

City of Cleveland
Cleveland, Oklahoma

Audit Report
for the year ended June 30, 2016

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, 2016, 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.

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cleveland, State of Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension exhibits and budgetary comparison information on 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 my 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 Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland, State of Oklahoma's basic financial statements. The combining and individual non-major fund financial 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are 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 and individual non-major fund financial 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 21, 2016, 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 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, A Professional Corporation

Oklahoma City, Oklahoma 73172
November 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
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, 2016. 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 \$299,748. Net position of governmental activities increased \$59,152 or 1.55% over the fiscal year.

General revenues accounted for \$2,590,551 or 82.92% of total governmental activities revenue. Program specific revenues accounted for \$442,569 or 17.08% of total governmental activities revenue.

Governmental activities capital assets, net decreased \$36,809, which includes purchases of police vehicles, signs and depreciation. Business-type activities capital assets, net-increased \$49,112, included are park improvements, street improvements, trucks, bobcat and depreciation.

The City had \$2,348,915 in expenses related to governmental activities; \$442,569 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,906,346 were offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$2,590,551.

Net position for the business activities, which are made up of the Municipal Authority and the Airport Authority increased over the fiscal year by \$240,596 or 3.86%.

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).

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
Unaudited

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 three 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, airport, golf course rental and provide educational, recreational and cultural facilities.

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

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 three separate legal entities in its report – the Cleveland Municipal Authority, Cleveland Educational Facilities 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 21–46 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
Unaudited

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 47-55 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 56–57 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 \$10,338,235 as of June 30, 2016.

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.

City of Cleveland's Net position

	Governmental Activities		Business-Type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Current and other assets	\$ 951,260	\$ 974,194	\$ 1,083,150	\$ 943,821	\$ 2,034,410	\$ 1,918,015
Capital assets	4,393,536	4,430,345	6,257,311	6,208,199	10,650,847	10,638,544
Total assets	<u>5,344,796</u>	<u>5,404,539</u>	<u>7,340,461</u>	<u>7,152,020</u>	<u>12,685,257</u>	<u>12,556,559</u>
Deferred outflows	411,102	224,404	-	-	411,102	224,404
Long-term liabilities	1,420,805	1,326,172	705,438	712,390	2,126,243	2,038,562
Other liabilities	73,259	96,614	163,438	208,639	236,697	305,253
Total liabilities	<u>1,494,064</u>	<u>1,422,786</u>	<u>868,876</u>	<u>921,029</u>	<u>2,362,940</u>	<u>2,343,815</u>
Deferred inflows	395,184	398,660	-	-	395,184	398,660
Net assets:						
Net investment in capital assets	4,393,536	4,430,345	5,551,873	5,495,809	9,945,409	9,926,154
Restricted	506,247	493,612	-	-	506,247	493,612
Unrestricted	(1,033,133)	(1,116,460)	919,712	735,182	(113,421)	(381,278)
Total net assets	<u>\$ 3,866,650</u>	<u>\$ 3,807,497</u>	<u>\$ 6,471,585</u>	<u>\$ 6,230,991</u>	<u>\$ 10,338,235</u>	<u>\$ 10,038,488</u>

As of June 30, 2016, the City is able to report positive balances in all two of the three categories of net position for the government as a whole and for its separate categories – governmental and business-type activities.

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended June 30, 2016. Governmental activities increased the City of Cleveland's net position by \$59,152 and Business-type activities increased the City's net position by \$240,596, accounting for a gain in net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
Unaudited

City of Cleveland's Changes in Net position

	Governmental Activities		Business-Type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Revenues:						
Program revenues						
Charges for services	\$ 422,397	\$ 333,626	\$ 2,886,613	\$ 2,874,613	\$ 3,309,010	\$ 3,208,239
Operating grants and contributions	9,687	9,684	-	-	9,687	9,684
Capital grants and contributions	10,485	8,230	9,520	68,659	20,005	76,889
General revenues:						
Sales, use and cigarette taxes	1,861,091	1,927,031	-	-	1,861,091	1,927,031
Franchise fees	73,093	74,989	-	-	73,093	74,989
Cigarette taxes	21,367	21,798	-	-	-	-
Intergovernmental	68,609	69,431	-	-	68,609	69,431
Hotel/motel tax	3,686	4,114	-	-	3,686	4,114
Investment earnings	3,838	2,424	3,477	2,941	7,315	5,365
Miscellaneous	103,370	141,137	82,372	80,085	185,742	221,222
Penalties	-	-	-	56,264	-	56,264
Sale of surplus	1,310	-	8,046	-	9,356	-
Pension change	66,136	827,688	-	-	66,136	827,688
Rental income	11,618	8,348	1,950	5,850	13,568	14,198
Total revenues	<u>2,656,687</u>	<u>3,428,500</u>	<u>2,991,978</u>	<u>3,088,412</u>	<u>5,627,298</u>	<u>6,495,114</u>
Expenses:						
General government	151,453	141,309	-	-	151,453	141,309
Public safety and judiciary	1,182,214	1,203,053	-	-	1,182,214	1,203,053
Transportation	85,227	78,927	-	-	85,227	78,927
Cultural, parks and recreation	292,524	277,491	-	-	292,524	277,491
Hospital/economic development	516,280	521,068	-	-	516,280	521,068
Unallocated depreciation	121,217	119,107	269,860	246,434	391,077	365,541
Airport activities	-	-	46,532	42,932	46,532	42,932
Utilities	-	-	2,658,375	2,786,238	2,658,375	2,786,238
Financing	-	-	25,235	21,109	25,235	21,109
Total expenses	<u>2,348,915</u>	<u>2,340,955</u>	<u>3,000,002</u>	<u>3,096,713</u>	<u>5,348,917</u>	<u>5,437,668</u>
Increases in net assets						
before transfers	307,772	1,087,545	(8,024)	(8,301)	278,381	1,057,446
Transfers	(248,620)	(265,599)	248,620	265,599	-	-
Increase in net assets	59,152	821,946	240,596	257,298	278,381	1,057,446
Net assets - beginning of year	3,807,498	2,985,552	6,230,989	5,973,691	10,038,487	8,959,243
Net assets - end of year	<u>\$ 3,866,650</u>	<u>\$ 3,807,498</u>	<u>\$ 6,471,585</u>	<u>\$ 6,230,989</u>	<u>\$ 10,316,868</u>	<u>\$ 10,016,689</u>

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 \$945,328. Approximately 45% of the total amount (\$432,415) 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 (\$512,913).

