

City of Cleveland
Cleveland, Oklahoma

Audit Report
for the year ended June 30, 2014

City of Cleveland
Cleveland, Oklahoma

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Cleveland, Oklahoma

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Independent Auditor's Report

The Honorable City Council
City of Cleveland, State of 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, 2014, 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.

Basis for Qualified Opinions

As discussed in Note 1 to the financial statements, 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 for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

Qualified Opinions

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the City of Cleveland, State of Oklahoma, as of June 30, 2014, 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.

Unqualified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining governmental fund information of the City of Cleveland, State of Oklahoma, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (pages forty-two to forty-four), and the related notes (page forty-eight) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining 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 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.

City of Cleveland, State of Oklahoma
Independent Auditor's Report
September 23, 2014

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 23, 2014, 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
September 23, 2014

Management's Discussion and Analysis
for the fiscal year ended June 30, 2014
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, 2014. 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 \$488,715. Net position of governmental activities decreased \$54,967 or 1.03% over the fiscal year.

General revenues accounted for \$2,586,796 or 85.4% of total governmental activities revenue. Program specific revenues accounted for \$376,352 or 14.6% of total governmental activities revenue.

Governmental activities capital assets, net increased \$90,034, which includes purchases of park property, police and fire vehicles, phone and radio systems and depreciation. Business-type activities capital assets, net-increased \$26,976, included are water line relocation, water treatment plant improvements, vehicle and depreciation.

The City had \$2,363,240 in expenses related to governmental activities; \$373,352 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,989,888 were offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$2,213,444.

Net position for the business activities, which are made up of the Municipal Authority and the Airport Authority increased over the fiscal year by \$543,682 or 10.01%.

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.

Management's Discussion and Analysis
for the fiscal year ended June 30, 2014
Unaudited

The government-wide financial statements can be found on page 13–14 of this report.

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be major funds. Data from the other six funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer and refuse, industrial building rentals and golf course rental.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Cleveland Municipal Authority and the Cleveland Airport Authority since they are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 20-22 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 23 of this report.

Component Units – The City includes two separate legal entities in its report – the Cleveland Municipal

Management's Discussion and Analysis
for the fiscal year ended June 30, 2014
Unaudited

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 24-39 of this report.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparisons, progress in funding its obligation to provide pension benefits to its employees and corresponding notes. Required supplementary information can be found on pages 40-44 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 45-48 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 \$11,257,956 as of June 30, 2014.

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	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Current and Other Assets	\$ 1,025,968	\$ 1,151,631	\$ 1,020,565	\$ 777,039	\$ 2,046,533	\$ 1,928,670
Capital Assets	4,321,251	4,231,216	5,664,433	5,637,457	9,985,684	9,868,673
Total Assets	<u>5,347,219</u>	<u>5,382,847</u>	<u>6,684,998</u>	<u>6,414,496</u>	<u>12,032,217</u>	<u>11,797,343</u>
Long-Term Liabilities	-	-	480,266	830,671	480,266	830,671
Other Liabilities	62,956	43,617	231,039	153,814	293,995	197,431
Total Liabilities	<u>62,956</u>	<u>43,617</u>	<u>711,305</u>	<u>984,485</u>	<u>774,261</u>	<u>1,028,102</u>
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	4,321,251	4,231,216	5,184,167	4,806,786	9,505,418	9,038,002
Restricted	435,952	407,812	-	-	435,952	407,812
Unrestricted	527,060	700,202	789,526	623,225	1,316,586	1,323,427
Total Net Assets	<u>\$ 5,284,263</u>	<u>\$ 5,339,230</u>	<u>\$ 5,973,693</u>	<u>\$ 5,430,011</u>	<u>\$ 11,257,956</u>	<u>\$ 10,769,241</u>

As of June 30, 2014, the City is able to report positive balances in all 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, 2014. Governmental activities decreased the City of Cleveland's net position by \$54,967 and Business-type activities increased the City's net position by \$543,682, accounting for a gain in net position.

Management's Discussion and Analysis
for the fiscal year ended June 30, 2014
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City of Cleveland's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Revenues						
Program Revenues						
Charges for Services	\$ 352,111	\$ 299,345	\$ 3,126,843	\$ 2,932,923	\$ 3,478,954	\$ 3,232,268
Operating Grants and Contributions	10,142	52,540	-	-	10,142	52,540
Capital Grants and Contributions	11,099	10,847	216,044	141,903	227,143	152,750
General Revenues						
Sales, Use, and Cigarette Taxes	1,862,356	1,784,965	-	-	1,862,356	1,784,965
Franchise Fees	77,625	78,443	-	-	77,625	78,443
Cigarette Taxes	20,951	21,798	-	-	-	-
Intergovernmental	68,835	65,846	-	-	68,835	65,846
Hotel/Motel Tax	4,768	5,568	-	-	4,768	5,568
Investment Earnings	2,976	1,894	2,675	3,605	5,651	5,499
Miscellaneous	162,391	146,818	-	-	162,391	146,818
Sale of Surplus	3,000	-	-	-	3,000	-
Rental Income	10,542	12,297	-	-	10,542	12,297
Total Revenues	2,586,796	2,480,361	3,345,562	3,078,431	5,911,407	5,536,994
Expenses						
General Government	134,188	128,348	-	-	134,188	128,348
Public Safety and Judiciary	1,239,017	1,130,431	-	-	1,239,017	1,130,431
Transportation	76,212	66,801	-	-	76,212	66,801
Cultural, Parks, and Recreation	292,636	273,713	-	-	292,636	273,713
Hospital/Economic Development	507,785	494,448	-	-	507,785	494,448
Unallocated Depreciation	113,402	108,316	231,529	225,306	344,931	333,622
Airport Activities	-	-	39,041	40,878	39,041	40,878
Utilities	-	-	2,783,266	2,685,426	2,783,266	2,685,426
Financing	-	-	26,567	44,807	26,567	44,807
Total Expenses	2,363,240	2,202,057	3,080,403	2,996,417	5,443,643	5,198,474
Increase in Net Position before Transfers	223,556	278,304	265,159	82,014	467,764	338,520
Transfers	(278,523)	(226,062)	278,523	226,062	-	-
Increase in Net Position	(54,967)	52,242	543,682	308,076	467,764	338,520
Net Position - Beginning of Year	5,286,988	5,286,988	5,430,011	5,121,935	10,716,999	10,408,923
Net Position - End of Year	\$ 5,232,021	\$ 5,339,230	\$ 5,973,693	\$ 5,430,011	\$ 11,184,763	\$ 10,747,443

