

CITY OF CLARENDON, TEXAS
FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

CITY OF CLARENDON, TEXAS

Annual Financial Report
for the Year Ended September 30, 2017

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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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability, schedule of contributions, and budgetary comparison information on pages 3-7 and 35-38 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 January 25, 2017, 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.
January 25, 2017

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

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, 2017. 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, 2017

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, 2017.

SUMMARY OF NET POSITION						
	Governmental Activities		Business-type Activities		Totals	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$1,425,318	\$1,818,920	\$ 354,967	\$ 561,612	\$ 1,780,285	\$ 2,380,532
Capital assets-net	<u>6,089,255</u>	<u>5,968,927</u>	<u>2,312,262</u>	<u>2,225,332</u>	<u>8,401,517</u>	<u>8,194,259</u>
Total assets	<u>7,514,573</u>	<u>7,787,847</u>	<u>2,667,229</u>	<u>2,786,944</u>	<u>10,181,802</u>	<u>10,574,791</u>
Deferred outflow	<u>19,008</u>	<u>21,011</u>	<u>28,512</u>	<u>22,762</u>	<u>47,520</u>	<u>43,773</u>
Other liabilities	21,332	23,368	110,855	107,969	132,187	131,337
Term liabilities	<u>408,593</u>	<u>343,182</u>	<u>401,413</u>	<u>344,802</u>	<u>810,006</u>	<u>687,984</u>
Total liabilities	<u>429,925</u>	<u>366,550</u>	<u>512,268</u>	<u>452,771</u>	<u>942,193</u>	<u>819,321</u>
Deferred inflow	<u>-</u>	<u>2,593</u>	<u>-</u>	<u>2,809</u>	<u>-</u>	<u>5,402</u>
Net position:						
Net investment in capital assets	5,687,942	5,632,613	1,940,948	1,914,018	7,628,890	7,546,631
Restricted	566,670	573,235	-	-	566,670	573,235
Unrestricted – (Deficit)	<u>849,044</u>	<u>1,233,867</u>	<u>242,525</u>	<u>440,108</u>	<u>1,091,569</u>	<u>1,673,975</u>
Total net position	<u>\$7,103,656</u>	<u>\$7,439,715</u>	<u>\$2,183,473</u>	<u>\$2,354,126</u>	<u>\$9,287,129</u>	<u>\$ 9,793,841</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2017	2016	2017	2016	2017
Revenues:						
Program revenues						
Charges for services	\$ 130,752	\$ 124,315	\$1,030,418	\$1,160,680	\$1,161,170	\$1,284,995
Operating grants and contributions	35,414	30,000	-	-	35,414	30,000
Capital grants and contributions	-	144,900	-	-	-	144,900
General revenues						
Sales taxes	298,379	292,092	-	-	298,379	292,092
Property taxes	407,369	419,527	-	-	407,369	419,527
Franchise taxes	73,633	73,312	-	-	73,633	73,312
Hotel/motel tax	81,370	92,231	-	-	81,370	92,231
Investment earnings	8,513	10,030	-	-	8,513	10,030
Other income	<u>12,044</u>	<u>25,712</u>	<u>-</u>	<u>-</u>	<u>12,044</u>	<u>25,712</u>
Total revenues	<u>1,047,474</u>	<u>1,212,119</u>	<u>1,030,418</u>	<u>1,160,680</u>	<u>2,077,892</u>	<u>2,372,799</u>
Expenses:						
Financial administration	397,054	410,208	-	-	397,054	410,208
Municipal Court	18,869	25,574	-	-	18,869	25,574
Code Compliance	31,889	47,112	-	-	31,889	47,112
Police	146,815	149,667	-	-	146,815	149,667
Fire	24,055	23,119	-	-	24,055	23,119
Streets	218,512	223,810	-	-	218,512	223,810
Parks	7,622	8,494	-	-	7,622	8,494
Libraries	76,819	71,521	-	-	76,819	71,521
Airport	16,947	16,234	-	-	16,947	16,234
Interest on long-term debt	6,908	5,838	-	-	6,908	5,838
Water & Sewer	-	-	530,528	548,516	530,528	548,516
Sanitation	-	-	<u>354,530</u>	<u>335,994</u>	<u>354,530</u>	<u>335,994</u>
Total expenses	<u>945,490</u>	<u>981,577</u>	<u>885,058</u>	<u>884,510</u>	<u>1,830,548</u>	<u>1,866,087</u>
Increase (Decrease) in net assets before transfers	101,984	230,542	145,360	276,170	247,344	506,712
Transfers In (Out)	<u>121,011</u>	<u>105,517</u>	<u>(121,011)</u>	<u>(105,517)</u>	<u>-</u>	<u>-</u>
Change in net position	222,995	336,059	24,349	170,653	247,344	506,712
Beginning net position	<u>6,880,661</u>	<u>7,103,656</u>	<u>2,159,124</u>	<u>2,183,473</u>	<u>9,039,785</u>	<u>9,287,129</u>
Ending net position	<u>\$7,103,656</u>	<u>\$7,439,715</u>	<u>\$2,183,473</u>	<u>\$2,354,126</u>	<u>\$9,287,129</u>	<u>\$9,793,841</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

