

CITY OF CLEVELAND
Cleveland, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2011

**CITY OF CLEVELAND
Cleveland, Oklahoma**

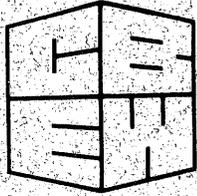
CONTENTS

	Page No.
Independent Auditor's Report	1-2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities and Changes in Net Assets	4-5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets	9
Statement of Net Assets - Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	11
Statement of Cash Flows - Proprietary Funds	12
Statement of Fiduciary Net Assets - Fiduciary Funds	13
Notes to the Basic Financial Statements	14-27
Required Supplemental Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Budgetary Basis) and Actual – Governmental Funds	28-30
Notes to Required Supplemental Information	31

CITY OF CLEVELAND
Cleveland, Oklahoma

CONTENTS

	Page No.
Supplemental Information:	
Combining Balance Sheet – Non-Major Governmental Funds	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	33
Schedule of Expenditures of Federal Awards	34
Report Required by <i>Government Auditing Standards</i>:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35-36
Schedule of Findings and Responses	37-39



CBEW
Professional
Group, LLP
Certified Public Accountants

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA

206 N. HARRISON • P.O. BOX 790 • CUSHING, OKLAHOMA 74023 • 918-225-4216 • FAX 918-225-4315

INDEPENDENT AUDITOR'S REPORT

August 31, 2011

The Honorable City Council
City of Cleveland, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Oklahoma, (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 our review. Additionally, the capital assets of the General Fund have not been depreciated as required by generally accepted governmental accounting principles. The amount by which these departures would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of incomplete capital asset record keeping described in the preceding 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, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our 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, Oklahoma, as of June 30, 2011, 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.

City of Cleveland
August 31, 2011

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011 on our consideration of the City's internal control over financial reporting and our 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 our testing of internal control over financial reporting and compliance and the 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* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 28 through 30 and the notes on page 31 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Cleveland has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the combining and individual non-major governmental fund statements listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF CLEVELAND
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 311,429	\$ 584,484	\$ 895,913
Cash on hand	-	100	100
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	226,585	226,585
Unbilled revenues	-	202,188	202,188
Taxes	386,086	-	386,086
Grant receivable	-	-	-
Due to/from others	-	-	-
Accrued interest receivable	-	367	367
Inventory	-	60,864	60,864
Restricted assets:			
Cash and investments (Note 1)	75,846	-	75,846
Cash, insurance deposit	40,918	-	40,918
Capital assets:			
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	4,090,844	5,646,108	9,736,952
Deferred charges:			
Bond issue cost (net of accumulated amortization) (Note 1)	-	14,115	14,115
Bond discount (net of accumulated amortization) (Note 1)	-	10,980	10,980
Total assets	\$ 4,905,123	\$ 6,745,791	\$ 11,650,914
Liabilities:			
Accounts payable	\$ 23,596	\$ 87,521	\$ 111,117
Bank overdraft	-	-	-
Payroll taxes payable	-	-	-
Accrued compensated absences payable (Note 1)	53,367	38,164	91,531
Payable from restricted assets:			
Interest payable	-	33	33
Notes payable (Note 2)	-	733,157	733,157
Revenue bonds payable (Note 2)	-	959,263	959,263
Total liabilities	76,963	1,818,138	1,895,101
Net assets:			
Invested in capital assets, net of related debt	4,090,844	3,953,688	8,044,532
Restricted	222,702	-	222,702
Unrestricted	514,614	973,965	1,488,579
Total net assets	\$ 4,828,160	\$ 4,927,653	\$ 9,755,813