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 \$1,017,528. Approximately 57% of the total amount (\$581,576) 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 for Special Projects (\$435,952).

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

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 – \$785,526 and the Airport Authority – \$4,210.

Management's Discussion and Analysis
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Capital Assets

The City of Cleveland's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$9,985,684 (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: park property, police and fire vehicles, phone and radio systems.

Business-type activities include: water line relocation, water treatment plant improvements, and a vehicle.

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Land	\$ -	\$ -	\$ 763,000	\$ 763,000	\$ 763,000	\$ 763,000
Construction In Process	-	-	-	-	-	-
Equipment	-	-	69,970	86,920	69,970	86,920
Water Improvements	-	-	1,810,931	1,750,226	1,810,931	1,750,226
Sewer Improvements	-	-	1,660,675	1,730,850	1,660,675	1,730,850
Gas Improvements	-	-	-	-	-	-
Airport Improvements	-	-	1,267,738	1,210,635	1,267,738	1,210,635
General Government Assets	4,321,250	4,231,216	-	-	4,321,250	4,231,216
Other Improvements	-	-	92,119	95,826	92,119	95,826
Total	\$ 4,321,250	\$ 4,231,216	\$ 5,664,433	\$ 5,637,457	\$ 9,985,683	\$ 9,868,673

Additional information on the City of Cleveland's capital assets can be found in Note 2.

Debt Administration

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

Outstanding Debt at Year-End Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Revenue Bonds Payable	\$ -	\$ -	\$ -	\$ 148,858	\$ -	\$ 148,858
Notes Payable	-	-	480,266	681,814	480,266	681,814
Total	\$ -	\$ -	\$ 480,266	\$ 830,672	\$ 480,266	\$ 830,672

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

Economic Factors and Next Year's Budgets and Rates

In the 2014-15 Budget, General Fund revenues and transfers in are budgeted to decrease from the 2013-14 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.

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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, 2014

City of Cleveland
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments			
Cash and Cash Equivalents (Note 1)	\$ 613,139	\$ 361,514	\$ 974,653
Cash On Hand	-	100	100
Receivables (Net of Allowance for Uncollectibles)			
Accounts Receivable	-	168,358	168,358
Unbilled Revenues	-	171,191	171,191
Taxes	345,539	-	345,539
Grant Receivable	-	54,837	54,837
Due to/from Others	(34,889)	34,889	-
Accrued Interest Receivable	-	78	78
Inventory	-	58,513	58,513
Restricted Assets			
Cash and Investments (Note 1)	84,701	171,085	255,786
Cash, Insurance Deposit	17,478	-	17,478
Capital Assets			
Depreciable Buildings, Property, Equipment and Infrastructure, Net of Depreciation (Notes 1 & 2)	4,321,251	5,664,433	9,985,684
Total Assets	<u>5,347,219</u>	<u>6,684,998</u>	<u>12,032,217</u>
Deferred Outflows of Resources			
Total Deferred Outflows	-	-	-
Liabilities			
Current Liabilities			
Accounts Payable	15,437	175,944	191,381
Payroll Taxes Payable	(98)	-	(98)
Accrued Compensated Absences Payable (Note 1)	47,617	54,173	101,790
Payable from Restricted Assets			
Interest Payable	-	922	922
Notes Payable (Note 2)	-	228,289	228,289
Revenue Bonds Payable (Note 2)	-	-	-
Non-Current Liabilities			
Notes Payable (Note 2)	-	251,977	251,977
Revenue Bonds Payable (Note 2)	-	-	-
Total Liabilities	<u>62,956</u>	<u>711,305</u>	<u>774,261</u>
Deferred inflows of resources			
Total Deferred Inflows	-	-	-
Net Position			
Invested in Capital Assets, Net of Related Debt	4,321,251	5,184,167	9,505,418
Restricted	435,952	-	435,952
Unrestricted	527,060	789,526	1,316,586
Total Net Position	<u>\$ 5,284,263</u>	<u>\$ 5,973,693</u>	<u>\$ 11,257,956</u>
Total Liabilities and Net Position	<u>5,347,219</u>	<u>6,684,998</u>	<u>12,032,217</u>