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 \$7,439,715. Of this year-end total, approximately \$1,233,867 is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$336,059 from current year activity.

Proprietary funds

Proprietary Funds - Revenues of the City's business-type activities were \$1,160,680 which consisted mostly of water, sewer, and sanitation system charges. Water, sewer, and sanitation system revenues for the year ended September 30, 2017, exceeded operating expenses by \$281,575.

General Fund Budgetary Highlights

The General Fund budgeted revenues of \$714,847 and expenditures of \$1,149,528 for fiscal year 2017. Actual revenues over expenditures were \$384,121 more than the budgeted amount before transfers.

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, 2017, amounts to \$8,194,259 (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 2016	Governmental Activities 2017	Business- type Activities 2016	Business- type Activities 2017	Total 2016	Total 2017
Land	\$ 24,503	\$ 24,503	\$ -	\$ -	\$ 24,503	\$ 24,503
Infrastructure	5,786,886	5,746,267	1,973,197	1,930,994	7,760,083	7,677,261
Buildings	154,832	95,023	10,328	9,629	165,160	104,652
Equipment	123,034	103,134	328,737	284,709	451,771	387,843
Totals	<u>\$6,089,255</u>	<u>\$5,968,927</u>	<u>\$2,312,262</u>	<u>\$2,225,332</u>	<u>\$8,401,517</u>	<u>\$8,194,259</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

This year's major additions included:

Governmental activities:	
Paving	\$ 3,391
Water park project	6,875

Debt

At year-end, the City had \$647,628 of bonds, tax notes and notes payable, as shown below:

Outstanding Debt at Year-end

	Governmental Activities 2016	Governmental Activities 2017	Business- type Activities 2016	Business- type Activities 2017	Total 2016	Total 2017
Obligation bonds	\$ 401,314	\$ 336,314	\$ -	\$ -	\$ 401,314	\$ 336,314
Tax Notes	-	-	371,314	311,314	371,314	311,314
Total	<u>\$ 401,314</u>	<u>\$ 336,314</u>	<u>\$ 371,314</u>	<u>\$ 311,314</u>	<u>\$ 772,628</u>	<u>\$ 647,628</u>

Economic Factors and Next Year

In the subsequent year the City will begin work constructing a new 110,000 gallon standpipe, AMR meter system, replace approximately 25,200 linear feet of distribution lines, and approximately 5,500 linear feet of new water lines to transfer water from one side of the City to the other. Funding for these projects will come from a United States Department of Agriculture Rural Development Grant of \$1,387,000, and a loan of \$2,522,000.

Subsequent to year-end the City issued certificates of obligation which they plan to use to continue renovations to the Multi-Purpose Event Center and begin construction on a water recreation park. The City also plans to begin a three phase process to renovate City Hall to meet ADA Standards.