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

CITY OF CLEVELAND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

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	\$ 59,863	\$ -	\$ -	\$ -	\$ (59,863)
City treasurer	6,074	-	-	-	(6,074)
General government	27,479	10,113	-	-	(17,366)
Total general government	<u>93,416</u>	<u>10,113</u>	<u>-</u>	<u>-</u>	<u>(83,303)</u>
Public safety and judiciary:					
City attorney	16,604	-	-	-	(16,604)
Fire and ambulance	490,091	95,568	6,198	-	(388,325)
Municipal court	(7,032)	68,874	-	-	75,906
Juvenile court	3,935	7,424	-	-	3,489
Police	391,907	1,850	10,500	-	(379,557)
911 operations	35,642	44,578	-	-	8,936
Total public safety and judiciary	<u>931,147</u>	<u>218,294</u>	<u>16,698</u>	<u>-</u>	<u>(696,155)</u>
Transportation:					
Airport	-	-	-	438,637	438,637
Streets	120,781	-	-	-	(120,781)
Total transportation	<u>120,781</u>	<u>-</u>	<u>-</u>	<u>438,637</u>	<u>317,856</u>
Cultural, parks and recreation:					
Library	93,426	6,499	-	9,483	(77,444)
Parks	128,248	54,153	-	-	(74,095)
Community center	-	-	-	-	-
Cemetery	47,533	19,770	-	-	(27,763)
Total cultural, parks and recreation	<u>269,207</u>	<u>80,422</u>	<u>-</u>	<u>9,483</u>	<u>(179,302)</u>
Hospitals					
Hospital activities	428,322	-	-	-	(428,322)
Total hospitals	<u>428,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(428,322)</u>
Total governmental activities	<u>1,842,873</u>	<u>308,829</u>	<u>16,698</u>	<u>448,120</u>	<u>(1,069,226)</u>
Business-type activities					
Airport authority	37,040	6,000	-	-	(31,040)
General and administrative	293,171	104,336	-	50,000	(138,835)
Gas service	837,859	1,338,549	-	-	500,690
Water service	721,973	680,124	-	-	(41,849)
Shop	376,034	-	-	-	(376,034)
Sanitation service	298,941	340,774	-	-	41,833
Wastewater	18,413	412,038	-	-	393,625
Financing costs	123,363	-	-	-	(123,363)
Unallocated depreciation*	210,769	-	-	-	(210,769)
Total business-type activities	<u>2,917,563</u>	<u>2,881,821</u>	<u>-</u>	<u>50,000</u>	<u>14,258</u>
Total	<u>\$ 4,760,436</u>	<u>\$ 3,190,650</u>	<u>\$ 16,698</u>	<u>\$ 498,120</u>	<u>\$ (1,054,968)</u>

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

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

CITY OF CLEVELAND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,069,226)	14,258	(1,054,968)
General revenues:			
Taxes:			
Sales and use taxes	1,619,036	-	1,619,036
Franchise taxes	83,750	-	83,750
Cigarette taxes	21,258	-	21,258
Intergovernmental	63,746	-	63,746
Hotel/motel tax	9,683		
Investment earnings	1,853	3,715	5,568
Miscellaneous	111,087	-	111,087
Rental income	5,090	-	5,090
Sale of surplus	7,234	-	7,234
Transfers	(578,815)	578,815	-
Total general revenues and transfers	<u>1,343,922</u>	<u>582,530</u>	<u>1,916,769</u>
Change in net assets	274,696	596,788	861,801
Fund balance - beginning of year	<u>4,553,464</u>	<u>4,330,865</u>	<u>8,884,329</u>
Net assets - end of year	<u>\$ 4,828,160</u>	<u>\$ 4,927,653</u>	<u>\$ 9,746,130</u>

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

CITY OF CLEVELAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Capital Projects Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 1)	\$ 242,496	\$ 3,481	\$ 65,452	\$ 311,429
Accrued governmental transfers	386,086	-	-	386,086
Accounts receivable	-	-	-	-
Due from others	-	-	-	-
Restricted assets:				
Cash and investments (Note 1)	-	-	75,846	75,846
Cash, insurance deposit	40,918	-	-	40,918
Capital assets				
Depreciable buildings, property & equipment, net of depreciation (Notes 1 & 2)	-	-	6,899	6,899
Total assets	\$ 669,500	\$ 3,481	\$ 148,197	\$ 821,178
Liabilities:				
Accounts payable	\$ 23,596	\$ -	\$ -	\$ 23,596
Due to others	-	-	-	-
Total liabilities	23,596	-	-	23,596
Fund balance:				
Restricted for:				
Cemetery	-	-	82,745	82,745
E-911 services	33,587	-	-	33,587
Workers compensation	40,918	-	-	40,918
Other purposes	-	-	65,452	65,452
Assigned to:				
Other capital projects	-	3,481	-	3,481
Unassigned	571,399	-	-	571,399
Total fund balance	645,904	3,481	148,197	797,582
Total liabilities and fund balance	\$ 669,500	\$ 3,481	\$ 148,197	\$ 821,178

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 ASSETS
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 797,582

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

Accrued compensated absences payable (53,367)

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

City Hall	\$	210,234	
Library		460,501	
Parks		755,376	
Cemetery Trust		139,497	
Fire & Police		651,195	
Streets		831,265	
Sanitation		20,000	
Other		45,294	
Ambulance		214,241	
Sewer		19,000	
Community Center		737,342	
			4,083,945

