEVELAND
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 473,805	\$ 324,606	\$ 798,411
Cash on hand	-	100	100
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	197,058	197,058
Unbilled revenues	-	205,811	205,811
Taxes	366,922	-	366,922
Grant receivable	-	-	-
Due to/from others	-	-	-
Accrued interest receivable	-	239	239
Inventory	-	103,002	103,002
Net pension asset	29,405	-	29,405
Restricted assets:			
Cash and investments (Note 1)	86,584	113,005	199,589
Cash, insurance deposit	17,478	-	17,478
Capital assets:			
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	4,430,345	6,208,199	10,638,544
Total assets	<u>5,404,539</u>	<u>7,152,020</u>	<u>12,556,559</u>
Deferred outflows of resources:			
Deferred amounts related to pensions	224,404	-	224,404
Total deferred outflows	<u>224,404</u>	<u>-</u>	<u>224,404</u>
Liabilities:			
Current liabilities:			
Accounts payable	41,832	147,820	189,652
Sales tax payable	-	1,594	1,594
Payroll taxes payable	(192)	-	(192)
Accrued compensated absences payable (Note 1)	54,974	57,514	112,488
Payable from restricted assets:			
Interest payable	-	1,711	1,711
Notes payable (Note 2)	-	237,690	237,690
Non-current liabilities:			
Net pension liability	1,326,172	-	1,326,172
Notes payable (Note 2)	-	474,700	474,700
Total liabilities	<u>1,422,786</u>	<u>921,029</u>	<u>2,343,815</u>
Deferred inflows of resources:			
Deferred amounts related to pensions	398,660	-	398,660
Total deferred inflows	<u>398,660</u>	<u>-</u>	<u>398,660</u>
Net position:			
Net investment in capital assets	4,430,345	5,495,809	9,926,154
Restricted	493,612	-	493,612
Unrestricted	(1,116,460)	735,182	(381,278)
Total net position	<u>\$ 3,807,497</u>	<u>\$ 6,230,991</u>	<u>\$ 10,038,488</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF CLEVELAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 71,989	\$ -	\$ -	\$ -	\$ (71,989)
City treasurer	6,300	-	-	-	(6,300)
General government	63,020	7,602	-	-	(55,418)
Total general government	<u>141,309</u>	<u>7,602</u>	<u>-</u>	<u>-</u>	<u>(133,707)</u>
Public safety and judiciary:					
City attorney	31,967	-	-	-	(31,967)
Fire and ambulance	582,057	90,889	6,384	-	(484,784)
Municipal court	11,159	119,477	-	-	108,318
Juvenile court	-	6,140	-	-	6,140
Police	531,148	250	800	-	(530,098)
911 operations	46,722	40,322	-	-	(6,400)
Total public safety and judiciary	<u>1,203,053</u>	<u>257,078</u>	<u>7,184</u>	<u>-</u>	<u>(938,791)</u>
Transportation:					
Airport	-	-	-	-	-
Streets	78,927	-	-	-	(78,927)
Total transportation	<u>78,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,927)</u>
Cultural, parks and recreation:					
Library	114,407	5,470	-	8,230	(100,707)
Parks	108,823	38,784	2,500	-	(67,539)
Community center	-	-	-	-	-
Cemetery	54,261	24,692	-	-	(29,569)
Total cultural, parks and recreation	<u>277,491</u>	<u>68,946</u>	<u>2,500</u>	<u>8,230</u>	<u>(197,815)</u>
Hospitals					
Hospital activities	521,068	-	-	-	(521,068)
Total hospitals	<u>521,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(521,068)</u>
Unallocated depreciation*	119,107	-	-	-	(119,107)
Total governmental activities	<u>2,340,955</u>	<u>333,626</u>	<u>9,684</u>	<u>8,230</u>	<u>(1,989,415)</u>
Business-type activities					
Airport authority	42,932	9,025	-	18,659	(15,248)
General and administrative	470,731	92,986	-	50,000	(327,745)
Gas service	762,386	1,206,901	-	-	444,515
Water service	1,149,844	843,457	-	-	(306,387)
Shop	-	-	-	-	-
Sanitation service	324,135	342,199	-	-	18,064
Wastewater	79,142	380,045	-	-	300,903
Financing costs	21,109	-	-	-	(21,109)
Unallocated depreciation*	246,434	-	-	-	(246,434)
Total business-type activities	<u>3,096,713</u>	<u>2,874,613</u>	<u>-</u>	<u>68,659</u>	<u>(153,441)</u>
Total	<u>\$ 5,437,668</u>	<u>\$ 3,208,239</u>	<u>\$ 9,684</u>	<u>\$ 76,889</u>	<u>\$ (2,142,856)</u>

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

The accompanying notes are an integral part of the basic financial statements.