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, 2017

	Primary Government			Component Unit
	Governmental	Business		Nonmajor
	Activities	Type	Total	Component
		Activities		Unit
Assets				
Cash and cash equivalents	\$ 73,129	\$ 347,396	\$ 420,525	\$ 90,976
Investments	177,110	-	177,110	86,265
Receivables (net of allowance for uncollectibles)	130,189	104,217	234,406	16,954
Net pension asset	40,240	43,594	83,834	-
Restricted assets:				
Cash and cash equivalents	92,784	66,405	159,189	26,614
Investments	1,305,468	-	1,305,468	650,000
Capital assets not being depreciated:				
Land	24,503	-	24,503	-
Capital assets net of accumulated depreciation:				
Infrastructure	5,685,469	1,930,994	7,616,463	-
Buildings, net	155,821	9,629	165,450	473,381
Machinery and Equipment, net	103,134	284,709	387,843	-
Total assets	7,787,847	2,786,944	10,574,791	1,344,190
Deferred Outflow of Resources				
Pension expenditures	21,011	22,762	43,773	-
Liabilities				
Accounts payable and other current liabilities	23,367	41,564	64,931	4,015
Payable from restricted assets:				
Customer deposits	-	66,405	66,405	-
Noncurrent Liabilities				
Compensated absences payable	6,869	33,488	40,357	-
Tax notes and bonds payable				
Due Within One Year	185,000	175,000	360,000	22,283
Due in More Than One Year	151,314	136,314	287,628	643,967
Total liabilities	366,550	452,771	819,321	670,265
Deferred Inflow of Resources				
Pension expenditures	2,593	2,809	5,402	-
Net Position				
Net Investment in Capital Assets	5,632,613	1,914,018	7,546,631	-
Restricted	573,235	-	573,235	673,925
Unrestricted Net Position	1,233,867	440,108	1,673,975	-
Total net position	\$ 7,439,715	\$ 2,354,126	\$ 9,793,841	\$ 673,925

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Component Unit Nonmajor Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities:							
Financial Administration	\$ 410,208	\$ -	\$ -	\$ -	\$ (410,208)	\$ -	\$ -
Municipal Court	25,574	9,668	-	-	(15,906)	-	(15,906)
Code compliance	47,112	2,426	-	-	(44,686)	-	(44,686)
Police Department	149,667	-	-	-	(149,667)	-	(149,667)
Fire Protection	23,119	-	-	-	(23,119)	-	(23,119)
Highways and Streets	223,810	98,279	-	-	(125,531)	-	(125,531)
Parks	8,494	-	-	144,900	136,406	-	136,406
Libraries	71,521	4,893	30,000	-	(36,628)	-	(36,628)
Airport	16,234	8,049	-	-	(7,185)	-	(7,185)
Interest on long-term debt	5,838	-	-	-	(5,838)	-	(5,838)
Total governmental activities	981,577	124,315	30,000	144,900	(682,362)	-	-
Business-type activities:							
Water	430,662	614,770	-	-	-	184,108	184,108
Sewer	117,854	171,255	-	-	-	53,401	53,401
Sanitation	335,994	374,655	-	-	-	38,661	38,661
Total business-type activities	884,510	1,160,680	-	-	-	276,170	276,170
Total primary government	\$ 1,866,087	\$ 1,284,995	\$ 30,000	\$ 144,900	\$ (682,362)	\$ 276,170	\$ (406,192)
Component Unit							
Nonmajor Component Unit	\$ 159,356	\$ -	\$ -	\$ 4,596	\$ -	\$ -	\$ (154,760)
Total Component Units	\$ 159,356	\$ -	\$ -	\$ 4,596	\$ -	\$ -	\$ (154,760)
General revenues:							
Property taxes					419,527	-	419,527
Sales taxes					292,092	-	292,092
Franchise taxes					73,312	-	73,312
Other taxes					92,231	-	92,231
Miscellaneous revenue					25,712	-	25,712
Investment earnings					10,030	-	10,030
Transfers In (Out)					105,517	(105,517)	-
Total general revenues and transfers					1,018,421	(105,517)	912,904
Change in net position					336,059	170,653	506,712
Net position - Beginning					7,103,656	2,183,473	9,287,129
Net position - Ending					\$ 7,439,715	\$ 2,354,126	\$ 9,793,841