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, 2016
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 – \$902,445, Cleveland Educational Facilities Authority – \$8,805 and the Airport Authority – \$8,462.

Capital Assets

The City of Cleveland's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$10,650,847 (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 vehicles and signs.

Business-type activities include: park improvements, street improvements, trucks and a bobcat.

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Land	\$ -	\$ -	\$ 768,000	\$ 768,000	\$ 768,000	\$ 768,000
Construction in process	-	-	-	-	-	-
Equipment	-	-	149,970	77,897	149,970	77,897
Water improvements	-	-	2,279,338	2,425,608	2,279,338	2,425,608
Sewer improvements	-	-	1,520,325	1,590,500	1,520,325	1,590,500
Gas improvements	-	-	-	-	-	-
Airport improvements	-	-	1,215,865	1,257,782	1,215,865	1,257,782
General government assets	4,393,536	4,430,345	-	-	4,393,536	4,430,345
Other improvements	-	-	323,812	88,412	323,812	88,412
Total	\$ 4,393,536	\$ 4,430,345	\$ 6,257,310	\$ 6,208,199	\$ 10,650,846	\$ 10,638,544

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 \$696,348. Of this amount, \$696,348 represents notes secured solely by enterprise revenues and the assets purchased.

Outstanding Debt at Year-end Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Notes payable	\$ -	\$ -	\$ 696,348	\$ 712,391	\$ 696,348	\$ 712,391
Total	\$ -	\$ -	\$ 696,348	\$ 712,391	\$ 696,348	\$ 712,391

Additional information on the City of Cleveland's long-term debt can be found in footnote 2 and 3 on pages 31-33 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
Unaudited

Economic Factors and Next Year's Budgets and Rates

In the 2016-17 Budget, General Fund revenues and transfers in are budgeted to increase from the 2015-16 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
June 30, 2016

CITY OF CLEVELAND
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 514,990	\$ 310,460	\$ 825,450
Cash on hand	-	100	100
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	219,291	219,291
Unbilled revenues	-	212,659	212,659
Taxes	352,936	-	352,936
Grant receivable	-	-	-
Due to/from others	(14,659)	14,659	-
Accrued interest receivable	-	148	148
Inventory	-	46,828	46,828
Net pension asset	-	-	-
Restricted assets:			
Cash and investments (Note 1)	89,015	279,005	368,020
Cash, insurance deposit	8,978	-	8,978
Capital assets:			
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	4,393,536	6,257,311	10,650,847
Total assets	<u>5,344,796</u>	<u>7,340,461</u>	<u>12,685,257</u>
Deferred outflows of resources:			
Deferred amounts related to pensions	411,102	-	411,102
Total deferred outflows	<u>411,102</u>	<u>-</u>	<u>411,102</u>
Liabilities:			
Current liabilities:			
Accounts payable	12,831	100,472	113,303
Sales tax payable	-	1,970	1,970
Payroll liabilities	-	8,372	8,372
Accrued compensated absences payable (Note 1)	60,428	51,174	111,602
Payable from restricted assets:			
Interest payable	-	1,450	1,450
Notes payable (Note 2)	-	285,579	285,579
Non-current liabilities:			
Net pension liability	1,420,805	-	1,420,805
Notes payable (Note 2)	-	410,769	410,769
Revenue bonds payable (Note 2)	-	9,090	9,090
Total liabilities	<u>1,494,064</u>	<u>868,876</u>	<u>2,362,940</u>
Deferred inflows of resources:			
Deferred amounts related to pensions	395,184	-	395,184
Total deferred inflows	<u>395,184</u>	<u>-</u>	<u>395,184</u>
Net position:			
Net investment in capital assets	4,393,536	5,551,873	9,945,409
Restricted	506,247	-	506,247
Unrestricted	(1,033,133)	919,712	(113,421)
Total net position	<u>\$ 3,866,650</u>	<u>\$ 6,471,585</u>	<u>\$ 10,338,235</u>

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

**CITY OF CLEVELAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

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	\$ 72,255	\$ -	\$ -	\$ -	\$ (72,255)
City treasurer	6,841	-	-	-	(6,841)
General government	<u>72,357</u>	<u>4,855</u>	<u>-</u>	<u>-</u>	<u>(67,502)</u>
Total general government	<u>151,453</u>	<u>4,855</u>	<u>-</u>	<u>-</u>	<u>(146,598)</u>
Public safety and judiciary:					
City attorney	30,802	-	-	-	(30,802)
Fire and ambulance	577,239	111,004	7,615	-	(458,620)
Municipal court	25,153	179,965	-	-	154,812
Juvenile court	-	2,703	-	-	2,703
Police	501,664	-	1,922	-	(499,742)
911 operations	47,356	35,876	-	-	(11,480)
Total public safety and judiciary	<u>1,182,214</u>	<u>329,548</u>	<u>9,537</u>	<u>-</u>	<u>(843,129)</u>
Transportation:					
Airport	-	-	-	-	-
Streets	85,227	-	-	-	(85,227)
Total transportation	<u>85,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,227)</u>
Cultural, parks and recreation:					
Library	118,154	5,807	-	10,485	(101,862)
Parks	134,833	54,452	150	-	(80,231)
Community center	-	-	-	-	-
Cemetery	39,537	27,735	-	-	(11,802)
Total cultural, parks and recreation	<u>292,524</u>	<u>87,994</u>	<u>150</u>	<u>10,485</u>	<u>(193,895)</u>
Hospitals					
Hospital activities	516,280	-	-	-	(516,280)
Total hospitals	<u>516,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(516,280)</u>
Unallocated depreciation*	121,217	-	-	-	(121,217)
Total governmental activities	<u>2,348,915</u>	<u>422,397</u>	<u>9,687</u>	<u>10,485</u>	<u>(1,906,346)</u>
Business-type activities					
Airport authority	46,532	9,000	-	9,520	(28,012)
CEFA	286	-	-	-	(286)
General and administrative	458,666	95,071	-	-	(363,595)
Gas service	683,258	1,052,850	-	-	369,592
Water service	2,180,639	937,097	1,112,280	-	(131,262)
Shop	-	-	-	-	-
Sanitation service	352,123	392,955	-	-	40,832
Wastewater	95,969	399,640	-	-	303,671
Financing costs	24,949	-	-	-	(24,949)
Unallocated depreciation*	269,860	-	-	-	(269,860)
Total business-type activities	<u>4,112,282</u>	<u>2,886,613</u>	<u>1,112,280</u>	<u>9,520</u>	<u>(103,869)</u>
Total	<u>\$ 6,461,197</u>	<u>\$ 3,309,010</u>	<u>\$ 1,121,967</u>	<u>\$ 20,005</u>	<u>\$ (2,010,215)</u>

