

CITY OF CLARENDON, TEXAS
FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

CITY OF CLARENDON, TEXAS

Annual Financial Report
for the Year Ended September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Clarendon, Texas
Clarendon, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clarendon, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clarendon, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis and budgetary comparison information, and retirement system analysis on pages 3-7 and 31-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

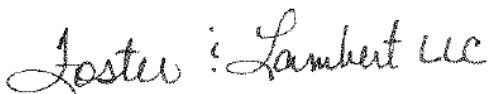
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarendon, Texas' basic financial statements. The combining section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining section is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and statistical section are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2014, on our consideration of the City of Clarendon, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Clarendon, Texas' internal control over financial reporting and compliance.



Foster & Lambert L.L.C.
April 22, 2014

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

Within this section of the City of Clarendon (City) annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. Additional information is available in the Management's Discussion and Analysis. The discussion focused on the City's primary government.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, education, and culture and recreation. Business-type activities include water utilities, and solid waste management.

The City's financial reporting entity includes the funds of the City (primary government). Most of these legally separate organizations operate like City departments or are governed by a board of trustees wholly comprised of the City's Mayor and Council.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

The City has two kinds of funds:

Governmental funds-Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds-The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

Financial Analysis of the City as a Whole

The following table provides a summary of the City's net position at September 30, 2013.

SUMMARY OF NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Current and other assets	\$ 859,515	\$2,113,492	\$ 598,583	\$ 601,516	\$1,458,098	\$ 2,715,008
Capital assets-net	<u>5,507,305</u>	<u>5,419,400</u>	<u>1,383,816</u>	<u>1,982,270</u>	<u>6,891,121</u>	<u>7,401,670</u>
Total assets	<u>6,366,820</u>	<u>7,532,892</u>	<u>1,982,399</u>	<u>2,583,786</u>	<u>8,349,219</u>	<u>10,116,678</u>
Other liabilities	16,388	47,991	99,804	214,140	116,192	262,131
Term liabilities	<u>35,484</u>	<u>663,568</u>	<u>13,220</u>	<u>604,482</u>	<u>48,704</u>	<u>1,268,050</u>
Total liabilities	<u>51,872</u>	<u>711,559</u>	<u>113,024</u>	<u>818,622</u>	<u>164,896</u>	<u>1,530,181</u>
Net position:						
Invested in capital assets, net of related debt	5,472,120	4,758,074	1,383,816	1,392,270	6,855,936	6,150,344
Restricted	-	1,131,177	-	-	-	1,131,177
Unrestricted - (Deficit)	<u>842,828</u>	<u>932,082</u>	<u>485,559</u>	<u>372,894</u>	<u>1,328,387</u>	<u>1,304,976</u>
Total net position	<u>\$6,314,948</u>	<u>\$6,821,333</u>	<u>\$ 1,869,375</u>	<u>\$1,765,164</u>	<u>\$8,184,323</u>	<u>\$ 8,586,497</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues						
Charges for services	\$ 127,921	\$ 125,530	\$ 872,155	\$ 857,899	\$1,000,076	\$ 983,429
Operating grants and contributions	63,111	48,000	-	-	63,111	48,000
Capital grants and contributions	28,913	-	28,913	309,172	57,826	309,172
General revenues						
Sales taxes	248,434	311,835	-	-	248,434	311,835
Property taxes	349,371	358,511	-	-	349,371	358,511
Franchise taxes	79,276	78,601	-	-	79,276	78,601
Hotel/motel tax	72,487	88,780	-	-	72,487	88,780
Investment earnings	6,197	6,586	-	-	6,197	6,586
Other income	29,184	6,993	-	-	29,184	6,993
Total revenues	<u>1,004,894</u>	<u>1,024,836</u>	<u>901,068</u>	<u>1,167,071</u>	<u>1,905,962</u>	<u>2,191,907</u>
Expenses:						
Financial administration	293,266	368,588	87,064	50,542	380,330	419,130
Municipal Court	27,768	21,919	-	-	27,768	21,919
Code Compliance	44,720	41,874	-	-	44,720	41,874
Police	136,257	138,943	-	-	136,257	138,943
Fire	21,345	23,774	-	-	21,345	23,774
Streets	256,043	219,137	-	-	256,043	219,137
Parks	5,808	1,346	-	-	5,808	1,346
Libraries	74,034	72,001	-	-	74,034	72,001
Airport	16,433	16,836	-	-	16,433	16,836
Interest on long-term debt	5,165	9,887	-	-	5,165	9,887
Water & Sewer	-	-	486,823	517,173	486,823	517,173
Sanitation	-	-	336,302	307,713	336,302	307,713
Total expenses	<u>880,839</u>	<u>914,305</u>	<u>910,189</u>	<u>875,428</u>	<u>1,791,028</u>	<u>1,789,733</u>
Increase (Decrease) in net assets before transfers	124,055	110,531	(9,121)	291,643	114,934	402,174
Transfers In (Out)	<u>(81,964)</u>	<u>395,854</u>	<u>81,964</u>	<u>(395,854)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>42,091</u>	<u>506,385</u>	<u>72,843</u>	<u>(104,211)</u>	<u>114,934</u>	<u>402,174</u>
Beginning net position	<u>6,272,857</u>	<u>6,314,948</u>	<u>1,796,532</u>	<u>1,869,375</u>	<u>8,069,389</u>	<u>8,184,323</u>
Ending net position	<u>\$6,314,948</u>	<u>\$6,821,333</u>	<u>\$1,869,375</u>	<u>\$1,765,164</u>	<u>\$8,184,323</u>	<u>\$8,586,497</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$6,821,333. Of this year-end total, approximately \$932,082 is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$506,385 from current year activity.