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016

	2017				2016
	General Fund	Debt Service Fund	Water Recreation Fund	Other Funds	Total Government Funds
ASSETS					
Cash and cash equivalents	\$ 73,129	\$ -	\$ -	\$ -	\$ 73,129
Investments	177,110	-	-	-	177,110
Receivables (net of allowances for uncollectibles)	105,228	24,961	-	-	130,189
Due from other fund			144,012		144,012
Restricted assets:					
Cash and cash equivalents	-	2,901	-	89,883	92,784
Investments	735,628	569,840	-	-	1,305,468
Total assets	<u>\$ 1,091,095</u>	<u>\$ 597,702</u>	<u>\$ 144,012</u>	<u>\$ 89,883</u>	<u>\$ 1,922,692</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 11,204	\$ -	\$ -	\$ -	\$ 11,204
Accrued wages payable	11,495	-	-	-	11,495
Due to other funds	144,012	-	-	-	144,012
Total liabilities	<u>166,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,711</u>
Deferred Inflows of Resources:					
Unearned Revenue - Property Taxes	<u>42,646</u>	<u>24,467</u>	<u>-</u>	<u>-</u>	<u>67,113</u>
Fund balances:					
Restricted	-	573,235	-	-	573,235
Assigned for:					
Court technology	-	-	-	2,568	2,568
Library	105,977	-	-	-	105,977
Tourism	-	-	-	50,685	50,685
Airport improvement	14,732	-	-	-	14,732
Capital Expenditures	614,919	-	144,012	36,630	795,561
Unassigned	146,110	-	-	-	146,110
Total fund balances	<u>881,738</u>	<u>573,235</u>	<u>144,012</u>	<u>89,883</u>	<u>1,688,868</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,091,095</u>	<u>\$ 597,702</u>	<u>\$ 144,012</u>	<u>\$ 89,883</u>	<u>\$ 1,922,692</u>
					<u>\$ 1,389,656</u>

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, 2017

Governmental activities fund balance	\$ 1,688,868
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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.	5,968,928
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Included in the items related to position is the recognition of the City's proportionate share of the net pension asset required by GASB 68 in the amount of \$40,240, a deferred outflow -actual vs. assumption of \$21,011 and a deferred inflow of \$2,593. The net effect of this is to increase net position.	58,658
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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.	(336,985)
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Various other reclassifications and eliminations are necessary to convert from the modified basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue.	60,246
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Net position of governmental activities	\$ 7,439,715
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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, 2017
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016