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

**CITY OF CLEVELAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

	Net (Expense) Revenue and Changes in Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,906,346)	(103,869)	(2,010,215)
General revenues:			
Taxes:			
Sales and use taxes	1,861,091	-	1,861,091
Franchise taxes	73,093	-	73,093
Cigarette taxes	21,367	-	21,367
Intergovernmental	68,609	-	68,609
Hotel/motel tax	3,686	-	3,686
Investment earnings	3,838	3,477	7,315
Miscellaneous	103,370	82,372	185,742
Penalties	-	-	-
Rental income	11,618	1,950	13,568
Sale of surplus	1,310	8,046	9,356
Pension change	66,136	-	66,136
Transfers	(248,620)	248,620	-
Total general revenues and transfers	<u>1,965,498</u>	<u>344,465</u>	<u>2,309,963</u>
Change in net position	59,152	240,596	299,748
Net position - beginning of year	<u>3,807,498</u>	<u>6,230,989</u>	<u>10,038,487</u>
Net position - end of year	<u>\$ 3,866,650</u>	<u>\$ 6,471,585</u>	<u>\$ 10,338,235</u>

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

CITY OF CLEVELAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 159,489	\$ 355,501	\$ 514,990
Accrued governmental transfers	352,936	-	352,936
Accounts receivable	-	-	-
Due from others	-	-	-
Restricted assets:			
Cash and investments (Note 1)	-	89,015	89,015
Cash, insurance deposit	8,978	-	8,978
Capital assets			
Depreciable buildings, property & equipment, net of depreciation (Notes 1 & 2)	-	6,899	6,899
Total assets	\$ 521,403	\$ 451,415	\$ 972,818
Liabilities:			
Accounts payable	\$ 8,297	\$ 4,534	\$ 12,831
Due to others	14,659	-	14,659
Payroll taxes payable	-	-	-
Total liabilities	22,956	4,534	27,490
Fund balance:			
Restricted for:			
Cemetery	-	95,914	95,914
E-911 services	57,054	-	57,054
Workers compensation	8,978	-	8,978
Other purposes	-	344,301	344,301
Assigned to:			
Other capital projects	-	6,666	6,666
Unassigned	432,415	-	432,415
Total fund balance	498,447	446,881	945,328
Total liabilities and fund balance	\$ 521,403	\$ 451,415	\$ 972,818

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, 2016**

Total Fund Balances - Total Governmental Funds \$ 945,328

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

Net pension asset	-
Pension related deferred outflows	411,102
Net pension liability	(1,420,805)
Pension related deferred inflows	(395,184)
Accrued compensated absences payable	(60,428)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

City Hall	\$	290,975	
Library		426,932	
Parks		711,515	
Cemetery Trust		125,548	
Fire & Police		1,035,844	
Streets		863,534	
Sanitation		18,000	
Other		40,765	
Ambulance		192,817	
Sewer		17,100	
Community Center		663,607	
		4,386,637	4,386,637

Net assets of governmental activities \$ 3,866,650

CITY OF CLEVELAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Charges for services	\$ 155,679	\$ 37,177	\$ 192,856
Cigarette taxes	21,367	-	21,367
Interest	1,997	1,840	3,837
Franchise taxes	73,093	-	73,093
Hotel/motel taxes	3,686	-	3,686
Intergovernmental programs	68,609	11,785	80,394
Fines and forfeits	182,668	-	182,668
Rental receipts	11,618	4,800	16,418
Licenses and permits	4,855	-	4,855
Lot sales	-	1,342	1,342
Miscellaneous revenue	2,919	100,452	103,371
Sale of surplus	-	1,310	1,310
Sales and use taxes	1,861,091	-	1,861,091
Special assessments	35,876	-	35,876
Donations and other	-	8,387	8,387
Total revenues	<u>2,423,458</u>	<u>167,093</u>	<u>2,590,551</u>
Expenditures:			
Current:			
General government	151,453	-	151,453
Public safety	1,169,182	7,578	1,176,760
Highways and roads	85,227	-	85,227
Cultural and recreational	206,928	85,595	292,523
Health & welfare	516,280	-	516,280
Capital outlay	37,618	46,790	84,408
Total expenditures	<u>2,166,688</u>	<u>139,963</u>	<u>2,306,651</u>
Excess of revenues over (under) expenditures	256,770	27,130	283,900
Other financing uses:			
Loan proceeds	-	-	-
Operating transfers in (out)	(258,140)	9,520	(248,620)
Excess of revenues over (under) expenditures & transfers	(1,370)	36,650	35,280
Fund balance - beginning of year	<u>499,817</u>	<u>410,231</u>	<u>910,048</u>
Fund balance - end of year	<u>\$ 498,447</u>	<u>\$ 446,881</u>	<u>\$ 945,328</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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$	35,280
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		66,136
<p>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.</p>		(5,455)
<p>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.</p>		(121,217)
<p>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.</p>		<u>84,408</u>
Change in Net Assets of Governmental Activities	\$	<u>59,152</u>