**CITY OF CLEVELAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

	Net (Expense) Revenue and Changes in Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,989,415)	(153,441)	(2,142,856)
General revenues:			
Taxes:			
Sales and use taxes	1,927,031	-	1,927,031
Franchise taxes	74,989	-	74,989
Cigarette taxes	21,798	-	21,798
Intergovernmental	69,431	-	69,431
Hotel/motel tax	4,114	-	4,114
Investment earnings	2,424	2,941	5,365
Miscellaneous	141,136	80,085	221,221
Penalties	-	56,264	56,264
Rental income	8,348	5,850	14,198
Sale of surplus	-	-	-
Pension change	827,688	-	827,688
Transfers	(265,599)	265,599	-
Total general revenues and transfers	<u>2,811,360</u>	<u>410,739</u>	<u>3,222,099</u>
Change in net position	821,945	257,298	1,079,243
Net position - beginning of year - restated	<u>2,985,552</u>	<u>5,973,693</u>	<u>8,959,245</u>
Net position - end of year	<u>\$ 3,807,497</u>	<u>\$ 6,230,991</u>	<u>\$ 10,038,488</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF CLEVELAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 155,545	\$ 318,260	\$ 473,805
Accrued governmental transfers	366,922	-	366,922
Accounts receivable	-	-	-
Due from others	-	-	-
Restricted assets:			
Cash and investments (Note 1)	-	86,584	86,584
Cash, insurance deposit	17,478	-	17,478
Capital assets			
Depreciable buildings, property & equipment, net of depreciation (Notes 1 & 2)	-	6,899	6,899
Total assets	<u>\$ 539,945</u>	<u>\$ 411,743</u>	<u>\$ 951,688</u>
Liabilities:			
Accounts payable	\$ 40,320	\$ 1,512	\$ 41,832
Due to others	-	-	-
Payroll taxes payable	(192)	-	(192)
Total liabilities	<u>40,128</u>	<u>1,512</u>	<u>41,640</u>
Fund balance:			
Restricted for:			
Cemetery	-	93,483	93,483
E-911 services	68,534	-	68,534
Workers compensation	17,478	-	17,478
Other purposes	-	314,117	314,117
Assigned to:			
Other capital projects	-	2,631	2,631
Unassigned	<u>413,805</u>	<u>-</u>	<u>413,805</u>
Total fund balance	<u>499,817</u>	<u>410,231</u>	<u>910,048</u>
Total liabilities and fund balance	<u>\$ 539,945</u>	<u>\$ 411,743</u>	<u>\$ 951,688</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT
OF NET POSITION
June 30, 2015

Total Fund Balances - Total Governmental Funds	\$	910,048
Amounts reported for governmental activities in the statement of net assets are different because:		
Net pension asset		29,405
Pension related deferred outflows		224,404
Net pension liability		(1,326,172)
Pension related deferred inflows		(398,660)
Accrued compensated absences payable		(54,974)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
City Hall	\$	293,474
Library		438,785
Parks		731,260
Cemetery Trust		129,035
Fire & Police		985,185
Streets		887,521
Sanitation		18,500
Other		41,897
Ambulance		198,173
Sewer		17,575
Community Center		682,041
		4,423,446
Net assets of governmental activities	\$	<u>3,807,497</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Charges for services	\$ 119,857	\$ 35,234	\$ 155,091
Cigarette taxes	21,798	-	21,798
Interest	973	1,451	2,424
Franchise taxes	74,989	-	74,989
Hotel/motel taxes	4,114	-	4,114
Intergovernmental programs	69,431	10,704	80,135
Fines and forfeits	125,616	-	125,616
Rental receipts	8,348	3,800	12,148
Licenses and permits	7,602	-	7,602
Lot sales	-	1,194	1,194
Miscellaneous revenue	9,640	131,498	141,138
Sale of surplus	-	-	-
Sales and use taxes	1,927,031	-	1,927,031
Special assessments	40,322	-	40,322
Donations and other	-	7,210	7,210
Total revenues	<u>2,409,721</u>	<u>191,091</u>	<u>2,600,812</u>
Expenditures:			
Current:			
General government	141,309	-	141,309
Public safety	1,191,255	4,441	1,195,696
Highways and roads	78,927	-	78,927
Cultural and recreational	210,041	67,451	277,492
Health & welfare	521,068	-	521,068
Capital outlay	69,216	158,985	228,201
Total expenditures	<u>2,211,816</u>	<u>230,877</u>	<u>2,442,693</u>
Excess of revenues over (under) expenditures	197,905	(39,786)	158,119
Other financing uses:			
Loan proceeds	-	-	-
Operating transfers in (out)	(260,504)	(5,095)	(265,599)
Excess of revenues over (under) expenditures & transfers	(62,599)	(44,881)	(107,480)
Fund balance - beginning of year	<u>562,416</u>	<u>455,112</u>	<u>1,017,528</u>
Fund balance - end of year	<u>\$ 499,817</u>	<u>\$ 410,231</u>	<u>\$ 910,048</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ (107,480)
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Government-Wide Statement of Activities report the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	827,688
Government-Wide Statement of Activities report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.	(7,357)
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(119,107)
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	<u>228,201</u>
Change in Net Assets of Governmental Activities	\$ <u>821,945</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF CLEVELAND
STATEMENT OF NET FUND POSITION
PROPRIETARY FUNDS
June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 313,311	\$ 11,295	\$ 324,606
Cash on hand	100	-	100
Accounts receivables (net of allowance for uncollectibles)	197,058	-	197,058
Unbilled revenues	205,811	-	205,811
Grants receivable	-	-	-
Due from others	-	-	-
Accrued interest receivable	239	-	239
Inventory	103,002	-	103,002
Restricted:			
Cash & cash equivalents (Note 1)	113,005	-	113,005
Capital assets:			
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	4,950,417	1,257,782	6,208,199
Total assets	\$ 5,882,943	\$ 1,269,077	\$ 7,152,020
Liabilities:			
Current liabilities:			
Accounts payable	\$ 140,577	\$ 7,243	\$ 147,820
Sales tax payable	1,594	-	1,594
Due to others	-	-	-
Accrued compensated absences payable (Note 1)	57,514	-	57,514
Payable from restricted assets:			
Interest payable	1,711	-	1,711
Notes payable (Note 2)	237,690	-	237,690
Non-current liabilities:			
Notes payable (Note 2)	474,700	-	474,700
Total liabilities	913,786	7,243	921,029
Net position:			
Net investment in capital assets	4,238,027	1,257,782	5,495,809
Restricted	-	-	-
Unrestricted	731,130	4,052	735,182
Total net position	\$ 4,969,157	\$ 1,261,834	\$ 6,230,991