	2017				2016	
	General Fund	Debt Service Fund	Water Recreation Fund	Other Funds	Total Government Funds	Total Government Funds
Revenues						
Taxes:						
Property taxes	\$ 250,014	\$ 160,560	\$ -	\$ -	\$ 410,574	\$ 404,539
General sales and use taxes	292,092	-	-	-	292,092	298,379
Franchise tax	73,312	-	-	-	73,312	73,633
Other taxes	-	-	-	92,231	92,231	81,370
Intergovernmental revenue and grants	30,000	-	-	-	30,000	22,917
Fines and fees	16,657	-	-	98,279	114,936	121,409
Donation	-	-	143,900	-	143,900	12,497
Investment earnings	9,650	-	112	288	10,030	8,513
Other revenue	22,941	-	-	13,150	36,091	21,387
Total revenues	694,566	160,560	144,012	203,928	1,203,166	1,044,644
Expenditures						
Administration	306,067	-	-	96,777	402,844	384,470
Municipal court	25,574	-	-	-	25,574	18,869
Code compliance	42,849	-	-	-	42,849	28,632
Police	149,667	-	-	-	149,667	146,815
Fire protection	20,883	-	-	-	20,883	21,819
Highways and streets	118,665	-	-	-	118,665	116,795
Parks	5,005	-	-	-	5,005	4,133
Libraries	70,337	-	-	-	70,337	74,446
Airport	2,788	-	-	-	2,788	3,500
Debt service:						
Principal	-	65,000	-	-	65,000	65,000
Interest	-	5,986	-	-	5,986	7,040
Capital outlay:						
Capital outlay	3,391	-	-	6,875	10,266	189,617
Total expenditures	745,226	70,986	-	103,652	919,864	1,061,136
Excess (deficiency) of revenues over (under) expenditures	(50,560)	89,574	144,012	100,276	283,302	(16,492)
Other financing sources (uses)						
Transfers (net)	227,623	(62,009)	-	(71,030)	94,584	115,025
Total other financing sources (uses)	227,623	(62,009)	-	(71,030)	94,584	115,025
Net change	177,063	27,565	144,012	29,246	377,886	98,533
Fund balance - October 1 (Beginning)	704,675	545,670	-	60,637	1,310,982	1,212,450
Fund balance - September 30 (Ending)	\$ 881,738	\$ 573,235	\$ 144,012	\$ 89,883	\$ 1,688,868	\$ 1,310,983

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, 2017

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

Net change in fund balances-total governmental funds	\$ 377,886
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.	(120,327)
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.	65,558
The implementation of GASB 68 required that certain expenditures be de-expensed and recorded as deferred resource outflows. The City's share of the unrecognized deferred inflows and outflows for TMRS as of the measurement date had to be amortized. The net effect is to increase net position.	3,989
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 \$8,953. This results in an increase in net position.	8,953
Changes in net position of governmental activities	<u>\$ 336,059</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, 2017
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016

	Business-type Activities Enterprise Fund	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 347,396	\$ 145,177
Accounts receivable (net of allowance for uncollectibles)	104,217	91,965
Net pension asset	43,594	53,492
Restricted assets:		
Cash and cash equivalents	66,405	64,333
Investment	-	-
Total current assets	<u>561,612</u>	<u>354,967</u>
Noncurrent assets:		
Capital assets:		
Infrastructure	2,651,481	2,651,481
Buildings	46,797	46,797
Machinery and Equipment	831,300	831,300
Accumulated Depreciation-Capital Assets	(1,304,246)	(1,217,316)
Total noncurrent assets	<u>2,225,332</u>	<u>2,312,262</u>
Total assets	<u>2,786,944</u>	<u>2,667,229</u>
Deferred Outflow of Resources		
Pension expenditures	<u>22,762</u>	<u>28,512</u>
Liabilities		
Current liabilities:		
Accounts payable	29,214	35,437
Accrued payroll	11,728	10,327
Accrued interest payable	622	758
Customer deposits-payable from restricted assets	66,405	64,333
Tax notes payable-current portion	175,000	60,000
Total current liabilities	<u>282,969</u>	<u>170,855</u>
Noncurrent liabilities:		
Compensated absences	33,488	30,099
Tax notes payable-net of current portion	136,314	311,314
Total noncurrent liabilities	<u>169,802</u>	<u>341,413</u>
Total liabilities	<u>452,771</u>	<u>512,268</u>
Deferred Inflow of Resources-pension	<u>2,809</u>	<u>-</u>
Net Position		
Net Investment in capital assets	1,914,018	1,940,948
Unrestricted net position	<u>440,108</u>	<u>242,525</u>
Total net position	<u>\$ 2,354,126</u>	<u>\$ 2,183,473</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, 2017
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016