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

CITY OF CLEVELAND
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2016

Business-type Activities - Enterprise Funds

	Municipal Authority (Major)	Airport Authority (Major)	CEFA (Major)	Totals
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 1)	\$ 293,193	\$ 8,462	\$ 8,805	\$ 310,460
Cash on hand	100	-	-	100
Accounts receivables (net of allowance for uncollectibles)	219,291	-	-	219,291
Unbilled revenues	212,659	-	-	212,659
Grants receivable	-	-	-	-
Due from others	14,659	-	-	14,659
Accrued interest receivable	148	-	-	148
Inventory	46,828	-	-	46,828
Restricted:				
Cash & cash equivalents (Note 1)	279,005	-	-	279,005
Capital assets:				
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	5,041,446	1,215,865	-	6,257,311
Total assets	\$ 6,107,329	\$ 1,224,327	\$ 8,805	\$ 7,340,461
Liabilities:				
Current liabilities:				
Accounts payable	\$ 100,472	\$ -	\$ -	\$ 100,472
Sales tax payable	1,970	-	-	1,970
Payroll liabilities	8,372	-	-	8,372
Due to others	-	-	-	-
Accrued compensated absences payable (Note 1)	51,174	-	-	51,174
Payable from restricted assets:				
Interest payable	1,450	-	-	1,450
Notes payable (Note 2)	285,579	-	-	285,579
Non-current liabilities:				
Notes payable (Note 2)	410,769	-	-	410,769
Revenue bonds payable (Note 2)	-	-	9,090	9,090
Total liabilities	859,786	-	9,090	868,876
Net position:				
Net investment in capital assets	4,345,098	1,215,865	(9,090)	5,551,873
Restricted	-	-	-	-
Unrestricted	902,445	8,462	8,805	919,712
Total net position	\$ 5,247,543	\$ 1,224,327	\$ (285)	\$ 6,471,585

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, 2016

Business-type Activities - Enterprise Funds

	Municipal Authority (Major)	Airport Authority (Major)	CEFA (Major)	Totals
Revenues:				
Gas revenue	\$ 1,052,850	\$ -	\$ -	\$ 1,052,850
Water revenue	937,097	-	-	937,097
Wastewater revenue	399,640	-	-	399,640
Sanitation revenue	352,343	-	-	352,343
Recycle revenue	40,612	-	-	40,612
Penalties	-	-	-	-
Administrative revenue	95,071	-	-	95,071
Miscellaneous revenue	82,372	-	-	82,372
Sale of surplus property	8,046	-	-	8,046
Rental revenue	1,950	9,000	-	10,950
Total revenues	2,969,981	9,000	-	2,978,981
Operating expenses:				
General and administrative	458,666	4,615	286	463,567
Gas service	683,258	-	-	683,258
Water service	1,068,359	-	-	1,068,359
Shop	-	-	-	-
Sanitation service	352,123	-	-	352,123
Wastewater	95,969	-	-	95,969
Depreciation expense	269,860	41,917	-	311,777
Total operating expenses	2,928,235	46,532	286	2,975,053
Income before non-operating revenues, expenses & transfers	41,746	(37,532)	(286)	3,928
Non-operating revenues (expenses):				
Interest revenue	3,450	26	1	3,477
Interest expense	(24,949)	-	-	(24,949)
Utility relocation expense	(1,112,280)	-	-	(1,112,280)
Grant revenue	1,112,280	9,520	-	1,121,800
Total	(21,499)	9,546	1	(11,952)
Income (loss) before operating transfers	20,247	(27,986)	(285)	(8,024)
Transfers in (out)	258,140	(9,520)	-	248,620
Change in net position	278,387	(37,506)	(285)	240,596
Net position at beginning of year	4,969,156	1,261,833	-	6,230,989
Net position at end of year	\$ 5,247,543	\$ 1,224,327	\$ (285)	\$ 6,471,585

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, 2016

	Business-type Activities - Enterprise Funds			
	Municipal Authority (Major)	Airport Authority (Major)	CEFA (Major)	Totals
Cash flows from operating activities:				
Cash received from customers & service users	\$ 2,940,898	\$ 9,000	\$ -	\$ 2,949,898
Cash payments for goods & services & employees	(2,639,898)	(11,859)	(286)	(2,651,757)
Other operating revenues	-	-	-	-
Net cash provided by operating activities	<u>301,000</u>	<u>(2,859)</u>	<u>(286)</u>	<u>298,141</u>
Cash flows from noncapital financing activities:				
Operating transfers out to other funds	-	(9,520)	-	(9,520)
Operating transfers in from other funds	258,140	-	-	258,140
Change in due to/from accounts	(14,659)	-	-	(14,659)
Net cash provided (used) for noncapital financing activities	<u>243,481</u>	<u>(9,520)</u>	<u>-</u>	<u>233,961</u>
Cash flows from capital and related financing activities:				
Acquisition & construction of capital assets	(360,888)	-	-	(360,888)
Loan proceeds	369,139	-	9,090	369,139
Grant revenues	-	9,520	-	9,520
Principal paid on debt	(385,181)	-	-	(385,181)
Interest paid on debt	(25,210)	-	-	(25,210)
Net cash provided (used) for capital and related financing activities	<u>(402,140)</u>	<u>9,520</u>	<u>9,090</u>	<u>(392,620)</u>
Cash flows from investing activities:				
Interest on investments	3,541	26	1	3,567
Net cash provided by investing activities	<u>3,541</u>	<u>26</u>	<u>1</u>	<u>3,567</u>
Net increase (decrease) in cash & cash equivalents	145,882	(2,833)	8,805	143,049
Cash and cash equivalents - beginning of year	426,316	11,295	-	437,611
Cash and cash equivalents - end of year	<u>\$ 572,198</u>	<u>\$ 8,462</u>	<u>\$ 8,805</u>	<u>\$ 580,660</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 41,746	\$ (37,532)	\$ (286)	\$ 4,214
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	269,860	41,917	-	311,777
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(29,083)	-	-	(29,083)
(Increase) decrease in inventory	56,174	-	-	56,174
Increase (decrease) in accounts payable	(31,733)	(7,244)	-	(38,977)
Increase (decrease) in sales payable	376	-	-	376
Increase (decrease) in accrued expenses	(6,340)	-	-	(6,340)
Total adjustments	<u>259,254</u>	<u>34,673</u>	<u>-</u>	<u>293,927</u>
Net cash provided by operating activities	<u>\$ 301,000</u>	<u>\$ (2,859)</u>	<u>\$ (286)</u>	<u>\$ 298,141</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, 2016

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>286,560</u>
Total assets	\$ <u><u>286,560</u></u>
Liabilities:	
Deposits	\$ <u>286,560</u>
Total liabilities	\$ <u><u>286,560</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, 2016

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.