Net assets of governmental activities \$ 4,828,160

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

CITY OF CLEVELAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Charges for services	\$ 130,302	\$ -	\$ 44,481	\$ 174,783
Cigarette taxes	21,258	-	-	21,258
Interest	1,409	170	273	1,852
Franchise taxes	83,750	-	-	83,750
Hotel/motel taxes	9,683	-	-	9,683
Intergovernmental programs	63,746	438,637	20,947	523,330
Fines and forfeits	76,298	-	-	76,298
Rental receipts	5,090	-	-	5,090
Licenses and permits	10,113	-	-	10,113
Lot sales	-	-	2,525	2,525
Miscellaneous revenue	66,768	41,461	3,391	111,620
Sale of surplus	7,234	-	-	7,234
Sales and use taxes	1,619,036	-	-	1,619,036
Special assessments	44,578	-	-	44,578
Donations and other	1,400	-	3,834	5,234
Total revenues	<u>2,140,665</u>	<u>480,268</u>	<u>75,451</u>	<u>2,696,384</u>
Expenditures:				
Current:				
General government	93,417	-	-	93,417
Public safety	929,822	-	6,520	936,342
Highways and roads	120,781	-	-	120,781
Cultural and recreational	233,805	-	35,401	269,206
Health & welfare	428,322	-	-	428,322
Capital outlay	173,449	41,560	8,500	223,509
Total expenditures	<u>1,979,596</u>	<u>41,560</u>	<u>50,421</u>	<u>2,071,577</u>
Excess of revenues over (under) expenditures	161,069	438,708	25,030	624,807
Other financing uses:				
Operating transfers in (out)	<u>(110,381)</u>	<u>(448,434)</u>	<u>(20,000)</u>	<u>(578,815)</u>
Excess of revenues over (under) expenditures & transfers	50,688	(9,726)	5,030	45,992
Fund balance - beginning of year	<u>595,216</u>	<u>13,207</u>	<u>143,167</u>	<u>751,590</u>
Fund balance - end of year	<u>\$ 645,904</u>	<u>\$ 3,481</u>	<u>\$ 148,197</u>	<u>\$ 797,582</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 ASSETS
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 45,992

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. 5,195

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. 223,509

Change in Net Assets of Governmental Activities \$ 274,696

**CITY OF CLEVELAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011**

	Business-type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 584,218	\$ 266	\$ 584,484
Cash on hand	100	-	100
Accounts receivables (net of allowance for uncollectibles)	226,585	-	226,585
Unbilled revenues	202,188	-	202,188
Due from others	-	-	-
Accrued interest receivable	367	-	367
Inventory	60,864	-	60,864
Capital assets:			
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	4,483,626	1,162,482	5,646,108
Deferred charges:			
Bond issue cost (net of accumulated amortization) (Note 1)	14,115	-	14,115
Bond discount (net of accumulated amortization) (Note 1)	10,980	-	10,980
Total assets	\$ 5,583,043	\$ 1,162,748	\$ 6,745,791
Liabilities:			
Accounts payable	\$ 87,521	\$ -	\$ 87,521
Due to others	-	-	-
Accrued compensated absences payable (Note 1)	38,164	-	38,164
Payable from restricted assets:			
Interest payable	33	-	33
Notes payable (Note 2)	733,157	-	733,157
Revenue bonds payable (Note 2)	959,263	-	959,263
Total liabilities	1,818,138	-	1,818,138
Net assets:			
Invested in capital assets, net of related debt	2,791,206	1,162,482	3,953,688
Restricted	-	-	-
Unrestricted	973,699	266	973,965
Total net assets	\$ 3,764,905	\$ 1,162,748	\$ 4,927,653

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

CITY OF CLEVELAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Municipal Authority (Major)</u>	<u>Airport Authority (Major)</u>	<u>Totals</u>
Revenues:			
Gas revenue	\$ 1,338,549	\$ -	\$ 1,338,549
Water revenue	680,124	-	680,124
Wastewater revenue	412,038	-	412,038
Sanitation revenue	340,774	-	340,774
Administrative revenue	104,336	-	104,336
Miscellaneous revenue	-	-	-
Rental revenue	-	6,000	6,000
	<u>2,875,821</u>	<u>6,000</u>	<u>2,881,821</u>
Total revenues			
Operating expenses:			
General and administrative	293,171	1,437	294,608
Gas service	837,859	-	837,859
Water service	721,973	-	721,973
Shop	376,034	-	376,034
Sanitation service	298,941	-	298,941
Wastewater	18,413	-	18,413
Depreciation expense	210,769	35,603	246,372
	<u>2,757,160</u>	<u>37,040</u>	<u>2,775,787</u>
Total operating expenses			
Income before non-operating revenues, expenses & transfers	<u>118,661</u>	<u>(31,040)</u>	<u>106,034</u>
Non-operating revenues (expenses):			
Interest revenue	3,715	-	3,715
Interest expense	(112,210)	-	(112,210)
Grant revenue	50,000	-	50,000
Amortization of bond issue cost	(6,273)	-	(6,273)
Amortization of bond discount	(4,880)	-	(4,880)
	<u>(69,648)</u>	<u>-</u>	<u>(69,648)</u>
Total			
Income (loss) before operating transfers	<u>49,013</u>	<u>(31,040)</u>	<u>36,386</u>
Transfers in (out)	<u>94,161</u>	<u>484,654</u>	<u>578,815</u>
Change in net assets	143,174	453,614	615,201
Net assets at beginning of year	<u>3,621,731</u>	<u>709,134</u>	<u>4,330,865</u>
Net assets at end of year	<u>\$ 3,764,905</u>	<u>\$ 1,162,748</u>	<u>\$ 4,946,066</u>