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Revenues:			
Gas revenue	\$ 1,206,901	\$ -	\$ 1,206,901
Water revenue	843,457	-	843,457
Wastewater revenue	380,045	-	380,045
Sanitation revenue	338,839	-	338,839
Recycle revenue	3,360	-	3,360
Penalties	56,264	-	56,264
Administrative revenue	92,986	-	92,986
Miscellaneous revenue	80,085	-	80,085
Rental revenue	5,850	9,025	14,875
Total revenues	3,007,787	9,025	3,016,812
Operating expenses:			
General and administrative	470,731	1,015	471,746
Gas service	762,386	-	762,386
Water service	1,149,844	-	1,149,844
Shop	-	-	-
Sanitation service	324,135	-	324,135
Wastewater	79,142	-	79,142
Depreciation expense	246,434	41,917	288,351
Total operating expenses	3,032,672	42,932	3,075,604
Income before non-operating revenues, expenses & transfers	(24,885)	(33,907)	(58,792)
Non-operating revenues (expenses):			
Interest revenue	2,902	39	2,941
Interest expense	(21,109)	-	(21,109)
Grant revenue	50,000	18,659	68,659
Total	31,793	18,698	50,491
Income (loss) before operating transfers	6,908	(15,209)	(8,301)
Transfers in (out)	260,504	5,095	265,599
Change in net position	267,412	(10,114)	257,298
Net position at beginning of year	4,701,745	1,271,948	5,973,693
Net position at end of year	\$ 4,969,157	\$ 1,261,834	\$ 6,230,991

The accompanying notes are an integral part of the basic financial statements.

**CITY OF CLEVELAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Cash flows from operating activities:			
Cash received from customers & service users	\$ 2,944,467	\$ 9,025	\$ 2,953,492
Cash payments for goods & services & employees	(2,766,364)	(88,567)	(2,854,931)
Other operating revenues	-	-	-
Net cash provided by operating activities	<u>178,103</u>	<u>(79,542)</u>	<u>98,561</u>
Cash flows from noncapital financing activities:			
Operating transfers out to other funds	-	(9,984)	(9,984)
Operating transfers in from other funds	260,504	15,079	275,583
Change in due to/from accounts	3,644	31,245	34,889
Net cash provided (used) for noncapital financing activities	<u>264,148</u>	<u>36,340</u>	<u>300,488</u>
Cash flows from capital and related financing activities:			
Acquisition & construction of capital assets	(800,156)	(31,961)	(832,117)
Loan proceeds	550,000	-	550,000
Grant revenues	50,000	73,496	123,496
Principal paid on debt	(317,876)	-	(317,876)
Interest paid on debt	(20,320)	-	(20,320)
Net cash provided (used) for capital and related financing activities	<u>(538,352)</u>	<u>41,535</u>	<u>(496,817)</u>
Cash flows from investing activities:			
Interest on investments	2,741	39	2,780
Net cash provided by investing activities	<u>2,741</u>	<u>39</u>	<u>2,780</u>
Net increase (decrease) in cash & cash equivalents	(93,360)	(1,628)	(94,988)
Cash and cash equivalents - beginning of year	<u>519,676</u>	<u>12,923</u>	<u>532,599</u>
Cash and cash equivalents - end of year	<u>\$ 426,316</u>	<u>\$ 11,295</u>	<u>\$ 437,611</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (24,885)	\$ (33,907)	\$ (58,792)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	246,434	41,917	288,351
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(63,320)	-	(63,320)
(Increase) decrease in inventory	(44,489)	-	(44,489)
Increase (decrease) in accounts payable	59,428	(87,552)	(28,124)
Increase (decrease) in sales payable	1,594	-	1,594
Increase (decrease) in accrued expenses	3,341	-	3,341
Total adjustments	<u>202,988</u>	<u>(45,635)</u>	<u>157,353</u>
Net cash provided by operating activities	<u>\$ 178,103</u>	<u>\$ (79,542)</u>	<u>\$ 98,561</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>279,717</u>
Total assets	\$ <u><u>279,717</u></u>
Liabilities:	
Deposits	\$ <u>279,717</u>
Total liabilities	\$ <u><u>279,717</u></u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cleveland, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Cleveland, Oklahoma is organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (gas, water, sewer, and sanitation), judicial, culture, parks and recreation, public improvements and planning and zoning for the City of Cleveland, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units/Trusts:

The Cleveland Municipal Authority (CMA) was created pursuant to a Trust Indenture for the benefit of the City of Cleveland, Oklahoma. CMA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer and natural gas facilities for the City of Cleveland. The water, sanitary sewer, natural gas, and solid waste disposal systems owned by the City have been leased to CMA until such date that all indebtedness of the Authority is retired or provided for. CMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. CMA is exempt from State and Federal Income taxes. CMA is reported as an enterprise fund.

The Cleveland Airport Authority (CAA) is a public trust which operates the municipal airport facilities. The City is named as the beneficiary of the CAA.

Excluded Entities:

The Cleveland Hospital Authority (CHA) receives a portion of sales tax collected (one cent of three and one-half cents collected) from the City as approved by a vote of the citizens. However, the City has determined that the Hospital does not meet the criteria for inclusion in its basic financial statements since the City is not financially accountable and the hospital does not otherwise meet the requirements of GASB Statement No. 14 for inclusion. Copies of the audited financial statements can be obtained from the Hospital Authority, 1401 W. Pawnee Street, Cleveland, OK 74020.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, cigarette taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds – account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Police Operations, Fire Operations, Feyodi Park and Library Memorial.

Capital Projects Fund – account for and report resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Capital Improvement Fund.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Trust Fund.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has applied only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business 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 or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The City's major enterprise funds are: 1) the Cleveland Municipal Authority – which accounts for the operations of providing public works (natural gas, water, sewer, and sanitation) to the City; and 2) the Cleveland Airport Authority – which accounts for operations of the airport.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is an agency fund that is composed of customer deposit funds.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held in the Bond Accounts, Bond Sinking Fund Accounts, Bond Surplus Fund Accounts, and Construction Accounts. Under the terms and provisions of the Bond Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any bonds are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture. In addition, certain funds are restricted for Cemetery land acquisitions and for the payment of specific expenditures.