Proprietary funds

Proprietary Funds - Revenues of the City's business-type activities were \$857,899 which consisted mostly of water, sewer, and sanitation system charges. Water, sewer, and sanitation system expenses for the year ended September 30, 2013, exceeded revenues by \$8,354.

General Fund Budgetary Highlights

The General Fund expenditures for fiscal year 2013 were \$635,619, which were \$65,116 less than the budgeted amount of \$700,735.

The General Fund budget complied with financial policies approved by the City Council and maintained core City services.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its government-wide activities as of September 30, 2013, amounts to \$7,401,670 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and improvements.

Capital Assets at Year-end (Net of Depreciation)

	Governmental Activities 2012	Governmental Activities 2013	Business- type Activities 2012	Business- type Activities 2013	Total 2012	Total 2013
Land	\$ 24,503	\$ 24,503	\$ -	\$ -	\$ 24,503	\$ 24,503
Infrastructure	5,267,944	5,185,262	1,214,646	1,818,678	6,482,590	7,003,940
Buildings	112,232	109,778	13,123	12,425	125,355	122,203
Equipment	102,626	99,857	156,047	151,167	258,673	251,024
Totals	<u>\$5,507,305</u>	<u>\$5,419,400</u>	<u>\$1,383,816</u>	<u>\$1,982,270</u>	<u>\$6,891,121</u>	<u>\$7,401,670</u>

This year's major additions included:

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

Governmental activities:

Kubota mower \$ 10,450

Business-type activities:

Recycling baler 12,665
Sewer Project 296,507
Water Project 331,110

Debt

At year-end, the City had \$1,251,326 of bonds, tax notes and notes payable, as shown below:

Outstanding Debt at Year-end

	Governmental Activities 2012	Governmental Activities 2013	Business-type Activities 2012	Business-type Activities 2013	Total 2012	Total 2013
Notes payable	\$ 26,326	\$ 26,326	\$ -	\$ -	\$ 26,326	\$ 26,326
Obligation						
bonds	-	635,000	-	-	-	635,000
Tax Notes	-	-	-	590,000	-	590,000
Total	<u>\$ 26,326</u>	<u>\$ 661,326</u>	<u>\$ -</u>	<u>\$ 590,000</u>	<u>\$ 26,326</u>	<u>\$1,251,326</u>

Economic Factors and Next Year

For the 2013-14 fiscal year the City has three major projects in process; a \$275,000 sewer line improvement grant, a \$700,000 paving project, and a \$650,000 project to replace water lines under City streets.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the City of Clarendon, P.O. Box 1089, Clarendon, Texas 79226.

CITY OF CLARENDON, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental	Business		Nonmajor
	Activities	Type	Total	Component
		Activities		Unit
Assets				
Cash and cash equivalents	\$ 309,216	\$ 464,481	\$ 773,697	\$ 100,137
Receivables (net of allowance for uncollectibles)	111,615	81,939	193,554	17,296
Restricted assets:				
Cash and cash equivalents	1,687,661	55,096	1,742,757	-
Investments	5,000	-	5,000	-
Capital assets not being depreciated:				
Land	24,503	-	24,503	-
Capital assets net of accumulated depreciation:				
Infrastructure	5,185,262	1,818,678	7,003,940	-
Buildings, net	109,778	12,425	122,203	218,269
Machinery and Equipment, net	99,857	151,167	251,024	-
Total assets	7,532,892	2,583,786	10,116,678	335,702
Liabilities				
Accounts payable and other current liabilities	47,991	159,044	207,035	-
Customer deposits	-	55,096	55,096	-
Noncurrent Liabilities				
Due Within One Year	79,600	60,000	139,600	-
Due in More Than One Year	583,968	544,482	1,128,450	-
Total liabilities	711,559	818,622	1,530,181	-
Net Position				
Invested in Capital Assets, net of related debt	4,758,074	1,392,270	6,150,344	-
Restricted	1,131,177	-	1,131,177	335,702
Unrestricted Net Position	932,082	372,894	1,304,976	-
Total net position	\$ 6,821,333	\$ 1,765,164	\$ 8,586,497	\$ 335,702

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Component Unit Nonmajor Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities		
			Capital Grants and Contributions	Total				
Primary Government								
Governmental activities:								
Financial Administration	\$ 368,588	\$ -	\$ -	\$ -	\$ (368,588)	\$ -	\$ -	
Municipal Court	21,919	18,351	-	-	(3,568)	-	(3,568)	
Code compliance	41,874	1,138	-	-	(40,736)	-	(40,736)	
Police Department	138,943	-	-	-	(138,943)	-	(138,943)	
Fire Protection	23,774	-	-	-	(23,774)	-	(23,774)	
Highways and Streets	219,137	93,419	-	-	(125,718)	-	(125,718)	
Parks	1,346	-	-	-	(1,346)	-	(1,346)	
Libraries	72,001	7,233	48,000	-	(16,768)	-	(16,768)	
Airport	16,836	5,389	-	-	(11,447)	-	(11,447)	
Interest on long-term debt	9,887	-	-	-	(9,887)	-	(9,887)	
Total governmental activities	914,305	125,530	48,000	-	(740,775)	-	(740,775)	
Business-type activities:								
Water and Sewer Fund	517,173	571,688	-	-	-	54,515	54,515	
Sanitation	307,713	286,211	-	309,172	-	287,670	287,670	
Financial Administration	50,542	-	-	-	-	(50,542)	(50,542)	
Total business-type activities	875,428	857,899	-	309,172	-	291,643	291,643	
Total primary government	\$ 1,789,733	\$ 983,429	\$ 48,000	\$ 309,172	\$ (740,775)	\$ 291,643	\$ (449,132)	
Component Unit								
Nonmajor Component Unit	\$ 87,584	\$ -	\$ -	\$ 3,252	\$ -	\$ -	\$ (84,332)	
Total Component Units	\$ 87,584	\$ -	\$ -	\$ 3,252	\$ -	\$ -	\$ (84,332)	
General revenues:								
Property taxes					358,511	-	358,511	
Sales taxes					311,835	-	311,835	
Franchise taxes					78,601	-	78,601	
Other taxes					88,780	-	88,780	
Miscellaneous revenue					6,993	-	6,993	
Investment earnings					6,586	-	6,586	
Transfers in (Out)					395,854	(395,854)	-	
Total general revenues and transfers					1,247,160	(395,854)	851,306	
Change in net assets					506,385	(104,211)	402,174	
Net position - Beginning					6,314,948	1,869,375	8,184,323	
Net position - Ending					\$ 6,821,333	\$ 1,765,164	\$ 8,586,497	