	Business-type Activities- Enterprise Funds	
	2017	2016
Operating revenues:		
Charges for Water Services	\$ 614,770	\$ 488,905
Charges for Sewer Services	171,255	192,433
Charges for Sanitation Services	374,655	349,080
Total operating revenues	<u>1,160,680</u>	<u>1,030,418</u>
Operating expenses:		
Personal Services-Salaries and Wages	287,694	303,354
Personal Services-Employee Benefits	94,534	96,788
Purchased Property Services	299,793	293,036
Other Operating Expenses	92,227	91,939
Supplies	17,927	9,323
Depreciation	86,930	84,105
Total operating expenses	<u>879,105</u>	<u>878,545</u>
Operating income (loss)	<u>281,575</u>	<u>151,873</u>
Other expense:		
Interest expense	<u>5,405</u>	<u>6,513</u>
Contributions and operating transfers:		
Transfers (net)	<u>(105,517)</u>	<u>(121,011)</u>
Total contributions and operating transfers	<u>(105,517)</u>	<u>(121,011)</u>
Change in Net Position	170,653	24,349
Total Net Position - October 1 (Beginning)	2,183,473	2,159,124
Total Net Position - September 30 (Ending)	<u>\$ 2,354,126</u>	<u>\$ 2,183,473</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, 2017
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016

	Total Enterprise Funds	
	2017	2016
Cash flows from operating activities		
Receipts from customers and users	\$ 1,148,428	\$ 1,032,183
Payments to suppliers	(416,171)	(393,297)
Payments to employees	(358,980)	(373,606)
Net cash provided by operating activities	<u>373,277</u>	<u>265,280</u>
Cash flows provided by noncapital financing activities		
Operating transfers	<u>(105,517)</u>	<u>(121,011)</u>
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(60,000)	(60,000)
Interest paid	(5,541)	(6,514)
Purchase of equipment	-	(30,920)
Net cash (used) by capital and related financing activities	<u>(65,541)</u>	<u>(97,434)</u>
Cash flows from investing activities		
Customer deposits	<u>2,072</u>	<u>3,386</u>
Net cash provided by investing activities	<u>2,072</u>	<u>3,386</u>
Net increase in cash and cash equivalents	204,291	50,221
Cash and cash equivalents at beginning of year	<u>209,510</u>	<u>159,289</u>
Cash and cash equivalents at end of year	<u><u>\$ 413,801</u></u>	<u><u>\$ 209,510</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 281,575	\$ 151,873
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	86,930	84,105
Pension expense	18,457	14,657
(Increase) decrease in current assets:		
Receivables	(12,252)	1,765
Increase (decrease) in current liabilities:		
Accounts payable	(6,224)	1,001
Accrued payroll	4,791	11,879
Net cash provided by operating activities	<u><u>\$ 373,277</u></u>	<u><u>\$ 265,280</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

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, 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, 2017

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 **Water Recreation Fund** is a special revenue fund used to account for funds to be used for capital outlay.

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.

The government reports the following major proprietary fund:

The **Enterprise Fund** is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. 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 the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

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, 2017.

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, 2017

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	
Tourism	\$ 50,685
Capital expenditures	36,630
Debt service	2,901
Court security	365
Technology	2,203
Total Cash and cash equivalents	<u>\$ 92,784</u>

Investments	
Debt service	\$ 569,840
Airport improvement	14,732
Library	105,977
Capital expenditures	614,919
Total investments	<u>\$ 1,305,468</u>

Water & Sewer Fund:	
Cash and cash equivalents	\$ 66,405

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

7. Fund Equity

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.
- 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).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, The City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

8. Budgets and budgetary accounting - Continuation

- 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.
- 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, 2017:

Cash and deposit balances consist of	
Bank deposits	\$ 697,304
Certificates of deposit	<u>2,218,843</u>
Total	<u>\$ 2,916,147</u>

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

Government-wide Statement of net position	\$ 2,062,292
Component Unit	<u>853,855</u>
Total	<u>\$ 2,916,147</u>

As of September 30, 2017, the carrying amount of the City's bank deposits and certificates of deposit was \$2,062,292, and the respective bank balances totaled \$2,097,993. 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, 2017, the carrying amount of the Economic Development Corporation's book balance was \$853,855, and the respective bank balances totaled \$852,218. 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

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, 2017, 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.

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

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, 2017, were \$.466464 and \$.281536, respectively, per \$100 valuation. The combined tax rate on the 2016 tax roll was \$.748 per \$100.