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

**CITY OF CLEVELAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011**

	Business-type Activities - Enterprise Funds		
	Municipal Authority (Major)	Airport Authority (Major)	Totals
Cash flows from operating activities:			
Cash received from customers & service users	\$ 2,868,991	\$ 6,000	\$ 2,874,991
Cash payments for goods & services & employees	(2,460,877)	(1,437)	(2,462,314)
Other operating revenues	-	-	-
Net cash provided by operating activities	<u>408,114</u>	<u>4,563</u>	<u>412,677</u>
Cash flows from noncapital financing activities:			
Operating transfers out to other funds	(120,000)	-	(120,000)
Operating transfers in from other funds	214,161	484,654	698,815
Change in due to/from accounts	-	-	-
Net cash provided (used) for noncapital financing activities	<u>94,161</u>	<u>484,654</u>	<u>578,815</u>
Cash flows from capital and related financing activities:			
Acquisition & construction of capital assets	(82,695)	(501,583)	(584,278)
Loan proceeds	86,052	-	86,052
Grant revenues	50,000	-	50,000
Principal paid on debt	(462,396)	-	(462,396)
Interest paid on debt	(117,832)	-	(117,832)
Net cash provided (used) for capital and related financing activities	<u>(526,871)</u>	<u>(501,583)</u>	<u>(1,028,454)</u>
Cash flows from investing activities:			
Interest on investments	3,565	-	3,565
Net cash provided by investing activities	<u>3,565</u>	<u>-</u>	<u>3,565</u>
Net increase (decrease) in cash & cash equivalents	(21,031)	(12,366)	(33,397)
Cash and cash equivalents - beginning of year	<u>605,249</u>	<u>12,632</u>	<u>617,881</u>
Cash and cash equivalents - end of year	<u>\$ 584,218</u>	<u>\$ 266</u>	<u>\$ 584,484</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 118,661	\$ (31,040)	\$ 87,621
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	210,769	35,603	246,372
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(6,830)	-	(6,830)
(Increase) decrease in inventory	89,988	-	89,988
Increase (decrease) in accounts payable	(6,400)	-	(6,400)
Increase (decrease) in accrued expenses	1,926	-	1,926
Total adjustments	<u>289,453</u>	<u>35,603</u>	<u>325,056</u>
Net cash provided by operating activities	<u>\$ 408,114</u>	<u>\$ 4,563</u>	<u>\$ 412,677</u>

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

**CITY OF CLEVELAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011**

	<u>Agency Funds</u>
Assets:	
Cash and investments at cost	\$ <u>244,706</u>
Total assets	\$ <u><u>244,706</u></u>
Liabilities:	
Deposits	\$ <u>244,706</u>
Total liabilities	\$ <u><u>244,706</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, 2011

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. 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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Government-wide Financial Statements – The statement of net assets 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 assets 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, 2011

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.

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.

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.

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, 2011

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 assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

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

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

5. Receivables and Payables

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

6. Inventories

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

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets 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 assets 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. Additionally, the capital assets of the General Fund have not been depreciated as required by generally accepted governmental accounting principles. The amount by which these departures would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Deferred Charges

Bond discount costs and bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method.

9. 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.

10. 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.

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets 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 assets are 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 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).

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Assets/Fund Balance (Continued)

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 amount 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.

12. Resource Use Policy

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

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately \$1,256,593 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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments

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, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 1,033,264	\$ 1,033,264
Certificate of deposit	3.00	N/A	223,329	223,329
Total investments			<u>\$ 1,256,593</u>	<u>\$ 1,256,593</u>

Reconciliation to Statement of Net Assets

Governmental activities	\$ 428,193
Business-type activities	583,694
Fiduciary funds	244,706
	<u>\$ 1,256,593</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 18% in Certificates of deposit (\$232,329) and 82% in Money Market funds (\$1,033,264).