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

City of Cleveland
Statement of Activities and Changes in Net Position
for the year ended June 30, 2014

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	\$ 70,326	\$ -	\$ -	\$ -	\$ (70,326)
City Treasurer	6,300	-	-	-	(6,300)
General Government	57,562	8,973	-	-	(48,589)
Total General Government	134,188	8,973	-	-	(125,215)
Public Safety and Judiciary					
City Attorney	23,496	-	-	-	(23,496)
Fire and Ambulance	616,238	97,469	10,142	-	(508,627)
Municipal Court	15,431	110,067	-	-	94,636
Juvenile Court	-	2,216	-	-	2,216
Police	561,131	1,336	-	-	(559,795)
911 Operations	22,721	44,084	-	-	21,363
Total Public Safety and Judiciary	1,239,017	255,172	10,142	-	(973,703)
Transportation					
Airport	-	-	-	-	-
Streets	76,212	-	-	-	(76,212)
Total Transportation	76,212	-	-	-	(76,212)
Cultural, Parks, and Recreation					
Library	120,718	4,746	-	11,099	(104,873)
Parks	115,221	54,711	-	-	(60,510)
Community Center	-	-	-	-	-
Cemetery	56,697	28,509	-	-	(28,188)
Total Cultural, Parks, and Recreation	292,636	87,966	-	11,099	(193,571)
Hospitals					
Hospital Activities	507,785	-	-	-	(507,785)
Total Hospitals	507,785	-	-	-	(507,785)
Unallocated Depreciation*	113,402	-	-	-	(113,402)
Total Governmental Activities	2,363,240	352,111	10,142	11,099	(1,989,888)
Business-Type Activities					
Airport Authority	39,041	6,750	-	96,680	64,389
General and Administrative	375,693	97,532	-	119,364	(158,797)
Gas Service	952,500	1,452,157	-	-	499,657
Water Service	985,880	845,397	-	-	(140,483)
Shop	-	-	-	-	-
Sanitation Service	321,247	334,478	-	-	13,231
Wastewater	147,946	390,529	-	-	242,583
Financing Costs	26,567	-	-	-	(26,567)
Unallocated Depreciation*	231,529	-	-	-	(231,529)
Total Business-Type Activities	3,080,403	3,126,843	-	216,044	262,484
Total	\$ 5,443,643	\$ 3,478,954	\$ 10,142	\$ 227,143	\$ (1,727,404)

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

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

City of Cleveland
Statement of Activities and Changes in Net Position
for the year ended June 30, 2014

	Net (Expense) Revenue and Changes in Position		
	Governmental Activities	Business-Type Activities	Total
Net (Expense)/Revenue	(1,989,888)	262,484	(1,727,404)
General Revenues			
Taxes			
Sales and Use Taxes	1,862,356	-	1,862,356
Franchise Taxes	77,625	-	77,625
Cigarette Taxes	20,951	-	20,951
Intergovernmental	68,835	-	68,835
Hotel/Motel Tax	4,768	-	4,768
Investment Earnings	2,976	2,675	5,651
Miscellaneous	162,391	-	162,391
Rental Income	10,542	-	10,542
Sale of Surplus	3,000	-	3,000
Transfers	(278,523)	278,523	-
Total General Revenues and Transfers	<u>1,934,921</u>	<u>281,198</u>	<u>2,216,119</u>
Change in Net Position	(54,967)	543,682	488,715
Net Position - Beginning of Year	<u>5,339,230</u>	<u>5,430,011</u>	<u>10,769,241</u>
Net Position - End of Year	<u>\$ 5,284,263</u>	<u>\$ 5,973,693</u>	<u>\$ 11,257,956</u>

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

City of Cleveland
Balance Sheet – Governmental Funds
June 30, 2014

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets			
Cash and Investments			
Cash and Cash Equivalents (Note 1)	\$ 204,140	\$ 408,999	\$ 613,139
Accrued Governmental Transfers	345,539	-	345,539
Accounts Receivable	-	-	-
Due from Others	10,598	-	10,598
Restricted Assets			
Cash and Investments (Note 1)	-	84,701	84,701
Cash, Insurance Deposit	17,478	-	17,478
Capital Assets			
Depreciable Buildings, Property & Equipment, Net of Depreciation (Notes 1 & 2)	-	6,899	6,899
Total Assets	<u>\$ 577,755</u>	<u>\$ 500,599</u>	<u>\$ 1,078,354</u>
Liabilities			
Accounts Payable	\$ 15,437	\$ -	\$ 15,437
Due to Others	-	45,487	45,487
Payroll Taxes Payable	(98)	-	(98)
Total Liabilities	<u>15,339</u>	<u>45,487</u>	<u>60,826</u>
Fund Balance			
Restricted for			
Cemetery	-	91,600	91,600
E-911 Services	68,534	-	68,534
Workers Compensation	17,478	-	17,478
Other Purposes	-	258,340	258,340
Assigned to			
Other Capital Projects	-	105,172	105,172
Unassigned	476,404	-	476,404
Total Fund Balance	<u>562,416</u>	<u>455,112</u>	<u>1,017,528</u>
Total Liabilities and Fund Balance	<u>\$ 577,755</u>	<u>\$ 500,599</u>	<u>\$ 1,078,354</u>