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

6. Inventories

Inventories in governmental funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed. Inventories in the proprietary funds consist primarily of natural gas in storage. Inventory is valued on the average-cost basis.

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available to determine these amounts. The amount by which these departures would affect the assets, net position, and expenses of the Governmental and Business-Type Activities is not readily determinable. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Business-Type Activities Estimated Lives
Buildings	15 - 40 years
Water and sewer plants	35 - 40 years
Water and sewer lines	35 - 40 years
Gas lines and equipment	10 - 35 years
Machinery and equipment	7 - 10 years
Improvements other than buildings	50 years

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Compensated Absences

It is the City's policy to permit full-time employees to accumulate earned but unused vacation time based on their length of service. Employees may carry forward ten days to the next calendar year. Vacation leave which is unused and vested to the employee is payable upon separation of employment in good standing. Full-time employees may accumulate sick leave based on their length of service, up to a maximum of 120 working days of accrued leave. Unused sick leave is payable to an employee upon separation of employment at a buy back of 1 day for every 3 days. The accumulated buy back will not exceed a total of 40 days.

9. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

10. Net position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on its use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *non-spendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

10. Net position/Fund Balance (Continued)

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

11. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2015, the City held deposits of approximately \$1,295,195 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at June 30, 2015 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,069,665	\$ 1,069,665
Certificate of deposit	3.00	N/A	225,530	225,530
Total investments			<u>\$ 1,295,195</u>	<u>\$ 1,295,195</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 577,867
Business-type activities	437,611
Fiduciary funds	279,717
	<u>\$ 1,295,195</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 17% in Certificates of deposit (\$225,530) and 83% in Money Market funds (\$1,069,665).

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Governmental Activities:				
Depreciable assets:				
City Hall	\$ 314,452	\$ -	\$ -	\$ 314,452
Library	469,461	4,650	-	474,111
Parks	782,505	7,300	-	789,805
Cemetery Trust	146,396	-	-	146,396
Fire & Police	834,795	216,251	-	1,051,046
Streets	959,482	-	-	959,482
Sanitation	20,000	-	-	20,000
Other	45,294	-	-	45,294
Community center	737,342	-	-	737,342
Ambulance	214,241	-	-	214,241
Sewer	19,000	-	-	19,000
Total depreciable assets	4,542,968	228,201	-	4,771,169
Less accumulated depreciation	221,717	119,107	-	340,824
Net governmental activities capital assets	\$ 4,321,251	\$ 109,094	\$ -	\$ 4,430,345
Business-Type Activities:				
Non-depreciable assets:				
Land	763,000	5,000	-	768,000
Depreciable assets:				
Equipment	786,148	34,209	-	820,357
Water improvements	4,684,082	760,947	-	5,445,029
Sewer improvements	2,806,980	-	-	2,806,980
Gas improvements	363,196	-	-	363,196
Airport improvements	1,658,995	31,961	-	1,690,956
Other improvements	129,782	-	-	129,782
Total depreciable assets	10,429,183	827,117	-	11,256,300
Less accumulated depreciation:				
Equipment	(716,178)	(26,282)	-	(742,460)
Water improvements	(2,873,151)	(146,270)	-	(3,019,421)
Sewer improvements	(1,146,305)	(70,175)	-	(1,216,480)
Gas improvements	(363,196)	-	-	(363,196)
Airport improvements	(391,257)	(41,917)	-	(433,174)
Other improvements	(37,663)	(3,707)	-	(41,370)
Total accumulated depreciation	(5,527,750)	(288,351)	-	(5,816,101)
Net business-type activities capital assets	\$ 5,664,433	\$ 543,766	\$ -	\$ 6,208,199

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Long-term Debt

The City's long-term debt is described below, segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

The City is not obligated in any manner for the debt of its component units. The water system, including all of the proceeds, revenue, water charges, assessments and income of all kinds and nature together with contract rights, accounts receivable and general intangibles have been pledged as collateral to secure these notes. The note agreements call for monthly payments to be made toward debt retirement. The following is a summary of long-term debt transactions of the proprietary fund:

	Balance 6/30/2014	Additions	Reductions	Balance 6/30/2015	Current Portion
Note Payable - American Heritage \$	-	\$ 450,000	\$ 6,264	\$ 443,736	\$ 24,027
Note Payable - Indian Electric	29,522	-	5,004	24,518	5,004
Note Payable - American Heritage	313,602	-	157,016	156,586	156,586
Note Payable - American Heritage	-	100,000	100,000	-	-
Note Payable - American Heritage	137,142	-	49,591	87,551	52,073
Total	<u>\$ 480,266</u>	<u>\$ 550,000</u>	<u>\$ 317,875</u>	<u>\$ 712,391</u>	<u>\$ 237,690</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 237,690	\$ 19,112	\$ 256,802
2017	65,662	12,120	77,782
2018	30,951	11,481	42,432
2019	31,740	10,692	42,432
2020	32,051	9,879	41,930
2021-2025	150,837	36,303	187,140
2026-2030	163,459	11,965	175,424
Total Liability	<u>\$ 712,390</u>	<u>\$ 111,552</u>	<u>\$ 823,942</u>

Principal, redemption premium, and interest on CMA debt are payable from the gross revenues of the water, sanitary sewer, natural gas, and solid waste disposal systems, from other funds established by the bond indentures and from sales tax revenues. Detail information on long-term debt is reflected in Note 3.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. AUTHORITIES

A. Cleveland Municipal Authority (A Blended Component Unit)

UTILITY OPERATIONS:

The operations of the utility departments of the City (natural gas, water, sewer and sanitation) were transferred to the Cleveland Municipal Authority. The Municipal Authority provides utility services for its customers including the City of Cleveland and its related departments. Utility charges for general activities of the City of Cleveland (City Hall, Police and Fire Departments, Library, maintenance departments, etc.) are metered but not billed or reflected as revenue. Likewise, the various departments of the City benefiting from these services are not charged for the services. This factor for gratis services has been incorporated in the current rate structure charged by the Authority. Since the Authority is structured like a private enterprise, the effect of this policy is to understate the gross revenues of the Authority and to understate the operating expenses of the various using departments of the City. The intent is for the Authority to provide cost free services to the City of Cleveland.