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

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

Governmental Activities:	<u>Balance</u> 6/30/10	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 6/30/11
Depreciable assets:				
City Hall	\$ 210,234	\$ -	\$ -	\$ 210,234
Library	460,501	-	-	460,501
Parks	755,376	-	-	755,376
Cemetery Trust	125,564	20,832	-	146,396
Fire & Police	626,130	25,065	-	651,195
Streets	699,263	132,002	-	831,265
Sanitation	20,000	-	-	20,000
Other	45,294	-	-	45,294
Community center	691,732	45,610	-	737,342
Ambulance	214,241	-	-	214,241
Sewer	19,000	-	-	19,000
Total depreciable assets	<u>3,867,335</u>	<u>223,509</u>	<u>-</u>	<u>4,090,844</u>
Net governmental activities capital assets	\$ <u>3,867,335</u>	\$ <u>223,509</u>	\$ <u>-</u>	\$ <u>4,090,844</u>
Business-Type Activities:	<u>Balance</u> 6/30/09	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 6/30/10
Non-depreciable assets:				
Land	763,000	-	-	763,000
Depreciable assets:				
Equipment	694,788	39,340	-	734,128
Water improvements	4,153,415	-	-	4,153,415
Sewer improvements	2,806,980	-	-	2,806,980
Gas improvements	363,196	-	-	363,196
Airport improvements	936,827	501,582	-	1,438,409
Other improvements	86,427	43,355	-	129,782
Total depreciable assets	<u>9,041,633</u>	<u>584,277</u>	<u>-</u>	<u>9,625,910</u>
Less accumulated depreciation:				
Equipment	(603,760)	(24,998)	-	(628,758)
Water improvements	(2,400,710)	(111,889)	-	(2,512,599)
Sewer improvements	(865,606)	(70,174)	-	(935,780)
Gas improvements	(363,196)	-	-	(363,196)
Airport improvements	(240,324)	(35,603)	-	(275,927)
Other improvements	(22,835)	(3,707)	-	(26,542)
Total accumulated depreciation	<u>(4,496,431)</u>	<u>(246,371)</u>	<u>-</u>	<u>(4,742,802)</u>
Net business-type activities capital assets	\$ <u>5,308,202</u>	\$ <u>337,906</u>	\$ <u>-</u>	\$ <u>5,646,108</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, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Long-term Debt

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 6/30/2010	Additions	Reductions	Balance 6/30/2010
CMA Refunding Revenue				
Bonds, Series 1999	\$ 1,329,816	\$ -	\$ 370,553	\$ 959,263
Note Payable - Indian Electric	2,826	46,712	4,587	44,951
Note Payable - American Heritage	706,775	-	26,000	680,775
Note Payable - American Heritage	-	23,280	15,849	7,431
Note Payable - American Heritage	29,722	-	29,722	-
Note Payable - American Heritage	-	16,060	16,060	-
Total	<u>\$ 2,069,139</u>	<u>\$ 86,052</u>	<u>\$ 462,771</u>	<u>\$ 1,692,420</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
2012	\$ 449,774	\$ 71,171	\$ 520,945
2013	466,582	46,816	513,398
2014	145,692	29,350	175,042
2015	35,175	27,081	62,256
2016	36,592	25,664	62,256
2017-2021	201,578	104,613	306,191
2022-2026	228,521	57,739	286,260
2027-2029	128,506	7,625	136,131
Total Liability	<u>\$ 1,692,420</u>	<u>\$ 370,059</u>	<u>\$ 2,062,479</u>

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

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

3. AUTHORITIES

A. Cleveland Municipal Authority (A Blended Component Unit)

UTILITY OPERATIONS:

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

RESTRICTED FUNDS:

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

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

REVENUE BONDS:

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

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. Interest only payments are to begin September, 2008 and will continue monthly. Principal payments will be initiated after the construction of the new Wal-Mart. The note is secured by the property purchased.

On August 26, 2010, the Authority issued a note payable to American Heritage Bank in the amount of \$23,280 to purchase a trackhoe. Interest is 4.74% on the note and late payment charges if necessary. Payments began August, 2010 and will continue monthly in the amount of \$1,100. The note is secured by the equipment purchased.

On August 16, 2010, the Authority issued a note payable to American Heritage Bank in the amount of \$16,060 to purchase a vehicle. Interest is 4.95% on the note and late payment charges if necessary. Payments began August, 2010 and will continue monthly in the amount of \$1,601.57. The note is secured by the vehicle purchased. This note was paid off in the current year.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

3. AUTHORITIES (Continued)

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

On July 15, 2009, the Authority issued a note payable to American Heritage Bank in the amount of \$58,479 to purchase a backhoe. Interest is 3.95% on the note and late payment charges if necessary. Payments are to begin August 15, 2009 and will continue monthly in the amount of \$2,539.77. The note is secured by the backhoe. This note was paid off in the current year.

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

4. OTHER INFORMATION

A. Risk Management

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

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

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

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$0 and \$40,918, respectively.