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2012

	2013					2012	
	General Fund	Capital Projects Fund	Community Development Fund	Debt Service Fund	Other Funds	Total Government Funds	Total Government Funds
ASSETS							
Cash and cash equivalents	\$ 309,216	\$ -	\$ -	\$ -	\$ -	\$ 309,216	\$ 235,688
Receivables (net of allowances for uncollectibles)	95,287	-	-	16,328	-	111,615	102,601
Restricted assets:							
Cash and cash equivalents	87,810	1,063,408	-	67,769	468,674	1,687,661	515,926
Investments	-	-	-	-	5,000	5,000	5,000
Total assets	\$ 492,313	\$ 1,063,408	\$ -	\$ 84,097	\$ 473,674	\$ 2,113,492	\$ 859,215
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 15,308	\$ -	\$ -	\$ -	\$ 28,538	\$ 43,846	\$ 11,334
Accrued wages payable	2,866	-	-	-	-	2,866	5,055
Total liabilities	18,174	-	-	-	28,538	46,712	16,389
Deferred Inflows of Resources:							
Unavailable Revenue - Property Taxes	34,808	-	-	16,328	-	51,136	47,477
Fund balances:							
Restricted							
Debt Service	-	-	-	67,769	-	67,769	3,618
Capital improvement	-	1,063,408	-	-	-	1,063,408	-
Assigned for:							
Court technology	-	-	-	-	1,991	1,991	2,046
Library	-	-	-	-	119,473	119,473	101,874
Tourism	-	-	-	-	177,212	177,212	177,212
Airport improvement	14,546	-	-	-	-	14,546	14,431
Capital improvement	73,265	-	-	-	146,460	219,725	221,744
Unassigned	351,520	-	-	-	-	351,520	274,424
Total fund balances	439,331	1,063,408	-	67,769	445,136	2,015,644	795,349
Total liabilities, deferred inflows and fund balances	\$ 492,313	\$ 1,063,408	\$ -	\$ 84,097	\$ 473,674	\$ 2,113,492	\$ 859,215

The accompanying notes are an integral part of this statement

CITY OF CLARENDON, TEXAS
RECONCILIATION OF THE BALANCE SHEET
OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Governmental activities fund balance	\$ 2,015,644
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,419,400
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Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due.	(613,711)
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Net position of governmental activities	<u>\$ 6,821,333</u>
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The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2012

	2013					2012	
	General Fund	Capital Projects Fund	Community Development Fund	Debt Service Fund	Other Funds	Total Government Funds	Total Government Funds
Revenues							
Taxes:							
Property taxes	\$ 208,123	\$ -	\$ -	\$ 146,729	\$ -	\$ 354,852	\$ 345,704
General sales and use taxes	311,835	-	-	-	-	311,835	248,434
Franchise tax	78,601	-	-	-	-	78,601	79,276
Other taxes	-	-	-	-	88,780	88,780	72,487
Intergovernmental revenue and grants	33,000	-	258,752	-	-	291,752	92,024
Fines and fees	20,021	-	-	-	101,007	121,028	127,545
Investment earnings	4,826	528	-	-	1,232	6,586	6,573
Other revenue	11,406	-	-	-	15,089	26,495	29,184
Total revenues	667,812	528	258,752	146,729	206,108	1,279,929	1,001,227
Expenditures							
Administration	190,013	41,943	-	-	89,252	321,208	259,819
Municipal court	21,499	-	-	-	420	21,919	27,768
Code compliance	41,117	-	-	-	-	41,117	44,202
Police	138,943	-	-	-	-	138,943	136,257
Fire protection	21,538	-	-	-	-	21,538	19,036
Highways and streets	141,880	-	-	-	-	141,880	176,942
Parks	384	-	-	-	-	384	4,683
Libraries	66,405	-	-	-	5,473	71,878	72,001
Airport	3,390	-	-	-	-	3,390	2,987
Debt service:							
Principal	-	-	-	65,000	-	65,000	258,638
Interest	-	-	-	8,609	-	8,609	6,348
Capital outlay:							
Capital outlay	10,450	-	309,172	-	-	319,622	28,913
Total expenditures	635,818	41,943	309,172	73,609	95,145	1,155,488	1,037,594
Excess (deficiency) of revenues over (under) expenditures	32,193	(41,415)	(50,420)	73,120	110,963	124,441	(36,367)
Other financing sources (uses)							
Loan proceeds	-	700,000	-	-	-	700,000	-
Transfers (net)	42,889	404,823	50,420	(8,969)	(93,419)	395,854	-
Total other financing sources (uses)	42,889	1,104,823	50,420	(8,969)	(93,419)	1,095,854	-
Net change	75,192	1,063,408	-	64,151	17,544	1,220,295	(36,367)
Fund balance - October 1 (Beginning)	354,139	-	-	3,616	427,592	795,349	831,716
Fund balance - September 30 (Ending)	\$ 439,331	\$ 1,063,408	\$ -	\$ 67,769	\$ 445,136	\$ 2,015,644	\$ 795,349