RESTRICTED FUNDS:

Under the terms and provisions of the Bond Indenture, special accounts and reserve funds of the Authority are maintained with the trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any creditors of the Authority. These accounts and reserve funds are to be maintained so long as any bonds are outstanding.

Monies contained in the accounts and reserve funds held by the trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

REVENUE BONDS:

On October 1, 1999, the Authority issued its \$4,555,000 Cleveland Municipal Authority Refunding Revenue Bonds, Series 1999. Proceeds from this bond issue were used to defease the previous Utility System Revenue Bonds, Series 1996, and construct an activity and library center. Principal and interest on the bond is payable monthly until the bond is paid. Bond redemption began October 1, 2000, with final maturity on October 1, 2014. The gross revenues of the Authority have been pledged to secure the bonds. This bond issue was paid off in the current year.

NOTES PAYABLE:

On August 27, 2008, the Authority issued a note payable to American Heritage Bank in the amount of \$710,500 to purchase property. Interest is 4.6% on the note and late payment charges if necessary. Payments are \$14,009.45 a month. The note is secured by the property purchased.

On February 20, 2013, the Authority issued a note payable to American Heritage Bank in the amount of \$200,000 for a water well. Interest is 4.85% on the note and late payment charges if necessary. Payments began March, 2013 and will continue monthly in the amount of \$4,597.66. The note is secured by the property purchased.

On August 21, 2014, the Authority issued a note payable to American Heritage Bank in the amount of \$100,000 for operating money. Interest is 1.25% on the note and late payment charges if necessary. Payments began September 2014 and was paid off in the current year.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. AUTHORITIES

A. Cleveland Municipal Authority (A Blended Component Unit)

NOTES PAYABLE (Continued):

On March 15, 2015, the Authority issued a note payable to American Heritage Bank in the amount of \$450,000 for new city hall. Interest is 3% on the note and late payment charges if necessary. Payments began April, 2015 and will continue monthly in the amount of \$3,118.99. The note is secured by the property purchased.

On May 14, 2010, the Authority issued a note payable to Indian Electric Cooperative, Inc. in the amount of \$50,000 to improve the auditorium. The note is non-interest bearing. Payments are to begin July 1, 2010 and will continue monthly in the amount of \$417. The note is secured by a letter of credit from the American Heritage Bank of Mannford.

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund.

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$0 and \$17,478, respectively.

B. Contingent Liabilities

The City is a defendant in legal actions arising from normal governmental activities. Most of these actions are covered by insurance. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

B. Contingent Liabilities (Continued)

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

C. Deferred Compensation Plan

The Cleveland Municipal Authority (CMA) and the City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all CMA and City employees, permits them to defer a portion of their salary until future years. The deferred compensation is available to employees at termination of employment, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the CMA's and City's management that CMA and City have no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

D. Employee Retirement System and Other Benefit Plans

The City participates in three employee pension systems as follows:

Oklahoma Police Pension and Retirement Plan - Cost Sharing Multiple Employer - Defined Benefit Plan

Oklahoma Firefighters Pension and Retirement Plan - Cost Sharing Multiple Employer - Defined Benefit Plan

Oklahoma Municipal Retirement Fund (OkMRF) Agent Multiple Employer - Defined Benefit Plan

Oklahoma Police Pension and Retirement Plan

Plan description – The City of Cleveland, as the employer, participates in the Oklahoma Police Pension and Retirement Plan – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS.

Benefits provided – OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$33,511. The State of Oklahoma also made on behalf contributions to OPPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$0. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported an asset of \$29,405 for its proportionate share of the net pension asset. The net pension asset was measured as of July 1, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City's proportion was 0.0873%.

For the year ended June 30, 2015, the City recognized pension expense of \$10,778. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ 13,211
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	103,355
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	33,511	-
Total	<u>\$ 33,511</u>	<u>\$ 116,566</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

\$33,511 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 26,810
2017	26,810
2018	26,810
2019	26,810
2020	9,326
	\$ 116,566

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.

Active employees (post-retirement) and nondisabled pensioners:
 RP-2000 Blue Collar Healthy Combined table with fully generational Improvement using scale AA.

Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.83%
Domestic equity	6.47%
International equity	6.98%
Real Estate	5.50%
Private Equity	5.96%
Other assets	3.08%

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015**

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset)	\$174,958	(\$29,405)	(\$201,638)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS.

Oklahoma Firefighters Pension & Retirement Plan

Plan Description – The City of Cleveland, as the employer, participates in the Firefighters Pension & Retirement – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more service.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per years of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$31,050 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to FPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$0. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported a liability of \$934,416 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information the City's proportion was 0.0909%.

For the year ended June 30, 2015, the City recognized pension expense of \$83,923. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$ 22,264	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	141,445
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	31,050	-
Total	<u>\$ 53,314</u>	<u>\$ 141,445</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

\$53,314 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (31,251)
2017	(31,251)
2018	(31,251)
2019	(31,251)
2020	4,110
Thereafter	1,713
	<u>\$ (119,181)</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.48%
Domestic equity	37%	9.61%
International equity	20%	9.24%
Real Estate	10%	7.76%
Other assets	13%	6.88%

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset)	\$1,220,610	\$934,416	\$695,121

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs.