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

City of Cleveland
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2014

Total Fund Balances - Total Governmental Funds	\$	1,017,528
Amounts reported for governmental activities in the statement of net assets are different because:		
Accrued compensated absences payable		(47,617)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
City Hall	\$	301,335
Library		445,988
Parks		743,705
Cemetery Trust		132,522
Fire & Police		795,211
Streets		911,508
Sanitation		19,000
Other		43,029
Ambulance		203,529
Sewer		18,050
Community Center		700,475
		4,314,352
Net Assets of Governmental Activities	\$	5,284,263

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

City of Cleveland
Statement of Revenues, Expenditures, and Changes in Fund Balances – Government Funds
for the year ended June 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Charges for Services	\$ 133,275	\$ 52,027	\$ 185,302
Cigarette Taxes	20,951	-	20,951
Interest	1,949	1,027	2,976
Franchise Taxes	77,625	-	77,625
Hotel/Motel Taxes	4,768	-	4,768
Intergovernmental Programs	68,835	11,020	79,855
Fines and Forfeits	112,283	-	112,283
Rental Receipts	10,542	-	10,542
Licenses and Permits	8,973	-	8,973
Lot Sales	-	1,469	1,469
Miscellaneous Revenue	80,860	81,530	162,390
Sale of Surplus	-	3,000	3,000
Sales and Use Taxes	1,862,356	-	1,862,356
Special Assessments	44,084	-	44,084
Donations and Other	-	10,221	10,221
Total Revenues	<u>2,426,501</u>	<u>160,294</u>	<u>2,586,795</u>
Expenditures			
Current			
General Government	131,170	3,018	134,188
Public Safety	1,219,155	10,050	1,229,205
Highways and Roads	76,212	-	76,212
Cultural and Recreational	220,967	71,669	292,636
Health & Welfare	507,785	-	507,785
Capital Outlay	77,832	125,604	203,436
Total Expenditures	<u>2,233,121</u>	<u>210,341</u>	<u>2,443,462</u>
Excess of Revenues Over (Under) Expenditures	193,380	(50,047)	143,333
Other Financing Uses			
Loan Proceeds	-	-	-
Operating Transfers In (Out)	<u>(341,523)</u>	<u>63,000</u>	<u>(278,523)</u>
Excess of Revenues Over (Under) Expenditures & Transfers	(148,143)	12,953	(135,190)
Fund Balance - Beginning of Year	<u>710,559</u>	<u>442,159</u>	<u>1,152,718</u>
Fund Balance - End of Year	<u>\$ 562,416</u>	<u>\$ 455,112</u>	<u>\$ 1,017,528</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 and Changes in Net Position
for the year ended June 30, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$	(135,190)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Government-Wide Statement of Activities and Changes in Net Assets 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.	.	(9,811)
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(113,402)
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		<u>203,436</u>
Change in Net Assets of Governmental Activities	\$	<u>(54,967)</u>

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

City of Cleveland
Statement of Net Position – Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Assets			
Cash and Investments			
Cash and Cash Equivalents (Note 1)	\$ 348,591	\$ 12,923	\$ 361,514
Cash on Hand	100	-	100
Accounts Receivables (Net of Allowance for Uncollectibles)	168,358	-	168,358
Unbilled Revenues	171,191	-	171,191
Grants Receivable	-	54,837	54,837
Due from Others	3,644	41,843	45,487
Accrued Interest Receivable	78	-	78
Inventory	58,513	-	58,513
Restricted			
Cash and Cash Equivalents (Note 1)	171,085	-	171,085
Capital Assets			
Depreciable Buildings, Property and Equipment, Net of Depreciation (Notes 1 & 2)	4,396,695	1,267,738	5,664,433
Total Assets	\$ 5,318,255	\$ 1,377,341	\$ 6,695,596
Deferred Outflows of Resources			
Total Deferred Outflows	-	-	-
Liabilities			
Current Liabilities			
Accounts Payable	\$ 81,149	\$ 94,795	\$ 175,944
Due to Others	-	10,598	10,598
Accrued Compensated Absences Payable (Note 1)	54,173	-	54,173
Payable from restricted assets			
Interest payable	922	-	922
Notes Payable (Note 2)	228,289	-	228,289
Revenue Bonds Payable (Note 2)	-	-	-
Non-Current Liabilities			
Notes Payable (Note 2)	251,977	-	251,977
Total Liabilities	616,510	105,393	721,903
Deferred Inflows of Resources			
Total Deferred Inflows	-	-	-
Net Position			
Invested in Capital Assets, Net of Related Debt	3,916,429	1,267,738	5,184,167
Restricted	-	-	-
Unrestricted	785,316	4,210	789,526
Total Net Position	\$ 4,701,745	\$ 1,271,948	\$ 5,973,693