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Net change in fund balances-total governmental funds	\$ 1,220,295
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(88,205)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(636,278)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	6,915
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. The current-year change recognized in the government-wide financial statements is \$3,659. This results in an increase in net position.	3,658
Changes in net position of governmental activities	<u>\$ 506,385</u>

The accompanying notes are a integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012

	Business-type Activities Enterprise Funds	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 464,481	\$ 470,457
Accounts receivable (net of allowance for uncollectibles)	81,939	77,120
Restricted assets:		
Cash and cash equivalents	55,096	51,006
Total current assets	<u>601,516</u>	<u>598,583</u>
Noncurrent assets:		
Capital assets:		
Infrastructure	2,377,034	1,749,417
Buildings	46,797	46,797
Machinery and Equipment	553,488	540,823
Accumulated Depreciation-Capital Assets	(995,049)	(953,221)
Total noncurrent assets	<u>1,982,270</u>	<u>1,383,816</u>
Total assets	<u>2,583,786</u>	<u>1,982,399</u>
Liabilities		
Current liabilities:		
Accounts payable	150,644	36,663
Accrued payroll	7,222	9,135
Accrued interest payable	1,178	-
Customer deposits	55,096	54,006
Tax notes payable-current portion	60,000	-
Total current liabilities	<u>274,140</u>	<u>99,804</u>
Noncurrent liabilities:		
Compensated absences	14,482	13,220
Tax notes payable-net of current portion	530,000	-
Total noncurrent liabilities	<u>544,482</u>	<u>13,220</u>
Total liabilities	<u>818,622</u>	<u>113,024</u>
Net Position		
Invested in capital assets, net of related debt	1,392,270	1,383,816
Unrestricted net position	<u>372,894</u>	<u>485,559</u>
Total net position	<u>\$ 1,765,164</u>	<u>\$ 1,869,375</u>

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012

	Business-type Activities- Enterprise Funds	
	2013	2012
Operating revenues:		
Charges for Water Services	\$ 571,688	\$ 536,703
Sanitation Charges for Services	286,211	335,452
Total operating revenues	<u>857,899</u>	<u>872,155</u>
Operating expenses:		
Personal Services-Salaries and Wages	288,346	293,985
Personal Services-Employee Benefits	72,271	76,730
Purchased Property Services	310,867	242,323
Other Operating Expenses	134,162	245,322
Supplies	18,780	9,111
Depreciation	41,827	42,718
Total operating expenses	<u>866,253</u>	<u>910,189</u>
Operating income (loss)	<u>(8,354)</u>	<u>(38,034)</u>
Other expense:		
Interest expense	<u>9,175</u>	<u>-</u>
Contributions and operating transfers:		
Capital contributions	309,172	28,913
Transfer in	-	81,964
Transfers out	<u>(395,854)</u>	<u>-</u>
Total contributions and operating transfers	<u>(86,682)</u>	<u>110,877</u>
Change in Net Position	(104,211)	72,843
Total Net Position - October 1 (Beginning)	1,869,375	1,796,532
Total Net Position - September 30 (Ending)	<u>\$ 1,765,164</u>	<u>\$ 1,869,375</u>

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012

	Total Enterprise Funds	
	2012	2012
Cash flows from operating activities		
Receipts from customers and users	\$ 853,080	\$ 869,700
Payments to suppliers	(422,099)	(572,428)
Payments to employees	(288,997)	(287,183)
Net cash provided by operating activities	<u>141,984</u>	<u>10,089</u>
Cash flows provided by noncapital financing activities		
Operating transfers	<u>(395,854)</u>	<u>81,964</u>
Cash flows from capital and related financing activities		
Proceeds long-term debt	650,000	-
Principal paid on long-term debt	(60,000)	-
Interest paid	(7,996)	-
Purchase of equipment	(331,110)	(81,964)
Net cash (used) by capital and related financing activities	<u>250,894</u>	<u>(81,964)</u>
Cash flows from investing activities		
Customer deposits	<u>1,090</u>	<u>2,280</u>
Net cash provided by investing activities	<u>1,090</u>	<u>2,280</u>
Net increase in cash and cash equivalents	(1,886)	12,369
Cash and cash equivalents at beginning of year	<u>521,463</u>	<u>509,094</u>
Cash and cash equivalents at end of year	<u>\$ 519,577</u>	<u>\$ 521,463</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ (8,354)	\$ (38,034)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	41,827	42,718
Interest expense		
(Increase) decrease in current assets:		
Receivables	(4,819)	(2,455)
Increase (decrease) in current liabilities:		
Accounts payable	113,981	1,058
Accrued payroll	(651)	6,802
Net cash provided by operating activities	<u>\$ 141,984</u>	<u>\$ 10,089</u>
Noncash investing, capital, and financing activities:		
Assets contributed from grants	\$ 309,172	\$ 28,913

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Clarendon, Texas, reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standard*.