The Cleveland Educational Facilities Authority (CEFA) was created by Trust Indenture dated May 12, 2016, under the provisions of Title 60, Oklahoma Statutes 2011, Sections 176 to 180.3, inclusive. The Trust was created generally to promote the development of educational, recreational and cultural activities within and near the territorial limits of the City and to thereby provide educational, recreational and cultural facilities which will benefit and strengthen culture and the economy of the City of Cleveland, Oklahoma. The Authority is exempt from State and Federal Income taxes. The Authority will issue 2016 General Obligation Bonds for the purpose of constructing, equipping, repairing and remodeling school buildings, acquiring school furniture, fixtures, equipment and acquiring and improving school sites.

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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; 2) the Cleveland Airport Authority – which accounts for operations of the airport; and a non-major fund which is considered a major by the city 3) the Cleveland Educational Facilities Authority – which accounts for the promotion of development of educational, recreational and cultural activities within and near the territorial limits of the City and to thereby provide educational, recreational and cultural facilities.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

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".

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, 2016

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, 2016

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, 2016, the City held deposits of approximately \$1,480,030 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, 2016

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, 2016 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,263,478	\$ 1,263,478
Certificate of deposit	3.00	N/A	225,530	225,530
Total investments			<u>\$ 1,489,008</u>	<u>\$ 1,489,008</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 612,983
Business-type activities	589,465
Fiduciary funds	286,560
	<u>\$ 1,489,008</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: 15% in Certificates of deposit (\$225,713) and 85% in Money Market funds (\$1,254,500).

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Fair Value Measurements

Fair value disclosures are provided as required by FASB ASC 820-10 *Fair Value Measurements*. This standard established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2016:

**Assets at Fair Value
as of June 30, 2016**

	Level 1	Level 2	Level 3	Total
CDs and bonds	\$ 225,713	\$ -	\$ -	\$ 225,713
Total assets at fair value	\$ 225,713	\$ -	\$ -	\$ 225,713

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Capital Assets

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

Governmental Activities:	Balance 6/30/15	Additions	Disposals	Balance 6/30/16
Depreciable assets:				
City Hall	\$ 314,452	\$ 5,501	\$ -	\$ 319,953
Library	474,111	-	-	474,111
Parks	789,805	-	-	789,805
Cemetery Trust	146,396	-	-	146,396
Fire & Police	1,051,046	78,907	-	1,129,953
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	<u>4,771,169</u>	<u>84,408</u>	<u>-</u>	<u>4,855,577</u>
Less accumulated depreciation	<u>340,824</u>	<u>121,217</u>	<u>-</u>	<u>462,041</u>
Net governmental activities capital assets	<u>\$ 4,430,345</u>	<u>\$ (36,809)</u>	<u>\$ -</u>	<u>\$ 4,393,536</u>
Business-Type Activities:	Balance 6/30/15	Additions	Disposals	Balance 6/30/16
Non-depreciable assets:				
Land	768,000	-	-	768,000
Depreciable assets:				
Equipment	820,357	114,748	-	935,105
Water improvements	5,445,029	-	-	5,445,029
Sewer improvements	2,806,980	-	-	2,806,980
Gas improvements	363,196	-	-	363,196
Airport improvements	1,690,956	-	-	1,690,956
Other improvements	129,782	246,140	-	375,922
Total depreciable assets	<u>11,256,300</u>	<u>360,888</u>	<u>-</u>	<u>11,617,188</u>
Less accumulated depreciation:				
Equipment	(742,460)	(42,675)	-	(785,135)
Water improvements	(3,019,421)	(146,270)	-	(3,165,691)
Sewer improvements	(1,216,480)	(70,175)	-	(1,286,655)
Gas improvements	(363,196)	-	-	(363,196)
Airport improvements	(433,174)	(41,917)	-	(475,091)
Other improvements	(41,370)	(10,740)	-	(52,110)
Total accumulated depreciation	<u>(5,816,101)</u>	<u>(311,777)</u>	<u>-</u>	<u>(6,127,878)</u>
Net business-type activities capital assets	<u>\$ 6,208,199</u>	<u>\$ 49,111</u>	<u>\$ -</u>	<u>\$ 6,257,310</u>

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, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Uncollectible Accounts

The City's estimate of uncollectible accounts receivable by fund and activity is as follows: Cleveland Municipal Authority – gas, water, sewer and sanitation combined in the amount of \$3,714.

E. Inter-fund Receivables and Payables

The following schedule reflects the City's inter-fund due from and due to other governmental funds, which have been eliminated in the statement of net position presentation in accordance with GASB 34:

	Due From	Due To
General Fund:		
Cleveland Municipal Authority	\$ -	\$ 14,659
Enterprise Funds:		
Cleveland Municipal Authority:		
General Fund	14,659	-
Total all funds	\$ 14,659	\$ 14,659

F. 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		Additions	Reductions	Balance	Current
	6/30/2015				6/30/2016	Portion
Note Payable - American Heritage	\$ 443,736	\$ -	\$ 31,265	\$ 412,471	\$ 25,401	
Note Payable - Indian Electric	24,518	-	5,004	19,514	5,004	
Note Payable - American Heritage	156,586	252,000	244,000	164,586	164,586	
Note Payable - Citizens Bank	-	64,570	27,327	37,243	32,530	
Note Payable - Citizens Bank	-	52,569	18,535	34,034	29,558	
Note Payable - American Heritage	87,551	-	59,051	28,500	28,500	
Total	\$ 712,391	\$ 369,139	\$ 385,182	\$ 696,348	\$ 285,579	

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt

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
2017	\$ 285,579	\$ 14,686	\$ 300,265
2018	40,366	11,278	51,644
2019	31,974	10,458	42,432
2020	32,292	9,638	41,930
2021	28,635	8,792	37,427
2022-2026	156,783	30,356	187,139
2027-2030	120,719	6,406	127,125
Total Liability	\$ 696,348	\$ 91,614	\$ 787,962

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.

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. AUTHORITIES

A. Cleveland Municipal Authority (A Blended Component Unit)

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. This loan was refinanced during the year.

On February 9, 2016, the Authority issued a note payable to American Heritage Bank in the amount of \$252,000 to refinance the above note payable. Interest is 2.5% on the note and late payment charges if necessary. Payments are \$14,275.12 a month. The note is secured by the previously purchased property.

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 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.

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 October 22 2015, the Authority issued a note payable to Citizens Bank of Oklahoma in the amount of \$52,568.56 for a bobcat compact excavator. Interest is 2.15% on the note and late payment charges if necessary. Payments began December, 2015 and will continue monthly in the amount of \$2,242.35. The note is secured by the property purchased.