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
for the year ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Revenues			
Gas Revenue	\$ 1,452,157	\$ -	\$ 1,452,157
Water Revenue	845,397	-	845,397
Wastewater Revenue	390,529	-	390,529
Sanitation Revenue	334,478	-	334,478
Administrative Revenue	97,532	-	97,532
Miscellaneous Revenue	-	-	-
Rental Revenue	-	6,750	6,750
Total Revenues	<u>3,120,093</u>	<u>6,750</u>	<u>3,126,843</u>
Operating Expenses			
General and Administrative	375,693	598	376,291
Gas Service	952,500	-	952,500
Water Service	985,880	-	985,880
Shop	-	-	0
Sanitation Service	321,247	-	321,247
Wastewater	147,946	-	147,946
Depreciation Expense	231,529	38,443	269,972
Total Operating Expenses	<u>3,014,795</u>	<u>39,041</u>	<u>3,053,836</u>
Income Before Non-Operating Revenues, Expenses, and Transfers	<u>105,298</u>	<u>(32,291)</u>	<u>73,007</u>
Non-Operating Revenues (Expenses)			
Interest Revenue	2,650	25	2,675
Interest Expense	(26,567)	-	(26,567)
Grant Revenue	119,364	96,680	216,044
Total	<u>95,447</u>	<u>96,705</u>	<u>192,152</u>
Income (Loss) Before Operating Transfers	<u>200,745</u>	<u>64,414</u>	<u>265,159</u>
Transfers In (Out)	<u>278,523</u>	<u>-</u>	<u>278,523</u>
Change in Net Position	479,268	64,414	543,682
Net Position – Beginning of Year	<u>4,222,477</u>	<u>1,207,534</u>	<u>5,430,011</u>
Net Position – End of Year	<u>\$ 4,701,745</u>	<u>\$ 1,271,948</u>	<u>\$ 5,973,693</u>

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

City of Cleveland
Statement of Cash Flows – Proprietary Funds
for the year ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Cash Flows from Operating Activities			
Cash Received from Customers and Service Users	\$ 3,158,902	\$ 6,750	\$ 3,165,652
Cash Payments for Goods, Services, and Employees	(2,809,984)	94,197	(2,715,787)
Other Operating Revenues	-	-	-
Net Cash Provided by Operating Activities	<u>348,918</u>	<u>100,947</u>	<u>449,865</u>
Cash Flows from Noncapital Financing Activities			
Operating Transfers out to Other Funds	(55,000)	-	(55,000)
Operating Transfers in from Other Funds	333,523	-	333,523
Change in Due to/from Accounts	(3,644)	(41,343)	(44,987)
Net Cash Provided (Used) for Noncapital Financing Activities	<u>274,879</u>	<u>(41,343)</u>	<u>233,536</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and Construction of Capital Assets	(201,402)	(95,546)	(296,948)
Loan Proceeds	-	-	-
Grant Revenues	119,364	41,843	161,207
Principal Paid on Debt	(350,405)	-	(350,405)
Interest Paid on Debt	(28,264)	-	(28,264)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(460,707)</u>	<u>(53,703)</u>	<u>(514,410)</u>
Cash Flows from Investing Activities			
Interest on Investments	2,846	25	2,871
Net Cash Provided by Investing Activities	<u>2,846</u>	<u>25</u>	<u>2,871</u>
Net Increase (Decrease) in Cash and Cash Equivalents	165,936	5,926	171,862
Cash and Cash Equivalents – Beginning of Year	<u>353,740</u>	<u>6,997</u>	<u>360,737</u>
Cash and Cash Equivalents – End of Year	<u>\$ 519,676</u>	<u>\$ 12,923</u>	<u>\$ 532,599</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 105,298	\$ (32,291)	\$ 73,007
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	231,529	38,443	269,972
Change in Assets and Liabilities			
(Increase) Decrease in Accounts Receivable	38,809	-	38,809
(Increase) Decrease in Inventory	(10,845)	-	(10,845)
Increase (Decrease) in Accounts Payable	(17,202)	94,795	77,593
Increase (Decrease) in Accrued Expenses	1,329	-	1,329
Total Adjustments	<u>243,620</u>	<u>133,238</u>	<u>376,858</u>
Net Cash Provided by Operating Activities	<u>\$ 348,918</u>	<u>\$ 100,947</u>	<u>\$ 449,865</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, 2014

	<u>Agency Funds</u>
Assets	
Cash and Investments at Cost	\$ <u>261,972</u>
Total Assets	\$ <u><u>261,972</u></u>
Liabilities	
Deposits	\$ <u>261,972</u>
Total Liabilities	\$ <u><u>261,972</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, 2014

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Units/Trusts

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

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

Excluded Entities

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

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

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

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

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

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

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

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. 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 unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

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

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

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

The following are the City's major governmental funds:

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

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

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

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

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

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

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

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

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.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Equity (Continued)

4. Estimates

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

5. Receivables and Payables

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

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:

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Equity (Continued)

7. Capital Assets (Continued)

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

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 position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, 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 their 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

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Equity (Continued)

10. Net Position/Fund Balance (Continued)

specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (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.

Committed fund balance represents amounts that are useable 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.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

2. Detailed Notes Concerning the Funds

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2014, the City held deposits of approximately \$1,509,988 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.

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, 2014 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,284,632	\$ 1,284,632
Certificate of deposit	3.00	N/A	225,356	225,356
Total investments			<u>\$ 1,509,988</u>	<u>\$ 1,509,988</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 728,240
Business-type activities	519,776
Fiduciary funds	261,972
	<u>\$ 1,509,988</u>

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

2. Detailed Notes Concerning the Funds (Continued)

A. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 17% in Certificates of deposit (\$225,356) and 83% in Money Market funds (\$1,203,584).