B. Contingent Liabilities

The City is not aware of any pending or threatened legal actions against it. However, insurance protection has been obtained to cover probable claims.

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.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

4. OTHER INFORMATION (Continued)

C. Deferred Compensation Plan

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

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

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

D. Employee Retirement System and 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 2010-2011 plan year was 20.64% 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.

Annual Pension Cost

The City's annual pension cost of \$97,532 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010 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 \$75,014, \$84,675 and \$88,039 for 2009, 2010 and 2011, respectively.

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

4. OTHER INFORMATION (Continued)

D. Employee Retirement System and Plan (Continued)

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>
1/1/2001	\$ 1,294,048	Actuarial	\$ 1,134,770	\$ (159,278)	114.0%
1/1/2002	1,321,017	Actuarial	1,234,104	(86,913)	107.0%
1/1/2003	1,219,094	Actuarial	1,288,944	69,850	94.6%
1/1/2004	4,011,597	Actuarial	4,625,225	613,628	86.7%
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%

* 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 \$31,622, \$33,086 and \$34,216 for 2009, 2010 and 2011, respectively. The required contribution was fully contributed. At June 30, 2011 the system held no related-party investments of the City or of its related entities.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 31, 2011, 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, 2011

CITY OF CLEVELAND
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Charges for services	\$ 135,000	\$ 135,000	\$ 130,302	\$ (4,698)
Cigarette taxes	-	-	21,258	21,258
Interest	2,000	2,000	1,409	(591)
Franchise taxes	92,000	92,000	83,750	(8,250)
Hotel/motel taxes	8,000	8,000	9,683	1,683
Intergovernmental programs	59,000	59,000	63,746	4,746
Fines and forfeits	85,000	85,000	76,298	(8,702)
Rental receipts	6,000	6,000	5,090	(910)
Licenses and permits	5,000	5,000	10,113	5,113
Miscellaneous revenue	76,000	76,000	66,768	(9,232)
Sale of surplus	-	-	7,234	7,234
Sales and use taxes	1,510,000	1,510,000	1,619,036	109,036
Special assessments	21,000	21,000	44,578	23,578
Donations and other	-	-	1,400	1,400
Total revenues	<u>1,999,000</u>	<u>1,999,000</u>	<u>2,140,665</u>	<u>141,665</u>
Expenditures:				
Current:				
General government	91,000	93,500	93,417	83
Public safety	1,053,000	1,019,500	929,822	89,678
Highways and roads	115,000	121,000	120,781	219
Cultural and recreational	266,000	266,000	233,805	32,195
Health and welfare	403,429	428,429	428,322	107
Capital outlay	190,000	190,000	173,449	16,551
Total expenditures	<u>2,118,429</u>	<u>2,118,429</u>	<u>1,979,596</u>	<u>138,833</u>
Excess of revenue over (under) expenditures	(119,429)	(119,429)	161,069	280,498
Other financing sources (uses):				
Operating transfers in (out)	<u>109,429</u>	<u>109,429</u>	<u>(110,381)</u>	<u>(219,810)</u>
Net changes in fund balance	(10,000)	(10,000)	50,688	60,688
Fund balance at beginning of year	<u>595,216</u>	<u>595,216</u>	<u>595,216</u>	<u>-</u>
Fund balance at end of year	<u>\$ 585,216</u>	<u>\$ 585,216</u>	<u>\$ 645,904</u>	<u>\$ 60,688</u>

CITY OF CLEVELAND
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Unaudited)

SPECIAL REVENUE FUNDS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Charges for services	\$ 60,000	\$ 60,000	\$ 44,481	\$ (15,519)
Interest	-	-	273	273
Intergovernment programs	24,000	24,000	20,947	(3,053)
Miscellaneous income	-	-	3,391	3,391
Donations and other	-	-	3,834	3,834
Total revenues	<u>84,000</u>	<u>84,000</u>	<u>72,926</u>	<u>(11,074)</u>
Expenditures:				
Current:				
Public safety	30,000	30,000	6,520	23,480
Cultural and recreational	52,000	52,000	35,401	16,599
Capital outlay	10,000	10,000	8,500	1,500
Total expenditures	<u>92,000</u>	<u>92,000</u>	<u>50,421</u>	<u>41,579</u>
Excess of revenue over (under) expenditures	(8,000)	(8,000)	22,505	30,505
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Net changes in fund balance	(8,000)	(8,000)	22,505	30,505
Fund balance at beginning of year	<u>42,947</u>	<u>42,947</u>	<u>42,947</u>	<u>-</u>
Fund balance at end of year	<u>\$ 34,947</u>	<u>\$ 34,947</u>	<u>\$ 65,452</u>	<u>\$ 30,505</u>

CITY OF CLEVELAND
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Unaudited)