On August 17 2015, the Authority issued a note payable to Citizens Bank of Oklahoma in the amount of \$64,570.00 for two vehicles. Interest is 2.15% on the note and late payment charges if necessary. Payments began September, 2015 and will continue monthly in the amount of \$2,750.93. The note is secured by the property purchased.

B. Cleveland Educational Facilities Authority (An Enterprise Fund)

The Cleveland Educational Facilities Authority (CEFA) was created by Trust Indenture dated September 13, 2016, under the provisions of Title 60, Oklahoma Statutes 2011, Sections 176 to 180.3, inclusive. The Trust was created generally to promote the development of educational, recreational and cultural activities within and near the territorial limits of the City and to thereby provide educational, recreational and cultural facilities which will benefit and strengthen culture and the economy of the City of Cleveland, Oklahoma. The Authority is exempt from State and Federal Income taxes. The Authority will issued 2016 General Obligation Bonds for the purpose of constructing, equipping, repairing and remodeling school buildings, acquiring school furniture, fixtures and equipment and acquiring and improving school sites.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. AUTHORITIES (Continued)

B. Cleveland Educational Facilities Authority (An Enterprise Fund) (Continued)

Non-Commitment Debt:

This debt is considered non-commitment (conduit) debt to the City and Authority since the debt payments are made solely from direct financing lease payments. Payments are made by the Cleveland Public Schools to trustee banks that pay the bondholders. In the event of default by the Schools, the City or Authority has no obligation, legally and in substance, to make any payments on the debt since the lease receivable, financing agreements and mortgages on the property with the School are the security for the debt.

The Cleveland Educational Facilities Authority (CEFA) will be issuing \$9,500,000 of the Educational Facilities Lease Revenue Bonds in 2016, for the benefit of the Cleveland Public Schools. The property, upon which the Project is located, together with improvements, is leased by the School District to the Authority and then subsequently subleased by the Authority back to the District. The bonds are secured by an assignment of the lease revenues and the property leased and subleased. Debt service on the bonds is payable solely from the lease revenues described above. The bond is reported as a liability within the financial statements.

Outstanding balance at June 30, 2016 is \$9,090

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 \$8,978, respectively.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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.

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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.

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 \$33,878. 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, 2016, 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, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2015. 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, 2015. Based upon this information, the City's proportion was 0.0903%.

For the year ended June 30, 2016, the City recognized pension expense of \$14,313. At June 30, 2016, 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	\$ 66,012	\$ 20,370
Net difference between projected and actual earnings on pension plan investments	-	80,187
Changes in proportion	2,483	
City contributions subsequent to the measurement date	<u>33,878</u>	<u>-</u>
Total	<u>\$ 102,373</u>	<u>\$ 100,557</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

\$33,878 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, 2017. 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:		
2017	\$	31,849
2018		31,849
2019		31,849
2020		4,653
2021		357
		\$ 100,557

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2015, 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, 2015, 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, 2015, 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, 2016

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)	\$221,349	\$3,684	(\$179,823)

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, 2016

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 \$29,302 (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, 2016, the City reported a liability of \$861,829 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. 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, 2015. Based upon this information the City's proportion was 0.081197%.

For the year ended June 30, 2016, the City recognized pension expense of \$55,440. At June 30, 2016, 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	\$ 17,027	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	30,552	94,795
Changes in proportion and differences between City contributions and proportionate share of contributions	-	94,345
City contributions subsequent to the measurement date	29,302	-
Total	<u>\$ 76,881</u>	<u>\$ 189,140</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

\$29,302 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, 2017. 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:	
2017	\$ (34,498)
2018	(34,498)
2019	(34,498)
2020	(2,900)
2021	(2,900)
Thereafter	(899)
	\$ (110,193)

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2015, 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, 2015, 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%

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

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 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-percent 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)	\$1,118,998	\$861,829	\$646,145

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.

Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>As of 07/01/15 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	10 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

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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 10 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.

Employees Covered by Benefit Terms

Active Employees	14
Deferred Vested Former Employees	1
Retirees or Retiree Beneficiaries	<u>10</u>
Total	<u>25</u>

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 22.02% of covered payroll. For the year ended June 30, 2016, the City recognized \$144,633 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$656,825. 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, 2015
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

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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.

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, 2015 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%

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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, 2015 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, 2015 and the City's report ending date of June 30, 2016, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

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 <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Employers' net pension liability	\$838,491	\$555,292	\$311,653

The City reported \$63,624 in pension expense for the year ended June 30, 2016. At June 30, 2016, 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	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	87,215	105,487
City contributions subsequent to the measurement date	<u>144,633</u>	<u>-</u>
Total	<u>\$ 231,848</u>	<u>\$ 105,487</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

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

\$144,633 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	\$ 13,023
2017	13,023
2018	13,023
2019	<u>29,717</u>
	<u>\$ 68,786</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.

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 2016, 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, 2016 since no one is participating at this time.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

4. OTHER INFORMATION (Continued)

E. Other Post-Employment Benefits (Continued)

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2016

**CITY OF CLEVELAND
Cleveland, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2016**

**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***

	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.0903%	0.0873%
City's proportionate share of the net pension liability (asset)	\$3,684	(\$29,405)
City's covered-employee payroll	\$260,600	\$257,777
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.4137%	(11.41%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.82%	101.53%

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

Notes to Schedule:

Only the last 2 years are presented because 10-year data is not yet available.

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

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$33,878	\$33,511
Contributions in relation to the statutorily required contribution	<u>33,878</u>	<u>33,511</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$260,600	\$257,777
Contributions as a percentage of covered-employee payroll	13.0%	13%

Notes to Schedule:

Only the last 2 years are 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, 2016**

**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***

	2015	2014
City's proportion of the net pension liability	0.081197%	0.0909%
City's proportionate share of the net pension liability	\$861.829	\$934,416
City's covered-employee payroll	\$ 209.300	\$252,090
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	411.77%	370.67%
Plan fiduciary net position as a percentage of the total pension liability	68.27%	68.12%

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

Notes to Schedule:

Only the last 2 years are presented because 10-year data is not yet available.