A. FINANCIAL REPORTING ENTITY

The City is a municipal corporation governed by an elected mayor and a five-member council. The City was incorporated under the Constitution of the State of Texas (Type A General Law). As required by GAAP, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial burden on the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government is such the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit. Because of the closeness of their relationship with the primary government (the City), some component units are blended as though they are part of the primary government; most component units are discretely presented. The City's component unit is as follows:

The Clarendon Economic Development Corporation ("Development Corporation") was created in 1995 for the special purpose of promoting and developing commercial, industrial, and manufacturing enterprises and encouraging employment within the boundaries of the City. The members of the Development Corporation's financial activities are discretely presented in the City's financial statements as a governmental fund. Complete financial statements of the Development Corporation can be obtained from the City's administration office.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. In the government-wide Statement of Net Position, the governmental activities are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes, charges for services, and intergovernmental revenues.

The government-wide Statement of Activities reflects the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included on program revenues are reported as general revenues.

Separate **fund financial statements** are provided for the governmental funds. The General Fund, Hotel/Motel, Library Savings, Improvement, and Debt Service Fund meet criteria as **major governmental funds**. The major funds are reported in a separate column in the fund financial statements. Non-major funds include Capital Project and Special Revenue funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

C. MEASUREMENT FOCUS, BASIC OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings, and other miscellaneous revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available and include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Property, franchise, sales, and hotel occupancy taxes and investment income are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a fund liability is incurred; however, expenditures related to compensated absences and claims and judgments are recorded only when the liability has matured and payment is due.

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for the funds construction projects.

The **Community Development Fund** is used to account for grant funds used for capital improvement .

The **Debt Service Fund** is used to account for the resources accumulated and payments made for principal and interest on long-term tax certificates debt of the government funds.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities in the next 12 months.

2. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible. Trade accounts receivable primarily consist of charges for services provided by the City to customers for water, sewer, and sanitation. The property tax receivable allowance is equal to 50% of the delinquent taxes receivable at September 30, 2013.

The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year and added to the delinquent roll after June 30.

3. Capital Assets

Capital assets, which include land, buildings, equipment, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is included as part of the capitalized value of the assets constructed. There was no capitalized interest during the current fiscal year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives of assets are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements	20
Furniture & fixtures	7
General equipment	7
Vehicles	7-15
Computer hardware	5
Infrastructure	75

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUALITY - Continuation

4. Restricted Assets

Restricted assets in the General Fund held for specific purposes in accordance with legal restrictions, are comprised of the following:

General Fund:

Cash and cash equivalents	
Capital projects	\$ 1,063,408
Tourism	204,530
Library	115,658
Improvement	219,724
Debt service	67,769
Airport improvement	14,546
Technology	2,026
Total Cash and cash equivalents	<u>\$ 1,687,661</u>

Investments

Library	\$ 5,000
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Water & Sewer Fund:

Cash and cash equivalents	<u>\$ 55,096</u>
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5. Compensated Absences

The City's permanent, full-time employees earn sick leave (up to a maximum of 720 hours) based on days employed. The policy provides for payment of sick leave upon retirement, contingent upon the employee providing a minimum of two weeks notice of his/her intent to retire.

Amounts are accrued in the government-wide financial statements

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

The City's permanent, full-time employees earn vacation leave (up to a maximum of 120 hours per year) based on days employed. Vacation leave accrues monthly up to the maximum allowed per year, so no accrual is booked.

6. 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. Actual results could differ from those estimates.

7. Fund Equity

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUALITY - Continuation

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

8. Budgets and budgetary accounting

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

- a. Prior to September of each fiscal year, the City Secretary submits an annual budget to the City Council.
- b. The City Council provides for a public hearing on the City budget before the end of August and prior to the levy of taxes by the Council.
- c. Prior to October 1, the budget is legally adopted by order of the Council for the General Fund.
- d. The budget is prepared by fund and department with the legal level of control at the departmental level. Administrative control is maintained through the establishment of more detailed account or object class budgets within the departments. Emergency expenditures to meet unusual and unforeseen conditions which could not, by reasonable diligent thought and attention, have been included in the original budget, whereby total expenditures of a department have been increased must be authorized by the Council as emergency amendments to the original budget. Management may not amend the budget at any level without approval of the Council. Amounts shown in the financial statements represent the original adopted budget are in the Final Budget Amounts column of the Budgetary Comparison Schedule for General Fund.
- e. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) on the modified accrual basis of accounting on an annual basis.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. ASSESTS, LIABILITIES, AND NET ASSESTS OR EQUALITY – Continuation

- f. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund.
- g. All appropriations lapse at the end of the City's fiscal year and may be re-budgeted the next year.

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City's cash and deposit balances as of September 30, 2013:

Cash and deposit balances consist of	
Bank deposits	\$ 2,164,088
Certificates of deposit	457,503
Total	<u>\$ 2,621,591</u>

Cash and investment balances are reported in the basic financial statements as follows:

Government-wide Statement of net position	\$ 2,521,454
Component Unit	100,137
Total	<u>\$ 2,621,591</u>

As of September 30, 2013, the carrying amount of the City's bank deposits and certificates of deposit was \$2,521,454, and the respective bank balances totaled \$2,639,979. The entire balance was covered by federal depository insurance and securities held by the pledging financial institution's agent held in City's name.

As of September 30, 2013, the carrying amount of the Economic Development Corporation's book balance was \$100,137, and the respective bank balances totaled \$114,836. The total bank balance was covered by federal depository insurance.

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Depository Act. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Company (FDIC) coverage.

State statutes and City resolutions authorize the City's investments. The City is authorized to invest in obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; insured or collateralized certificates of deposit; certain municipal securities; money market savings accounts; fully collateralized repurchase agreements; and government investment pools.