Oklahoma Municipal Retirement Fund - Defined Benefit

Plan Description – The City contributes to the OkMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

Summary of Significant Accounting Policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by OkMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OkMRF plans' fiduciary net position is available in the separately issued OkMRF financial report.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>As of 07/01/14 OKMRF Plan</u>
a. Eligible to participate	Full-time employees except police, firefighters and other employees who are covered under an approved system.
b. Period Required to Vest	7 years of credited service
c. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement upon disability with 7 years of service -Death benefit with 7 years of service for married employees
d. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
e. Benefit Determination Methods:	
Normal Retirement	-1.875% of final average salary multiplied by credited years of service
Early Retirement	-Actuarially reduced benefit based upon age, final average salary, and years of service at termination
Disability Retirement	-Same as normal retirement
Death Benefit	-50% of employees accrued benefit, but terminates upon spouse re-marriage
Prior to 7 Years' Service	-No benefits
f. Benefit Authorization	-Benefits are established and amended by City Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, option form based on actuarial equivalent.
<u>Employees Covered by Benefit Terms</u>	
Active Employees	14
Deferred Vested Former Employees	1
Retirees or Retiree Beneficiaries	<u>9</u>
Total	<u>24</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 23.56% of covered payroll. For the year ended June 30, 2015, the City recognized \$137,579 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$584,952. Employees contribute a fixed 6% to the plan in accordance with the plan provisions adopted by the City Council.

Actuarial Assumptions

Date of Last Actuarial Valuation	July 1, 2014
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments and Discount Rate	7.75%
c. Projected Salary Increase	Rates by age
d. Post Retirement cost-of-Living Increase	None
e. Inflation Rate	3%
f. Mortality Table	UP 1994, with projected mortality improvement
g. Percent of married employees	100%
h. Spouse age difference	3 years (female spouses younger)
i. Turnover	Select and ultimate rates Ultimate rates are age-related as shown
	Additional rates per thousand are added during the first 5 years:
	Year 1: 215
	Year 2: 140
	Year 3: 95
	Year 4: 65
	Year 5: 40
j. Date of last experience study	September 2012 for fiscal years 2007 thru 2011

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan’s net fiduciary position is projected to be sufficient to make projected benefit payments.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

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 (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2014 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Large cap stocks S&P 500	25%	5.40%	1.35%
Small/mid cap stocks Russell 2500	10%	7.50%	0.75%
Long/short equity MSCI ACWI	10%	6.10%	0.61%
International stocks MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate NCREIF	5%	4.80%	0.24%
Cash equivalents 3 month Treasury	<u>0%</u>	0.00%	<u>0.00%</u>
TOTAL	<u>100%</u>		
Average Real Return			4.75%
Inflation			<u>3.00%</u>
Long-term expected return			<u>7.75%</u>

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2014 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2014 and the City's report ending date of June 30, 2015, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Other Benefit Plans (Continued)

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 7.75 percent, 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability	\$654,053	\$391,756	\$165,952

The City reported \$64,876 in pension expense for the year ended June 30, 2015. At June 30, 2015, 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 experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	140,649
City contributions subsequent to the measurement date	<u>137,579</u>	<u>-</u>
Total	<u>\$ 137,579</u>	<u>\$ 140,649</u>

\$137,579 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (35,162)
2017	(35,162)
2018	(35,162)
2019	<u>(35,162)</u>
	<u>\$ (140,649)</u>

E. Other Post-Employment Benefits

Plan Description: The City provides post-employment benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government's employees may become eligible for those post-employment benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2015, no retired employees are receiving benefits under this plan.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

4. OTHER INFORMATION (Continued)

E. Other Post-Employment Benefits

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2015, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2015 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

5. RESTATEMENT OF BEGINNING NET POSITION

Net position of the Government-Wide Governmental Activities financial statements has been restated to include the pension liability at the beginning of the period in accordance with GASB 68. As a result of the restatement, total beginning net position has decreased by \$2,298,711. The prior period financial statements were not reissued or restated as a result of this change in accounting principle.

CITY OF CLEVELAND
Cleveland, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2015

CITY OF CLEVELAND
Cleveland, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2015

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Defined Benefit Cost Sharing Plans:

Police

Schedule of the City's proportionate share of the net pension liability (asset)

Schedule of City contributions

Fire

Schedule of the City's proportionate share of the net pension liability (asset)

Schedule of City contributions

Defined Benefit Agent Multi-Employer Plan

OkMRF

Schedule of change in net pension liability & related ratios

Schedule of employer contributions

Budgetary Comparison Schedule – General, Special Revenue & Capital Projects Funds

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015**

**Exhibit 1
Schedule of the City of Cleveland Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Police Pension & Retirement System
Last 10 Fiscal Years***

	2014
City's proportion of the net pension liability (asset)	0.0873%
City's proportionate share of the net pension liability (asset)	(\$29,405)
City's covered-employee payroll	\$257,777
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(11.41%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	101.53%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**Exhibit 2
Schedule of City Contributions
Oklahoma Police Pension & Retirement System
Last 10 Fiscal Years**

	2014
Statutorily required contribution	\$33,511
Contributions in relation to the statutorily required contribution	33,511
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$257,777
Contributions as a percentage of covered-employee payroll	13.0%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015**

**Exhibit 3
Schedule of the City of Cleveland's Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years***

	2014
City's proportion of the net pension liability	0.0909%
City's proportionate share of the net pension liability	\$934,416
City's covered-employee payroll	\$ 252,090
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	370.67%
Plan fiduciary net position as a percentage of the total pension liability	68.12%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**Exhibit 4
Schedule of City Contributions
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years**

	2014
Statutorily required contribution	\$33,961
Contributions in relation to the statutorily required contribution	33,961
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 242,579
Contributions as a percentage of covered-employee payroll	14.0%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

CITY OF CLEVELAND
Cleveland, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015

Exhibit 5
Oklahoma Municipal Retirement Fund
Schedule of Changes in Net Pension Liability and Related Ratios Last Fiscal Year