B. Capital Assets

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

Governmental Activities:	Balance 6/30/13	Additions	Disposals	Balance 6/30/14
Depreciable assets:				
City Hall	\$ 210,234	\$ 104,218	\$ -	\$ 314,452
Library	469,461	-	-	469,461
Parks	769,505	13,000	-	782,505
Cemetery Trust	146,396	-	-	146,396
Fire & Police	748,577	86,218	-	834,795
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>4,339,532</u>	<u>203,436</u>	<u>-</u>	<u>4,542,968</u>
Less accumulated depreciation	<u>108,316</u>	<u>113,402</u>	<u>-</u>	<u>221,718</u>
Net governmental activities capital assets	<u>\$ 4,231,216</u>	<u>\$ 90,034</u>	<u>\$ -</u>	<u>\$ 4,321,250</u>
Business-Type Activities	Balance 6/30/13	Additions	Disposals	Balance 6/30/14
Non-depreciable assets				
Land	763,000	-	-	763,000
Depreciable assets				
Equipment	772,448	13,700	-	786,148
Water improvements	4,496,380	187,702	-	4,684,082
Sewer improvements	2,806,980	-	-	2,806,980
Gas improvements	363,196	-	-	363,196
Airport improvements	1,563,449	95,546	-	1,658,995
Other improvements	129,782	-	-	129,782
Total depreciable assets	<u>10,132,235</u>	<u>296,948</u>	<u>-</u>	<u>10,429,183</u>
Less accumulated depreciation				
Equipment	(685,528)	(30,650)	-	(716,178)
Water improvements	(2,746,154)	(126,997)	-	(2,873,151)
Sewer improvements	(1,076,130)	(70,175)	-	(1,146,305)
Gas improvements	(363,196)	-	-	(363,196)
Airport improvements	(352,814)	(38,443)	-	(391,257)
Other improvements	(33,956)	(3,707)	-	(37,663)
Total accumulated depreciation	<u>(5,257,778)</u>	<u>(269,972)</u>	<u>-</u>	<u>(5,527,750)</u>
Net business-type activities capital assets	<u>\$ 5,637,457</u>	<u>\$ 26,976</u>	<u>\$ -</u>	<u>\$ 5,664,433</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, 2014

2. Detailed Notes Concerning the Funds (Continued)

C. Long-term Debt

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

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

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Current Portion
CMA Refunding Revenue					
Bonds, Series 1999	\$ 148,858	\$ -	\$ 148,858	\$ -	\$ -
Note Payable - Indian Electric	34,526	-	5,004	29,522	5,004
Note Payable - American Heritage	462,949	-	149,347	313,602	156,970
Note Payable - American Heritage	184,339	-	47,197	137,142	49,613
Total	<u>\$ 830,672</u>	<u>\$ -</u>	<u>\$ 350,406</u>	<u>\$ 480,266</u>	<u>\$ 211,587</u>

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 211,587	\$ 16,702	\$ 228,289
2016	213,711	6,867	220,578
2017	40,458	638	41,096
2018	5,004	-	5,004
2019	5,004	-	5,004
2020	4,502	-	4,502
Total Liability	<u>\$ 480,266</u>	<u>\$ 24,207</u>	<u>\$ 504,473</u>

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

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.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

3. Authorities (Continued)

A. Cleveland Municipal Authority (A Blended Component Unit) (Continued)

Utility Operations

This factor for gratis services has been incorporated in the current rate structure charged by the Authority. Since the Authority is structured like a private enterprise, the effect of this policy is to understate the gross revenues of the Authority and to understate the operating expenses of the various using departments of the City. The intent is for the Authority to provide cost free services to the City of Cleveland.

Restricted Funds

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

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

Revenue Bonds

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

Notes Payable

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

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

On 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.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

4. Other Information

A. Risk Management

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

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

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

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

B. Contingent Liabilities

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

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.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

4. Other Information (Continued)

C. Deferred Compensation Plan (Continued)

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 Plan

Description of Plan

The City's defined benefit pension plan, Employee Retirement System of Cleveland, Oklahoma (ERSCO), provides retirement and disability benefits and death benefits to plan members and beneficiaries. All employees are covered except police, firefighters, and other employees covered under a state system. Effective July 1, 1998, normal retirement for covered employees was reduced from age 65 to age 60. Elected members of the City Council shall not be considered employees solely by reason of their holding such office. Employees hired after their 60th birthday are excluded from plan membership. ERSCO is affiliated with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple-employer pension plan. OMRF issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, OK 73105, or by calling 1-888-394-6673.

Funding Policy

The required contribution rate for the 2013-2014 plan year was 25.67% of each participant's payroll. The members are not required nor permitted to contribute to the plan. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the City's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

4. Other Information (Continued)

D. Employee Retirement System and Plan (Continued)

Annual Pension Cost

The City's annual pension cost of \$141,864 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2013 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods.

The contribution from the City for this plan was \$103,376, \$151,982 and \$141,864 for 2012, 2013 and 2014, respectively.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/2005	\$ 1,327,734	Actuarial	\$ 1,410,682	\$ 82,948	94.1%
1/1/2006	1,399,617	Actuarial	1,511,436	111,819	92.6%
1/1/2007	1,486,875	Actuarial	1,501,258	14,383	99.0%
1/1/2008	1,594,653	Actuarial	1,941,903	347,250	82.1%
1/1/2009	1,527,770	Actuarial	1,980,224	452,454	77.2%
1/1/2010	1,599,802	Actuarial	2,134,238	534,436	75.0%
1/1/2011	1,711,552	Actuarial	2,329,895	618,343	73.5%
1/1/2012	1,798,821	Actuarial	2,569,820	770,999	70.0%
1/1/2013	1,902,175	Actuarial	2,744,616	842,441	69.3%
1/1/2014	2,038,337	Actuarial	2,739,139	700,802	74.4%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Police and Fire Department Plan

All City fire and police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS) and the Oklahoma Police Pension and Retirement System (OPPRS). Under these plans, fire and police department personnel contribute 8% of base salary and the City contributes an additional 13.0%. The OFPRS and the OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461; and the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

The required contribution from the City for these plans was \$36,218, \$37,031 and \$65,169 for 2012, 2013 and 2014, respectively. The required contribution was fully contributed. At June 30, 2014 the system held no related-party investments of the City or of its related entities.