As of September 30, 2013, the City held investments only in certificates of deposit with a maturity of less than one year and are included in cash and cash equivalents in the Statement of Net Position. These were adequately insured and collateralized as discussed above.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Deposits of the City can be exposed to risk that has the potential to result in losses. The following is an analysis of those risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The City will minimize credit risk by limiting investments to certain types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. At year-end, the City was not significantly exposed to credit risk.

- Custodial credit risk occurs when deposits are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging of financial institution, or collateralized with securities held by the pledging of financial institutions trust department or agent but not in the City's name. At year-end, the City was not significantly exposed to custodial credit risk.
- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

To eliminate risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and class of security. At year-end, the City was not significantly exposed to concentration of credit risk related to deposits and investments.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The City's policy is to not directly invest in securities maturity more than six (6) months from date of purchase. The City will also invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limits the average maturity of the portfolio. At year-end, the City was not exposed to interest rate risk.

NOTE 3 – PROPERTY TAXES

The City is authorized by the tax laws of the State of Texas to levy taxes up to \$.80 per \$100 of assessed valuation, for general governmental services, and the payment of principal and interest on long-term debt. The tax rates to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2013, were \$.386511 and \$.263489, respectively, per \$100 valuation. The combined tax rate on the 2012 tax roll was \$.65 per \$100, which means that the City has a tax margin of \$.15 per \$100 and could raise up to \$84,329 additional taxes from the 2013 assessed valuation.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the fiscal year, the deferred revenue amount reported represents amounts unavailable to liquidate the liabilities of the current period.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 4 – RECEIVABLES

Receivables as of year-end for the City, including the applicable allowance for uncollectible accounts, are as follows:

	Governmental Activities	Business- type Activities	Total
Taxes and assessments	\$ 162,810	\$ -	\$ 162,810
Customer-trade	-	81,939	81,939
Gross receivables	162,810	81,939	244,749
Less: Allowance for uncollectible accounts	51,195	-	51,195
Net total receivables	<u>\$ 111,615</u>	<u>\$ 81,939</u>	<u>\$ 193,554</u>

Discretely Presented Component Unit

Clarendon Economic Development Corporation receivables at September 30, 2013, consist of the following:

Taxes and assessments	<u>\$17,296</u>
-----------------------	-----------------

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2013, is as follows:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 24,503	\$ -	\$ -	\$ 24,503
Total capital assets, not being depreciated:	<u>24,503</u>	<u>-</u>	<u>-</u>	<u>24,503</u>
Capital assets, being depreciated:				
Infrastructure	7,759,849	-	-	7,759,849
Buildings and improvements	458,434	-	-	458,434
Equipment	964,946	10,450	-	975,396
Total capital assets, being depreciated:	<u>9,183,229</u>	<u>10,450</u>	<u>-</u>	<u>9,193,679</u>
Less accumulated depreciation for:				
Infrastructure	(2,491,905)	(82,682)	-	(2,574,587)
Buildings and improvements	(344,340)	(4,316)	-	(348,656)
Equipment	(863,883)	(11,656)	-	(875,539)
Total accumulated depreciation	<u>(3,700,128)</u>	<u>(98,654)</u>	<u>-</u>	<u>(3,798,782)</u>
Total capital assets, being depreciated, net	<u>5,483,101</u>	<u>(88,204)</u>	<u>-</u>	<u>5,394,897</u>
Governmental activities capital assets, net	<u>\$ 5,507,604</u>	<u>\$ (88,204)</u>	<u>\$ -</u>	<u>\$ 5,419,400</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Infrastructure	1,749,417	627,617	-	2,377,034
Buildings	46,797	-	-	46,797
Equipment	<u>540,823</u>	<u>12,665</u>	<u>-</u>	<u>553,488</u>
Total capital assets, being depreciated:	<u>2,337,037</u>	<u>640,282</u>	<u>-</u>	<u>2,977,319</u>
Less accumulated depreciation for:				
Infrastructure	(534,772)	(23,584)	-	(558,356)
Buildings	(33,674)	(699)	-	(34,373)
Equipment	<u>(384,776)</u>	<u>(17,544)</u>	<u>-</u>	<u>(402,320)</u>
Total accumulated depreciation	<u>(953,222)</u>	<u>(41,827)</u>	<u>-</u>	<u>(995,049)</u>
Total capital assets, being depreciated, net	<u>1,383,815</u>	<u>598,455</u>	<u>-</u>	<u>1,982,270</u>
Business-type activities capital assets, net	<u>\$ 1,383,815</u>	<u>\$ 598,455</u>	<u>\$ -</u>	<u>\$ 1,982,270</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 3,613
Street	77,933
Fire	2,236
Animal control	464
Park	962
Airport	<u>13,446</u>
Total depreciation expense – governmental activities:	<u>\$ 98,654</u>
Business-type activities:	
Water and Sewer	\$ 31,603
Sanitation	<u>10,224</u>
Total depreciation expense – business-type activities:	<u>\$ 41,827</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Government interfund transfers during the year ended September 30, 2013, were as follows:

	Transfers Out	Transfers In
Governmental activities	\$ -	\$ 395,854
Business-type activities	<u>395,854</u>	<u>-</u>
Total primary government	<u>\$ 395,854</u>	<u>\$ 395,854</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS – Continuation

Eliminations

Interfund transfers are reported in the governmental activities fund financial statements. In the entity-wide statements, interfund transfers are eliminated within the governmental activities column.

Purpose of Transfers

Primarily, transfers are used to 1) move amounts collected in the general fund representing the approved increase in charges for services designated by Council for use in improving the City's streets, 2) move unrestricted revenues accumulated in the general fund to finance the City's part of a community development project, and 3) move any amount recorded in an inappropriate fund to the correct fund in which the amount should be accounted.