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

	2015	2014
Statutorily required contribution	\$29.302	\$33,961
Contributions in relation to the statutorily required contribution	29.302	33.961
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 209,300	\$ 242,579
Contributions as a percentage of covered-employee payroll	14.0%	14.0%

Notes to Schedule:

Only the last 2 years are 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, 2016**

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

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 85,083	\$ 75,931
Interest	199,397	197,050
Changes of benefit terms	-	-
Differences between expected and actual experience	113,439	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(160,937)</u>	<u>(172,393)</u>
Net change in total pension liability	236,982	100,589
Total pension liability – beginning	<u>2,651,828</u>	<u>2,551,239</u>
Total pension liability - ending (a)	<u>\$ 2,888,810</u>	<u>\$ 2,651,828</u>
Plan fiduciary net position		
Contributions - employer	\$ 137,579	\$ 126,422
Contributions - member	38,216	35,117
Net investment income	63,273	318,346
Benefit payments, including refunds of member contributions	(160,937)	(172,393)
Administrative expense	(4,684)	(4,709)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	73,447	302,784
Plan fiduciary net position – beginning	<u>2,260,072</u>	<u>1,957,288</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,333,518</u>	<u>\$ 2,260,072</u>
Net pension liability - ending (a) - (b)	<u>\$ 555,292</u>	<u>\$ 391,757</u>
Plan fiduciary net position as a percentage of the total pension liability	80.78%	85.23%
Covered employee payroll	\$ 624,355	\$ 598,981
Net pension liability as a percentage of covered- employee payroll	88.94%	65.40%

Notes to Schedule:

Only the last 2 years are 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, 2016**

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

	2015	2014
Actuarially determined contribution	\$ 140,440	\$ 139,458
Contributions in relation to the actuarially determined contribution	140,440	139,458
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 624,355	\$ 591,885
Contributions as a percentage of covered-employee payroll	22.49%	23.56%

Notes to Schedule:

1. Only the last 2 years are presented because 10-year data is not yet available.
2. Latest Valuation Date: July 1, 2015
3. Actuarially determined contribution rate is calculated as of July 1, 2014 and July 1, 2015
 January 2015 through June 2015 contributions were at a rate of 17.56%.
 July 2015 through December 2015 contributions were at a rate of 16.49%
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 - 28 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, 2016
 (Unaudited)

GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 127,000	\$ 127,000	\$ 155,679	\$ 28,679
Cigarette taxes	19,000	19,000	21,367	2,367
Interest	1,000	1,000	1,997	997
Franchise taxes	85,000	85,000	73,093	(11,907)
Hotel/motel taxes	4,000	4,000	3,686	(314)
Intergovernmental programs	74,000	74,000	68,609	(5,391)
Fines and forfeits	116,000	116,000	182,668	66,668
Rental receipts	10,000	10,000	11,618	1,618
Licenses and permits	8,000	8,000	4,855	(3,145)
Miscellaneous revenue	1,000	1,000	2,919	1,919
Sale of surplus	-	-	-	-
Sales and use taxes	1,850,000	1,850,000	1,861,091	11,091
Special assessments	41,000	41,000	35,876	(5,124)
Donations and other	-	-	-	-
Total revenues	<u>2,336,000</u>	<u>2,336,000</u>	<u>2,423,458</u>	<u>87,458</u>
Expenditures:				
Current:				
General government	151,500	151,500	151,453	47
Public safety	1,171,000	1,171,000	1,169,182	1,818
Highways and roads	92,000	92,000	85,227	6,773
Cultural and recreational	211,000	211,000	206,928	4,072
Health and welfare	520,000	520,000	516,280	3,720
Capital outlay	39,000	39,000	37,618	1,382
Total expenditures	<u>2,184,500</u>	<u>2,184,500</u>	<u>2,166,688</u>	<u>17,812</u>
Excess of revenue over (under) expenditures	151,500	151,500	256,770	105,270
Other financing sources (uses):				
Operating transfers in (out)	<u>(151,500)</u>	<u>(159,500)</u>	<u>(258,140)</u>	<u>(98,640)</u>
Net changes in fund balance	-	(8,000)	(1,370)	6,630
Fund balance at beginning of year	<u>499,817</u>	<u>499,817</u>	<u>499,817</u>	<u>-</u>
Fund balance at end of year	<u>\$ 499,817</u>	<u>\$ 491,817</u>	<u>\$ 498,447</u>	<u>\$ 6,630</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, 2016
 (Unaudited)
 SPECIAL REVENUE FUNDS

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 41,600	\$ 41,600	\$ 41,977	\$ 377
Interest	460	460	735	275
Intergovernment programs	10,000	10,000	11,785	1,785
Miscellaneous income	55,000	92,000	100,452	8,452
Property sales	-	-	1,310	
Donations and other	2,800	2,800	8,387	5,587
Total revenues	<u>109,860</u>	<u>146,860</u>	<u>164,646</u>	<u>16,476</u>
Expenditures:				
Current:				
Public safety	19,000	19,000	7,578	11,422
Cultural and recreational	76,000	86,000	85,595	405
Capital outlay	15,000	42,000	41,289	711
Total expenditures	<u>110,000</u>	<u>147,000</u>	<u>134,462</u>	<u>12,538</u>
Excess of revenue over (under) expenditures	(140)	(140)	30,184	29,014
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Net changes in fund balance	(140)	(140)	30,184	29,014
Fund balance at beginning of year	<u>314,117</u>	<u>314,117</u>	<u>314,117</u>	<u>-</u>
Fund balance at end of year	<u>\$ 313,977</u>	<u>\$ 313,977</u>	<u>\$ 344,301</u>	<u>\$ 29,014</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, 2016
 (Unaudited)

CAPITAL PROJECTS 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:				
Interest	\$ 100	\$ 100	\$ 16	\$ (84)
Intergovernment programs	-	-	-	-
Donations and other	-	-	-	-
Miscellaneous	-	6,000	-	(6,000)
Total revenues	<u>100</u>	<u>6,100</u>	<u>16</u>	<u>(6,084)</u>
Expenditures:				
General government	-	-	-	-
Public safety	-	-	-	-
Capital outlay	-	6,000	5,501	499
Total expenditures	<u>-</u>	<u>6,000</u>	<u>5,501</u>	<u>499</u>
Excess of revenue over (under) expenditures	100	100	(5,485)	(5,585)
Other financing sources (uses):				
Operating transfers in (out)	-	-	9,520	9,520
Net changes in fund balance	100	100	4,035	3,935
Fund balance at beginning of year	<u>2,631</u>	<u>2,631</u>	<u>2,631</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,731</u>	<u>\$ 2,731</u>	<u>\$ 6,666</u>	<u>\$ 3,935</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2016
(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 SUPPLEMENTARY INFORMATION
June 30, 2016