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

4. Other Information (Continued)

E. Other Post-Employment Benefits

Plan Description: The City provides post-retirement 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-retirement 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, 2013, 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 2013, 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, 2013 since no one is participating at this time.

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

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

City of Cleveland
Cleveland, Oklahoma

Notes to the Basic Financial Statements
June 30, 2014

5. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

City of Cleveland
Cleveland, Oklahoma

Required Supplemental Information
June 30, 2014

City of Cleveland
Required Supplemental Information
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
Governmental Funds
for the year ended June 30, 2014
(Unaudited)

	General Fund			Variance with Final Budget Over (Under)
	Budgeted Amounts		Actual	
	Original Budget	Final Budget		
Revenues				
Charges for Services	\$ 140,000	\$ 140,000	\$ 133,275	\$ (6,725)
Cigarette Taxes	23,000	23,000	20,951	(2,049)
Interest	1,000	1,000	1,949	949
Franchise Taxes	100,000	100,000	77,625	(22,375)
Hotel/Motel Taxes	7,000	7,000	4,768	(2,232)
Intergovernmental Programs	125,000	125,000	68,835	(56,165)
Fines and Forfeits	76,000	76,000	112,283	36,283
Rental Receipts	13,000	13,000	10,542	(2,458)
Licenses and Permits	3,000	3,000	8,973	5,973
Miscellaneous Revenue	32,000	32,000	80,860	48,860
Sale of Surplus	-	-	-	-
Sales and Use Taxes	1,610,000	1,610,000	1,862,356	252,356
Special Assessments	41,000	41,000	44,084	3,084
Donations and Other	-	-	-	-
Total Revenues	<u>2,171,000</u>	<u>2,171,000</u>	<u>2,426,501</u>	<u>255,501</u>
Expenditures				
Current				
General Government	144,800	144,800	131,170	13,630
Public Safety	1,214,200	1,234,200	1,219,155	15,045
Highways and Roads	80,000	80,000	76,212	3,788
Cultural and Recreational	240,000	240,000	220,967	19,033
Health and Welfare	489,000	489,000	507,785	(18,785)
Capital Outlay	135,000	107,000	77,832	29,168
Total Expenditures	<u>2,303,000</u>	<u>2,295,000</u>	<u>2,233,121</u>	<u>61,879</u>
Excess of Revenue Over (Under) Expenditures	(132,000)	(124,000)	193,380	317,380
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>132,000</u>	<u>124,000</u>	<u>(341,523)</u>	<u>(465,523)</u>
Net Changes in Fund Balance	-	-	(148,143)	(148,143)
Fund Balance - Beginning of Year	<u>710,559</u>	<u>710,559</u>	<u>710,559</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 710,559</u>	<u>\$ 710,559</u>	<u>\$ 562,416</u>	<u>\$ (148,143)</u>

City of Cleveland
Required Supplemental Information
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
Governmental Funds
for the year ended June 30, 2014
(Unaudited)

	Special Revenue Funds			Variance with Final Budget Over (Under)
	Budgeted Amounts		Actual	
	Original Budget	Final Budget		
Revenues				
Charges for Services	\$ 21,300	\$ 21,300	\$ 52,027	\$ 30,727
Interest	370	370	568	198
Intergovernment Programs	8,000	8,000	11,020	3,020
Miscellaneous Income	50,100	50,100	81,530	31,430
Property Sales	-	-	3,000	
Donations and Other	3,000	3,000	10,221	7,221
Total Revenues	<u>82,770</u>	<u>82,770</u>	<u>158,366</u>	<u>72,596</u>
Expenditures				
Current				
Public Safety	13,000	13,000	10,050	2,950
Cultural and Recreational	73,000	73,000	71,669	1,331
Capital Outlay	20,000	20,000	25,604	(5,604)
Total Expenditures	<u>106,000</u>	<u>106,000</u>	<u>107,323</u>	<u>(1,323)</u>
Excess of Revenue Over (Under) Expenditures	(23,230)	(23,230)	51,043	71,273
Other Financing Sources (Uses)				
Operating Transfers In (Out)	(3,000)	(3,000)	-	3,000
Net Changes in Fund Balance	(26,230)	(26,230)	51,043	74,273
Fund Balance - Beginning of Year	<u>207,297</u>	<u>207,297</u>	<u>207,297</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 181,067</u>	<u>\$ 181,067</u>	<u>\$ 258,340</u>	<u>\$ 74,273</u>

City of Cleveland
Required Supplemental Information
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
Governmental Funds
for the year ended June 30, 2014
(Unaudited)