CAPITAL PROJECTS FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ -	\$ -	\$ 170	\$ 170
Intergovernment programs	650,000	650,000	438,637	(211,363)
Donations and other	-	-	-	-
Miscellaneous	-	-	41,461	41,461
Total revenues	<u>650,000</u>	<u>650,000</u>	<u>480,268</u>	<u>(169,732)</u>
Expenditures:				
General government	-	-	-	-
Capital outlay	50,000	50,000	41,560	8,440
Total expenditures	<u>50,000</u>	<u>50,000</u>	<u>41,560</u>	<u>8,440</u>
Excess of revenue over (under) expenditures	600,000	600,000	438,708	(161,292)
Other financing sources (uses):				
Operating transfers in (out)	(550,000)	(550,000)	(448,434)	101,566
Net changes in fund balance	50,000	50,000	(9,726)	(59,726)
Fund balance at beginning of year	<u>13,207</u>	<u>13,207</u>	<u>13,207</u>	<u>-</u>
Fund balance at end of year	<u>\$ 63,207</u>	<u>\$ 63,207</u>	<u>\$ 3,481</u>	<u>\$ (59,726)</u>

CITY OF CLEVELAND
Cleveland, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2011
(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

SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF CLEVELAND
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2011

	Special Revenue				Permanent Funds	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park	Library Memorial		
Assets:						
Cash and equivalents	\$ 20,963	\$ 10,226	\$ 30,224	\$ 4,039	\$ -	\$ 65,452
Grants receivable	-	-	-	-	-	-
Restricted cash:						
Cash and investments	-	-	-	-	75,846	75,846
Depreciable assets	-	-	-	-	6,899	6,899
Total assets	<u>\$ 20,963</u>	<u>\$ 10,226</u>	<u>\$ 30,224</u>	<u>\$ 4,039</u>	<u>\$ 82,745</u>	<u>\$ 148,197</u>
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:						
Restricted	20,963	10,226	30,224	4,039	82,745	148,197
Total fund balances	<u>20,963</u>	<u>10,226</u>	<u>30,224</u>	<u>4,039</u>	<u>82,745</u>	<u>148,197</u>
Total liabilities and fund balances	<u>\$ 20,963</u>	<u>\$ 10,226</u>	<u>\$ 30,224</u>	<u>\$ 4,039</u>	<u>\$ 82,745</u>	<u>\$ 148,197</u>

CITY OF CLEVELAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Special Revenue				Permanent Funds Cemetery Trust	Total Non-Major Governmental Funds
	Police Operations	Fire Operations	Feyodi Park	Library Memorial		
Revenues:						
Charges for services	\$ 1,318	\$ 701	\$ 42,462	\$ -	\$ -	\$ 44,481
Intergovernmental programs	10,000	4,398	-	6,549	-	20,947
Donations	500	400	-	2,934	-	3,834
Interest	111	73	89	-	-	273
Miscellaneous income	480	-	-	2,911	-	3,391
Lot sales	-	-	-	-	2,525	2,525
Total revenues	\$ 12,409	\$ 5,572	\$ 42,551	\$ 12,394	\$ 2,525	\$ 75,451
Expenditures:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	358	6,162	-	-	-	6,520
Cemetery	-	-	-	-	-	-
Cultural & recreation	-	-	23,434	11,967	-	35,401
Capital outlay	5,000	3,500	-	-	-	8,500
Total expenditures	\$ 5,358	\$ 9,662	\$ 23,434	\$ 11,967	\$ -	\$ 50,421
Excess of revenues over (under) expenditures	7,051	(4,090)	19,117	427	2,525	25,030
Other financing uses:						
Operating transfers in (out)	-	-	-	-	(20,000)	(20,000)
Excess of revenues over (under) expenditures & transfers	7,051	(4,090)	19,117	427	(17,475)	5,030
Fund balance - beginning of year	13,912	14,316	11,107	3,612	100,220	143,167
Fund balance - end of year	\$ 20,963	\$ 10,226	\$ 30,224	\$ 4,039	\$ 82,745	\$ 148,197

**CITY OF CLEVELAND
Cleveland, Oklahoma**

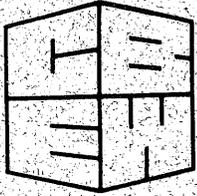
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2011**

<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	457,154	438,637	438,637
<u>U.S. Department of Education:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
Library State Aid Grant	84.034	6,549	6,549	6,549
Total of Expenditures of Federal Awards		\$ 463,703	\$ 445,186	\$ 445,186