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS

The following is a summary of long-term debt activity of the City of Clarendon for the year ended September 30, 2013:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due in One Year
Governmental activities:					
General Obligation Bond	\$ -	\$ 700,000	\$ 65,000	\$ 635,000	\$ 65,000
Bank note payable	26,326	-	-	26,326	14,600
Compensated absences	9,158	-	6,916	2,242	-
Total Governmental activities	<u>\$ 35,484</u>	<u>\$ 700,000</u>	<u>\$ 71,916</u>	<u>\$ 663,568</u>	<u>\$ 14,600</u>
Business-type activities:					
Tax Notes, 2012	\$ -	\$ 650,000	\$ 60,000	\$ 590,000	\$ 60,000
Compensated absences	13,220	1,262	-	14,482	-
Total Business-type activities	<u>\$ 13,220</u>	<u>\$ 651,262</u>	<u>\$ 60,000</u>	<u>\$ 604,482</u>	<u>\$ 60,000</u>

General obligation bonds and tax notes at September 30, 2013, are comprised of the following individual issues:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding At 9/30/13
Governmental activities:					
General Obligation Bond	1.62%	2/15/19	\$ 65,000- 190,000	\$ 700,000	\$ 635,000
Business-type activities:					
Tax Notes, 2012	1.62%	2/15/19	\$60,000- 175,000	650,000	590,000

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS – Continuation

Debt maturities for general obligation bonds and tax notes, are as follows:

Due During Fiscal Year Ending	Principal	Interest	Total
Governmental activities:			
General Obligation Bond			
2014	\$ 65,000	\$ 10,287	\$ 75,287
2015	65,000	9,234	74,234
2016	65,000	8,181	73,181
2017	65,000	7,128	72,128
2018	185,000	6,075	191,075
Subsequent	190,000	3,078	193,078
Total	<u>\$ 635,000</u>	<u>\$ 43,983</u>	<u>\$ 678,983</u>
Business-type activities:			
Tax Notes, 2012			
2014	\$ 60,000	\$ 9,558	\$ 69,558
2015	60,000	8,586	68,586
2016	60,000	7,614	67,614
2017	60,000	6,642	66,642
2018	175,000	5,670	180,670
Subsequent	175,000	2,835	177,835
Total	<u>\$ 590,000</u>	<u>\$ 40,905</u>	<u>\$ 630,905</u>

The notes payable at September 30, 2013, consisted of the following:

Bank note:			
2014	\$ 14,600	\$ 738	\$ 15,338
2015	11,726	264	11,990
Total	<u>\$ 26,326</u>	<u>\$ 1,002</u>	<u>\$ 27,328</u>

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM

The City of Clarendon provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com

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

Deposit Rate	5%
Matching ratio (to employee)	1 to 1
A member is vested after:	5 yrs

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – Continuation

Members can retire at certain ages, based on the years of service with the City of Clarendon. The service retirement eligibilities for the City of Clarendon are: 5 yrs/age 60, 20 yrs/any age.

CONTRIBUTIONS:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rate include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/ (assets) are as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Contribution Made</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	12,919	12,919	100%	-
2012	5,227	5,227	100%	-
2013	1,772	1,772	100%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	24.9 Years – Closed Period	37.3 Years – Closed Period	35.3 Years – Closed Period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation At	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – Continuation

FUNDED STATUS AND FUNDING PROGRESS

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/12	\$590,365	\$481,227	122.7%	\$(109,138)	\$436,665	(25.0)%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

City offers supplemental death to:	Plan Year 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$1,221, \$1,351, and \$1,938, respectively, which equaled the required contributions each year.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2013

NOTE 9 - RISK MANAGEMENT

The city's major areas of risk management are: public officials' liability, automobile liability, airport liability, general comprehension liability, property damage, workers' compensation, and employee health insurance. The City has obtained insurance with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The City pays a deductible per incident except on the employee health insurance, in which the deductible is the responsibility of the employee. There have been no significant reductions in health insurance coverage from the prior year.

NOTE 10 – COMMITMENTS

On July 10, 1985, the City, along with other cities, entered into a contract with Greenbelt Municipal and Industrial Water Authority (the "Authority"), whereby the Authority will sell to the cities water produced by the facilities of the Authority. In return, the cities agree to pay for such water based on a usage formula that will provide reimbursements for operations, maintenance and debt service payments to the Authority. The participating cities are jointly and severally responsible for the above payments. Each city's proportionate share is determined annually according to its demand usage from the system. The City paid \$232,446 to the Authority for the fiscal year ended September 30, 2013.

NOTE 11 – LITIGATION

The City is a defendant from time to time in various lawsuits. In the opinion of the City's management, any liabilities resulting from such lawsuits will not have a material effect on the financial position of the City.