CITY OF CLEVELAND
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2016

	Special Revenue				Capital	Permanent	Total
	Police Operations	Fire Operations	Feyodi Park	Library Memorial	Projects Capital Improvement	Funds Cemetery Trust	Non-Major Governmental Funds
Assets:							
Cash and equivalents	\$ 2,305	\$ 18,879	\$ 50,865	\$ 276,786	\$ 6,666	\$ -	\$ 355,501
Grants receivable	-	-	-	-	-	-	-
Restricted cash:							
Cash and investments	-	-	-	-	-	89,015	89,015
Depreciable assets	-	-	-	-	-	6,899	6,899
Total assets	<u>\$ 2,305</u>	<u>\$ 18,879</u>	<u>\$ 50,865</u>	<u>\$ 276,786</u>	<u>\$ 6,666</u>	<u>\$ 95,914</u>	<u>\$ 451,415</u>
Liabilities:							
Accounts payable	\$ -	\$ 2,022	\$ 2,369	\$ 143	\$ -	\$ -	\$ 4,534
Due to others	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>2,022</u>	<u>2,369</u>	<u>143</u>	<u>-</u>	<u>-</u>	<u>4,534</u>
Fund balances:							
Assigned	-	-	-	-	6,666	-	6,666
Restricted	2,305	16,857	48,496	276,643	-	95,914	440,215
Total fund balances	<u>2,305</u>	<u>16,857</u>	<u>48,496</u>	<u>276,643</u>	<u>6,666</u>	<u>95,914</u>	<u>446,881</u>
Total liabilities and fund balances	<u>\$ 2,305</u>	<u>\$ 18,879</u>	<u>\$ 50,865</u>	<u>\$ 276,786</u>	<u>\$ 6,666</u>	<u>\$ 95,914</u>	<u>\$ 451,415</u>

CITY OF CLEVELAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	Special Revenue				Capital Projects	Permanent Funds	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park	Library Memorial			
Revenues:							
Charges for services	\$ -	\$ 2,160	\$ 35,017	\$ -	\$ -	\$ -	\$ 37,177
Intergovernmental programs	-	4,290	-	7,495	-	-	11,785
Donations	1,922	3,325	150	2,990	-	-	8,387
Interest	21	39	148	527	16	1,089	1,840
Miscellaneous income	40,547	-	-	59,905	-	-	100,452
Property sales	-	1,310	-	-	-	-	1,310
Rental income	-	-	4,800	-	-	-	4,800
Lot sales	-	-	-	-	-	1,342	1,342
Total revenues	\$ 42,490	\$ 11,124	\$ 40,115	\$ 70,917	\$ 16	\$ 2,431	\$ 167,093
Expenditures:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	4,137	3,441	-	-	-	-	7,578
Cemetery	-	-	-	-	-	-	-
Cultural & recreation	-	-	48,224	37,371	-	-	85,595
Capital outlay	41,289	-	-	-	5,501	-	46,790
Total expenditures	45,426	3,441	48,224	37,371	5,501	-	139,963
Excess of revenues over (under) expenditures	(2,936)	7,683	(8,109)	33,546	(5,485)	2,431	27,130
Other financing uses:							
Operating transfers in (out)	-	-	-	-	9,520	-	9,520
Excess of revenues over (under) expenditures & transfers	(2,936)	7,683	(8,109)	33,546	4,035	2,431	36,650
Fund balance - beginning of year	5,241	9,174	56,605	243,097	2,631	93,483	410,231
Fund balance - end of year	\$ 2,305	\$ 16,857	\$ 48,496	\$ 276,643	\$ 6,666	\$ 95,914	\$ 446,881

CITY OF CLEVELAND
Cleveland, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2016

<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 (Closed out during fiscal year)	20.106	124,859	9,520	9,520
<u>U.S. Department of Education:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
Library State Aid Grant	84.034	7,495	7,495	7,495
Total of Expenditures of Federal Awards		\$ 132,354	\$ 17,015	\$ 17,015

PASSED THROUGH STATE AGENCIES: (No Federal Funding)

Oklahoma Department of Commerce: COEDD

REAP Grant	2015-16 REAP Fund #18	42,750	-	-
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Oklahoma Department of Transportation

Utility Relocation	J/P 24323	1,238,448	1,112,280	1,112,280
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Oklahoma Department of Agriculture

Fire Grant	Operational Grant	4,290	4,290	4,290
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Note A - Basis of Presentation - The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net assets, or cash flows of the City.

Note B - Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported using accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF CLEVELAND
Cleveland, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cleveland, State of Oklahoma, as of and for the year ended June 30, 2016, 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 21, 2016.

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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2016-01).

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*.

City of Cleveland, State of Oklahoma's Response to Findings

City of Cleveland, State of Oklahoma's response to the finding identified in my audit is described in the accompanying schedule of finding and responses. City of Cleveland, State of Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

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, A Professional Corporation

Oklahoma City, Oklahoma 73172
November 21, 2016

City of Cleveland
Cleveland, Oklahoma

Schedule of Findings and Responses
For the year ended June 30, 2016

- 2016-01 Condition: In order to reduce confusion and paper work, the Department of Transportation paid invoices directly from grant funds that were allocated for the relocation project. The City was notified of the payments, tracked activity on the grant revenue and expense log sheet in the grant file, but did not record in the financial statements.
- Criteria: During the fiscal year, a grant was received to relocate utility lines from the easement area of the state highway. The expenses for this relocation was paid directly by the State of Oklahoma from the available funds. No accounting in the financial statements was provided for this revenue or expense.
- Effect: Grant revenue and relocation expense were materially understated. Management agreed to and made a proposed audit entry that was required to correct the financial statements.
- Recommendation: The City should record all funds that are allocated to the City through grants as grant revenue even when funds are not received directly from the granting agency using a bookkeeping entry. As expenses are paid directly from funds allocated to the City by the granting agency, a bookkeeping entry to the appropriate expense category should be entered.
- Response: The City concurs with the recommendation and will make entries for this type of transaction if they occur in the future.