	2014
Total pension liability	
Service cost	\$ 75,931
Interest	197,050
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(172,393)
Net change in total pension liability	100,589
Total pension liability – beginning	2,551,239
Total pension liability - ending (a)	\$ 2,651,828
Plan fiduciary net position	
Contributions - employer	\$ 126,422
Contributions - member	35,117
Net investment income	318,346
Benefit payments, including refunds of member contributions	(172,393)
Administrative expense	(4,709)
Other	-
Net change in plan fiduciary net position	302,784
Plan fiduciary net position – beginning	1,957,288
Plan fiduciary net position - ending (b)	\$ 2,260,072
Net pension liability - ending (a) - (b)	\$ 391,756
Plan fiduciary net position as a percentage of the total pension liability	85.23%
Covered employee payroll	\$ 598,981
Net pension liability as a percentage of covered-employee payroll	65.40%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015**

**Exhibit 6
Required Supplementary Information
Oklahoma Municipal Retirement Fund
Schedule of Employer Contributions Last Fiscal Year**

	2014
Actuarially determined contribution	\$ 139,458
Contributions in relation to the actuarially determined contribution	139,458
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 591,885
Contributions as a percentage of covered-employee payroll	23.56%

Notes to Schedule:

1. Only the current fiscal year is presented because 10-year data is not yet available.
2. Latest Valuation Date: July 1, 2014
3. Actuarially determined contribution rate is calculated as of July 1, 2013 and July 1, 2014
 January 2014 through June 2014 contributions were at a rate of 9.28%.
 July 2014 through December 2014 contributions were at a rate of 9.26%
4. Methods and assumptions used to determine contribution rates:
 - Actuarial cost method - Entry age normal
 - Amortization method - Level percent of payroll, closed
 - Remaining amortization period - 29 years
 - Asset valuation method - Actuarial:
 - Smoothing period - 4 years
 - Recognition method - Non-asymptotic
 - Corridor - 70% - 130%
 - Salary increases - 4.00% to 7.42% (varies by attained age)
 - Investment rate of return - 7.50%

CITY OF CLEVELAND
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2015
(Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Charges for services	\$ 47,000	\$ 47,000	\$ 119,857	\$ 72,857
Cigarette taxes	19,000	19,000	21,798	2,798
Interest	1,035	1,035	973	(62)
Franchise taxes	90,000	90,000	74,989	(15,011)
Hotel/motel taxes	4,000	4,000	4,114	114
Intergovernmental programs	123,000	123,000	69,431	(53,569)
Fines and forfeits	125,500	125,500	125,616	116
Rental receipts	12,000	12,000	8,348	(3,652)
Licenses and permits	9,000	9,000	7,602	(1,398)
Miscellaneous revenue	14,000	14,000	9,640	(4,360)
Sale of surplus	-	-	-	-
Sales and use taxes	1,894,000	1,894,000	1,927,031	33,031
Special assessments	43,000	43,000	40,322	(2,678)
Donations and other	-	-	-	-
Total revenues	<u>2,381,535</u>	<u>2,381,535</u>	<u>2,409,721</u>	<u>28,186</u>
Expenditures:				
Current:				
General government	145,600	145,600	141,309	4,291
Public safety	1,202,200	1,202,200	1,191,255	10,945
Highways and roads	91,000	91,000	78,927	12,073
Cultural and recreational	222,000	222,000	210,041	11,959
Health and welfare	525,000	525,000	521,068	3,932
Capital outlay	80,000	80,000	69,216	10,784
Total expenditures	<u>2,265,800</u>	<u>2,265,800</u>	<u>2,211,816</u>	<u>53,984</u>
Excess of revenue over (under) expenditures	115,735	115,735	197,905	82,170
Other financing sources (uses):				
Operating transfers in (out)	(170,000)	(178,000)	(260,504)	(82,504)
Net changes in fund balance	(54,265)	(62,265)	(62,599)	(334)
Fund balance at beginning of year	<u>562,416</u>	<u>562,416</u>	<u>562,416</u>	<u>-</u>
Fund balance at end of year	<u>\$ 508,151</u>	<u>\$ 500,151</u>	<u>\$ 499,817</u>	<u>\$ (334)</u>

CITY OF CLEVELAND
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2015
 (Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 40,000	\$ 40,000	\$ 39,034	\$ (966)
Interest	420	420	657	237
Intergovernment programs	10,474	10,474	10,704	230
Miscellaneous income	78,500	78,500	95,014	16,514
Property sales	-	-	-	
Donations and other	8,000	8,000	7,210	(790)
Total revenues	<u>137,394</u>	<u>137,394</u>	<u>152,619</u>	<u>15,225</u>
Expenditures:				
Current:				
Public safety	13,800	13,800	4,441	9,359
Cultural and recreational	74,000	74,000	67,451	6,549
Capital outlay	30,000	30,000	24,950	5,050
Total expenditures	<u>117,800</u>	<u>117,800</u>	<u>96,842</u>	<u>20,958</u>
Excess of revenue over (under) expenditures	19,594	19,594	55,777	36,183
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Net changes in fund balance	19,594	19,594	55,777	36,183
Fund balance at beginning of year	<u>258,340</u>	<u>258,340</u>	<u>258,340</u>	<u>-</u>
Fund balance at end of year	<u>\$ 277,934</u>	<u>\$ 277,934</u>	<u>\$ 314,117</u>	<u>\$ 36,183</u>

CITY OF CLEVELAND
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2015
 (Unaudited)