NOTE 12 – EXPENDITURES IN EXCESS OF BUDGETED AMOUNTS

During the year ended September 30, 2013, the City had expenditures in excess of the budgeted account in the General Fund in the following areas and amounts:

General Fund	
Capital outlay	\$ 10,450

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2013 (UNAUDITED)

Texas Municipal Retirement System Analysis of Funding Progress Last Three Fiscal Years

Actuarial Valuation Date	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$590,365	\$546,642	\$527,965
Actuarial Accrued Liability	481,227	449,578	495,912
Percentage funded	122.7%	121.6%	106.5%
Unfunded Actuarial Accrued Liability (UAAL)	(109,138)	(97,064)	(32,053)
Annual covered payroll	436,665	382,040	353,503
UAAL as a percentage of covered payroll	(25.0%)	(25.4%)	(9.1)%

CITY OF CLARENDON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2012

	2013				2012
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	
	Original	Final	Actual Amounts		Actual Amounts
Revenues					
Taxes:					
Property taxes	\$ 262,297	\$ 230,000	\$ 208,123	\$ (21,877)	\$ 200,610
General sales and use taxes	238,500	238,500	311,835	73,335	248,434
Franchise tax	73,200	73,200	78,601	5,401	79,276
Intergovernmental revenue and grants	33,000	33,000	33,000	-	33,111
Fines and fees	29,500	29,500	20,021	(9,479)	21,550
Investment earnings	4,000	4,000	4,826	826	5,006
Other revenue	17,910	17,552	11,406	(6,146)	28,503
Total revenues	658,407	625,752	667,812	42,060	616,490
Expenditures					
Current:					
General government:					
Administration	233,798	218,904	190,013	28,891	192,983
Municipal court	29,449	29,449	21,499	7,950	27,523
Code compliance	49,584	47,712	41,117	6,595	44,202
Public safety:					
Police	140,458	140,458	138,943	1,515	136,257
Fire protection	36,351	32,343	21,538	10,805	19,036
Public works:					
Highways and streets	174,651	147,779	141,880	5,899	176,942
Culture and recreation:					
Parks	41,150	11,050	384	10,666	4,683
Libraries	66,000	66,000	66,405	(405)	70,023
Airport	7,040	7,040	3,390	3,650	2,987
Capital outlay:					
Capital outlay	6,500	-	10,450	(10,450)	-
Total expenditures	784,981	700,735	635,619	65,116	674,636
Excess (deficiency) of revenues over (under) expenditures	(126,574)	(74,983)	32,193	107,176	(58,146)
Other financing sources (uses)					
Transfers In	126,574	74,983	42,999	(31,984)	52,000
Total other financing sources (uses)	126,574	74,983	42,999	(31,984)	52,000
Net change	-	-	75,192	75,192	(6,146)
Fund balance - October 1 (Beginning)	364,139	364,139	364,139	-	370,285
Fund balance - September 30 (Ending)	\$ 364,139	\$ 364,139	\$ 439,331	\$ 75,192	\$ 364,139

CITY OF CLARENDON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	2013				
	Court Tech Fund	Library Savings Fund	Hotel/Motel Fund	Improvement Fund	Total Nonmajor Funds
ASSETS					
Restricted assets:					
Cash and cash equivalents	\$ 2,026	\$ 115,658	\$ 204,530	\$ 146,460	\$ 468,674
Investments	-	5,000	-	-	5,000
Total assets	<u>\$ 2,026</u>	<u>\$ 120,658</u>	<u>\$ 204,530</u>	<u>\$ 146,460</u>	<u>\$ 473,674</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 35	\$ 1,185	\$ 27,318	\$ -	\$ 28,538
Total liabilities	<u>35</u>	<u>1,185</u>	<u>27,318</u>	<u>-</u>	<u>28,538</u>
Fund balances:					
Unreserved and Undesignated:					
Reported in the					
Special Revenue Fund	1,991	119,473	177,212	146,460	445,136
Total fund balances	<u>1,991</u>	<u>119,473</u>	<u>177,212</u>	<u>146,460</u>	<u>445,136</u>
Total liabilities and fund balances	<u>\$ 2,026</u>	<u>\$ 120,658</u>	<u>\$ 204,530</u>	<u>\$ 146,460</u>	<u>\$ 473,674</u>

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	2013				
	Court Tech Fund	Library Savings Fund	Hotel/Motel Fund	Improvement Fund	Total Nonmajor Funds
Revenues					
Other taxes	\$ -	\$ -	\$ 88,780	\$ -	\$ 88,780
Fines and fees	365	7,223	-	93,419	101,007
Investment earnings	-	760	472	-	1,232
Other	-	15,089	-	-	15,089
Total revenues	<u>365</u>	<u>23,072</u>	<u>89,252</u>	<u>93,419</u>	<u>206,108</u>
Expenditures					
Tourism	-	-	89,252	-	89,252
Culture and recreation:					
Supplies	-	5,473	-	-	5,473
Repairs	420	-	-	-	420
Total expenditures	<u>420</u>	<u>5,473</u>	<u>89,252</u>	<u>-</u>	<u>95,145</u>
Excess (deficiency) of revenues over (under) expenditures	(55)	17,599	-	93,419	110,963
Transfers Out	-	-	-	(93,419)	(93,419)
Net change	(55)	17,599	-	-	17,544
Fund balance - October 1 (Beginning)	2,046	101,874	177,212	146,460	427,592
Fund balance - September 30 (Ending)	<u>\$ 1,991</u>	<u>\$ 119,473</u>	<u>\$ 177,212</u>	<u>\$ 146,460</u>	<u>\$ 445,136</u>

The accompanying notes are an integral part of this statement.

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

To the City Council
Clarendon, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clarendon, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Clarendon, Texas' basic financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Clarendon, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Foster & Lambert LLC".

Foster & Lambert L.L.C.

April 22, 2014

CITY OF CLARENDON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified? Yes x No

Significant deficiencies identified that are
not considered to be material weaknesses? Yes x No

Non compliance material to financial
statements noted? Yes x No

2. Federal Awards

Under the guidelines of OMB Circular A-133, a Single Audit was not required for
the year ended September 30, 2013.

B. Financial Statement Findings

No findings

C. Federal Award Findings and Questioned Costs

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year
ended September 30, 2013.

CITY OF CLARENDON, TEXAS

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

None