	Capital Projects Fund			Variance with Final Budget Over (Under)
	Budgeted Amounts		Actual	
	Original Budget	Final Budget		
Revenues				
Interest	\$ 85	\$ 212	\$ 199	\$ (13)
Intergovernment Programs	-	-	-	-
Donations and Other	-	-	-	-
Miscellaneous Income	-	-	-	-
Total Revenues	<u>85</u>	<u>212</u>	<u>199</u>	<u>(13)</u>
Expenditures				
General Government	3,100	3,100	3,018	82
Public Safety	-	-	-	-
Capital Outlay	141,900	141,900	100,000	41,900
Total Expenditures	<u>145,000</u>	<u>145,000</u>	<u>103,018</u>	<u>41,982</u>
Excess of Revenues Over (Under)				
Expenditures	(144,915)	(144,788)	(102,819)	41,969
Other Financing Sources (Uses)				
Operating Transfers In (Out)	-	63,000	63,000	-
Net Changes in Fund Balance	(144,915)	(81,788)	(39,819)	41,969
Fund Balance - Beginning of Year	<u>144,991</u>	<u>144,991</u>	<u>144,991</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 76</u>	<u>\$ 63,203</u>	<u>\$ 105,172</u>	<u>\$ 41,969</u>

City of Cleveland
Cleveland, Oklahoma

Notes to the Required Supplemental Information
for the year ended June 30, 2014
(Unaudited)

Budgetary Information

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

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

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

City of Cleveland
Cleveland, Oklahoma

Other Information
June 30, 2014

City of Cleveland
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Special Revenue			Capital Projects	Permanent Funds	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park			
Assets						
Cash and Equivalents	\$ 3,612	\$ 16,578	\$ 62,149	\$ 179,645	\$ -	\$ 408,999
Grants Receivable	-	-	-	-	-	-
Restricted Cash	-	-	-	-	-	-
Cash and Investments	-	-	-	-	84,701	84,701
Depreciable assets	-	-	-	-	6,899	6,899
Total Assets	\$ 3,612	\$ 16,578	\$ 62,149	\$ 179,645	\$ 91,600	\$ 500,599
Liabilities						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Others	-	-	3,644	-	-	45,487
Total Liabilities	-	-	3,644	41,843	-	45,487
Fund Balances						
Assigned	-	-	-	105,172	-	105,172
Restricted	3,612	16,578	58,505	179,645	91,600	349,940
Total Fund Balances	3,612	16,578	58,505	105,172	91,600	455,112
Total Liabilities and Fund Balances	\$ 3,612	\$ 16,578	\$ 62,149	\$ 179,645	\$ 91,600	\$ 500,599

City of Cleveland
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
for the year ended June 30, 2014

	Special Revenue				Capital Projects Capital Improvement	Permanent Funds Cemetery Trust	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park	Library Memorial			
Revenues							
Charges for Services	\$ 1,336	\$ -	\$ 50,691	\$ -	\$ -	\$ -	\$ 52,027
Intergovernmental Programs	-	4,474	-	6,546	-	-	11,020
Donations	-	5,668	-	4,553	-	-	10,221
Interest	22	31	125	390	199	260	1,027
Miscellaneous Income	955	-	-	80,575	-	-	81,530
Property Sales	-	3,000	-	-	-	-	3,000
Lot Sales	-	-	-	-	-	1,469	1,469
Total Revenues	\$ 2,313	\$ 13,173	\$ 50,816	\$ 92,064	\$ 199	\$ 1,729	\$ 160,294
Expenditures							
General Government	\$ -	\$ -	\$ -	\$ -	\$ 3,018	\$ -	\$ 3,018
Public Safety	6,204	3,846	-	-	-	-	10,050
Cemetery	-	-	-	-	-	-	-
Cultural and Recreation	-	-	31,993	39,676	-	-	71,669
Capital Outlay	20,000	5,604	-	-	100,000	-	125,604
Total Expenditures	26,204	9,450	31,993	39,676	103,018	-	210,341
Excess of Revenues Over (Under) Expenditures	(23,891)	3,723	18,823	52,388	(102,819)	1,729	(50,047)
Other Financing Sources (Uses) Operating Transfers In (Out)	-	-	-	-	63,000	-	63,000
Net Changes in Fund Balance	(23,891)	3,723	18,823	52,388	(39,819)	1,729	12,953
Fund Balance - Beginning of Year	27,503	12,855	39,682	127,257	144,991	89,871	442,159
Fund Balance - End of Year	\$ 3,612	\$ 16,578	\$ 58,505	\$ 179,645	\$ 105,172	\$ 91,600	\$ 455,112

City of Cleveland
Cleveland, Oklahoma

Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation:</u>				
Federal Aviation Administration - Airport Improvement Program	20.106	115,339	96,680	96,680
<u>U.S. Department of Education:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
Library State Aid Grant	84.034	5,891	5,891	5,891
Total of Expenditures of Federal Awards		\$ 121,230	\$ 102,571	\$ 102,571

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

City of Cleveland
Cleveland, Oklahoma

Report Required by *Government Auditing Standards*
June 30, 2014

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

The Honorable City Council
City of Cleveland, State of Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cleveland, State of Oklahoma, as of and for the year ended June 30, 2014, 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 September 23, 2014.

Internal Control Over Financial Reporting

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

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

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

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

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements**

Prepared in accordance with Government Auditing Standards

September 23, 2014

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

September 23, 2014

City of Cleveland
Cleveland, Oklahoma

Schedule of Findings and Responses
for the year ended June 30, 2014

There are no findings for the year ended June 30, 2014.