CAPITAL PROJECTS FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 200	\$ 200	\$ 105	\$ (95)
Intergovernment programs	-	-	-	-
Donations and other	-	-	-	-
Miscellaneous	-	35,000	36,484	1,484
Total revenues	<u>200</u>	<u>35,200</u>	<u>36,589</u>	<u>1,389</u>
Expenditures:				
General government	-	-	-	-
Public safety	-	-	-	-
Capital outlay	100,000	135,000	134,035	965
Total expenditures	<u>100,000</u>	<u>135,000</u>	<u>134,035</u>	<u>965</u>
Excess of revenue over (under) expenditures	(99,800)	(99,800)	(97,446)	2,354
Other financing sources (uses):				
Operating transfers in (out)	50,000	50,000	(5,095)	(55,095)
Net changes in fund balance	(49,800)	(49,800)	(102,541)	(52,741)
Fund balance at beginning of year	<u>105,172</u>	<u>105,172</u>	<u>105,172</u>	<u>-</u>
Fund balance at end of year	<u>\$ 55,372</u>	<u>\$ 55,372</u>	<u>\$ 2,631</u>	<u>\$ (52,741)</u>

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

CITY OF CLEVELAND
Cleveland, Oklahoma

OTHER INFORMATION
June 30, 2015

CITY OF CLEVELAND
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2015

	Special Revenue				Library Memorial	Capital Projects Capital Improvement	Permanent Funds Cemetery Trust	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park					
\$	5,241 \$	9,174 \$	57,553 \$	243,661 \$	2,631 \$	- \$	318,260	
	-	-	-	-	-	-	-	
	-	-	-	-	-	86,584	86,584	
	-	-	-	-	-	6,899	6,899	
Total assets	5,241 \$	9,174 \$	57,553 \$	243,661 \$	2,631 \$	93,483 \$	411,743	

Assets:

Cash and equivalents
 Grants receivable
 Restricted cash:
 Cash and investments
 Depreciable assets

Liabilities:

Accounts payable
 Due to others
 Total liabilities

\$	- \$	- \$	948 \$	564 \$	- \$	- \$	1,512
	-	-	-	-	-	-	-
	-	-	948	564	-	-	1,512

Fund balances:

Assigned
 Restricted
 Total fund balances

	-	-	-	-	2,631	-	2,631
	5,241	9,174	56,605	243,097	-	93,483	407,600
	5,241	9,174	56,605	243,097	2,631	93,483	410,231

Total liabilities and fund balances

\$	5,241 \$	9,174 \$	57,553 \$	243,661 \$	2,631 \$	93,483 \$	411,743
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CITY OF CLEVELAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	Special Revenue			Library Memorial	Capital Projects Capital Improvement	Permanent Funds Cemetery Trust	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park				
Revenues:							
Charges for services	\$ 250	\$ -	\$ 34,984	\$ -	\$ -	\$ -	\$ 35,234
Intergovernmental programs	-	4,484	-	6,220	-	-	10,704
Donations	800	1,900	2,500	2,010	-	-	7,210
Interest	10	40	147	460	105	689	1,451
Miscellaneous income	4,182	-	-	90,832	36,484	-	131,498
Property sales	-	-	-	-	-	-	-
Rental income	-	-	3,800	-	-	-	3,800
Lot sales	-	-	-	-	-	1,194	1,194
Total revenues	\$ 5,242	\$ 6,424	\$ 41,431	\$ 99,522	\$ 36,589	\$ 1,883	\$ 191,091
Expenditures:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	3,613	828	-	-	-	-	4,441
Cemetery	-	-	-	-	-	-	-
Cultural & recreation	-	-	36,031	31,420	-	-	67,451
Capital outlay	-	13,000	7,300	4,650	134,035	-	158,985
Total expenditures	\$ 3,613	\$ 13,828	\$ 43,331	\$ 36,070	\$ 134,035	\$ -	\$ 230,877
Excess of revenues over (under) expenditures	1,629	(7,404)	(1,900)	63,452	(97,446)	1,883	(39,786)
Other financing uses:							
Operating transfers in (out)	-	-	-	-	(5,095)	-	(5,095)
Excess of revenues over (under) expenditures & transfers	1,629	(7,404)	(1,900)	63,452	(102,541)	1,883	(44,881)
Fund balance - beginning of year	3,612	16,578	58,505	179,645	105,172	91,600	455,112
Fund balance - end of year	\$ 5,241	\$ 9,174	\$ 56,605	\$ 243,097	\$ 2,631	\$ 93,483	\$ 410,231

CITY OF CLEVELAND
Cleveland, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2015

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation:</u>				
Federal Aviation Administration - Airport Improvement Program	20.106	124,859	73,496	119,512
<u>U.S. Department of Education:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
Library State Aid Grant	84.034	5,582	5,582	5,582
<u>U.S. Department of Justice:</u>				
<u>Passed through the District Attorneys Council:</u>				
Police Grant A3L-2014		10,000	10,000	10,000
State Grantor/Program Title				
REAP Fund 20		50,000	50,000	50,000
Department of Agriculture Food and Forestry		4,290	4,290	4,290
Total State Grants		<u>54,290</u>	<u>54,290</u>	<u>54,290</u>
TOTAL GRANTS		194,731	143,368	189,384

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

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

The Honorable City Council
City of Cleveland
Cleveland, Oklahoma

I have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of City of Cleveland, State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Cleveland, State of Oklahoma's, basic financial statements and have issued my report thereon dated November 9, 2015. My report includes a paragraph disclaiming an opinion on required supplementary information. In addition, my report includes a paragraph noting the adoption and implementation of GASB 68 and 71 during the current fiscal year. The adoption and implementation resulted in a restatement of beginning net position of the City.

Internal Control Over Financial Reporting

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

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

City of Cleveland, State of Oklahoma
Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in accordance with Government Auditing Standards
November 9, 2015

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Cleveland, State of Oklahoma's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff, CPA, A Professional Corporation

Oklahoma City, Oklahoma 73172
November 9, 2015

City of Cleveland
Cleveland, Oklahoma

Schedule of Findings and Responses
for the year ended June 30, 2015

There are no findings for the year ended June 30, 2015.