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, 2011



CBEW
Professional
Group, LLP
Certified Public Accountants

206 N. HARRISON • P.O. BOX 790 • CUSHING, OKLAHOMA 74023 • 918-225-4216 • FAX 918-225-4315

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA

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

August 31, 2011

Honorable Board of City Commissioners
City of Cleveland
Cleveland, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Oklahoma, (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2011. The report on governmental activities was qualified because of the lack of fixed asset records and calculation of depreciation. The report on business-type activities was qualified because of the lack of fixed asset records. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 11-1, 11-2, 11-3 and 11-4. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 11-2.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be used and should not be used by anyone other than these specified parties.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF CLEVELAND
Cleveland, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

11-1. Internal Control – Bank Reconciliations

Condition: The City did not prepare accurate CMA bank reconciliations during the year. The City is not clearing individual deposits from the bank statement to those transactions on the general ledger. None of the transactions were cleared on a monthly basis and the ending procedure to balance the bank account is just a manufactured number in order to balance to the trial balance. Transactions would hit the general ledger bank account but never the actual bank such as manual postings.

Criteria: Internal controls should be in place that provides reasonable assurance that accurate CMA bank reconciliations are being produced on a monthly basis.

Cause: The City's internal control structure did not allow the CMA bank reconciliation to be prepared properly and individual deposit items were not cleared. This could cause and did cause the accounts to be misstated on the financial statements.

Effect or Potential Effect: Without controls in place such as the proper bank reconciliation and timely reconciliations, management isn't able to accurately balance the cash accounts with the trial balance. Management may not know the accurate cash balance at any time during the year for the CMA account. Additionally, this control deficiency may have resulted in a material misstatement to annual financial statements and the risk significantly increases that errors and fraud related to cash collections and deposits, including misappropriation of assets, which could not be prevented or detected

Recommendation: We recommend that the City strive to reconcile the CMA bank statements accurately and clear individual deposit transactions to allow for the control that was initially set up to actually take place.

Responsible Official's Response: The government concurs with the recommendation and has started reconciling the CMA account to determine the accurate balance.

11-2. Internal Control & Compliance – Deposit of Public Funds

Condition: As per **Oklahoma State Statutes §62-517.3B – Public Deposits**, requires that the Clerk/Treasurer shall deposit **daily, not later than the immediate next bank day**, all funds and monies of the City that come into their possession. While funds are being deposited, they are not deposited daily. The Clerk/Treasurer, or representative, should make deposits daily regardless of the amount available.

Criteria: Internal controls should be in place that provides reasonable assurance that daily CMA deposits take place.

Cause: The City's internal control structure did not allow for daily deposits to be made. And in this case, some deposits weren't made until a month later. This could lead to misappropriation of assets, which could occur and not be detected within a timely basis.

Effect or Potential Effect: Without controls in place such as daily depositing of public funds, the risk significantly increases that errors and fraud related to safeguarding cash could occur, which may not be detected on a timely basis.

Recommendation: We recommend that the City strive to deposit daily all of the CMA deposits.

Responsible Official's Response: The government concurs with the recommendation and will start depositing the CMA deposits daily.

CITY OF CLEVELAND
Cleveland, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

11-3 Internal Control – Material Adjusting Journal Entries

Criteria: The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The government's trial balances for the year ended June 30, 2011, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense for the airport and municipal authority, gas inventory, accounts payable, amortization of bond issue costs, balancing and recording note payables, interest expenses, purchased assets, ambulance revenues, payroll bank account balance and payroll taxes payable. This finding was also noted in 2010.

Cause: The government's accounting and financial reporting staff lacks the necessary expertise relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation: The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary expertise to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.

CITY OF CLEVELAND
Cleveland, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

11-4. Internal Control – Purchasing Procedures

Condition: Proper purchasing procedures are not being followed by the City. For example, purchase orders were not signed to signify approval, purchase orders are not stamped "paid" to signify canceling of the purchase order, and a purchase orders did not have corresponding invoices attached.

Criteria: Internal controls should be in place that provides reasonable assurance that purchase orders are approved, invoices are cancelled when a purchase order is issued and subsequently paid and corresponding invoices are attached to the purchase orders.

Cause: The City's internal control structure did not allow for 4 purchase orders to not be signed, invoices to be stamped "Paid" for a 3 month period in the General Fund and throughout most of the year in the CMA fund and 1 purchase order was issued without a corresponding invoice.

Effect or Potential Effect: Without controls in place such as signing purchase orders to signify approval, stamping "Paid" on cancelled invoices or attaching invoices to purchase orders. This could lead to improper payments, duplication of payments or payments for something that is not supported.

Recommendation: We recommend that the City strive to sign all purchase orders, stamp "Paid" on all paid invoices and attaching corresponding invoices.

Responsible Official's Response: The government concurs with the recommendation and will start signing all purchase orders, stamping "Paid" on all paid invoices and attaching corresponding invoices.