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.

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	\$ 195,269	\$ -	\$ 195,269
Customer-trade	-	104,217	104,217
Accrued interest	<u>2,033</u>	<u>-</u>	<u>2,033</u>
Gross receivables	197,302	104,217	301,519
Less: Allowance for uncollectible accounts	<u>67,113</u>	<u>-</u>	<u>67,113</u>
Net total receivables	<u>\$ 130,189</u>	<u>\$ 104,217</u>	<u>\$ 234,406</u>

Discretely Presented Component Unit

Clarendon Economic Development Corporation receivables at September 30, 2017, consist of the following:

Taxes and assessments	<u>\$ 16,954</u>
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CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2017, 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	8,645,674	3,391	-	8,649,065
Buildings and improvements	519,823	6,875	-	526,698
Equipment	<u>1,045,591</u>	<u>-</u>	<u>-</u>	<u>1,045,591</u>
Total capital assets, being depreciated:	<u>10,211,088</u>	<u>10,266</u>	<u>-</u>	<u>10,221,354</u>
Less accumulated depreciation for:				
Infrastructure	(2,858,788)	(104,808)	-	(2,963,596)
Buildings and improvements	(364,991)	(5,886)	-	(370,877)
Equipment	<u>(922,557)</u>	<u>(19,900)</u>	<u>-</u>	<u>(942,457)</u>
Total accumulated depreciation	<u>(4,146,336)</u>	<u>(130,594)</u>	<u>-</u>	<u>(4,276,930)</u>
Total capital assets, being depreciated, net	<u>6,064,752</u>	<u>(120,328)</u>	<u>-</u>	<u>5,944,424</u>
Governmental activities capital assets, net	<u>\$ 6,089,255</u>	<u>\$ (120,328)</u>	<u>\$ -</u>	<u>\$ 5,968,927</u>
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Infrastructure	2,651,481	-	-	2,651,481
Buildings	46,797	-	-	46,797
Equipment	<u>831,300</u>	<u>-</u>	<u>-</u>	<u>831,300</u>
Total capital assets, being depreciated:	<u>3,529,578</u>	<u>-</u>	<u>-</u>	<u>3,529,578</u>
Less accumulated depreciation for:				
Infrastructure	(678,284)	(42,203)	-	(720,487)
Buildings	(36,469)	(699)	-	(37,168)
Equipment	<u>(502,563)</u>	<u>(44,028)</u>	<u>-</u>	<u>(546,591)</u>
Total accumulated depreciation	<u>(1,217,316)</u>	<u>(86,930)</u>	<u>-</u>	<u>(1,304,246)</u>
Total capital assets, being depreciated, net	<u>2,312,262</u>	<u>(86,930)</u>	<u>-</u>	<u>2,225,332</u>
Business-type activities capital assets, net	<u>\$ 2,312,262</u>	<u>\$ (86,930)</u>	<u>\$ -</u>	<u>\$ 2,225,332</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 5 – CAPITAL ASSETS – Continuation

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

Governmental activities:	
General government	\$ 3,614
Street	104,644
Fire	2,236
Animal control	3,164
Park	3,490
Airport	13,446
Total depreciation expense – governmental activities:	<u>\$ 130,594</u>
Business-type activities:	
Water and Sewer	\$ 56,455
Sanitation	30,475
Total depreciation expense – business-type activities:	<u>\$ 86,930</u>

Discretely presented component unit

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Economic Development activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 496,032	\$ 23,587	\$ -	\$ 1,045,591
Less accumulated depreciation	<u>(32,804)</u>	<u>(13,434)</u>	<u>-</u>	<u>(46,238)</u>
Economic Development activities capital assets (net)	<u>\$ 463,228</u>	<u>\$ 10,153</u>	<u>\$ -</u>	<u>\$ 473,381</u>

Component units:

Economic Development Corporation	<u>\$ 13,434</u>
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NOTE 6 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Interfund receivables and payables at September 30, 2017 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 144,012	\$ -
Water Recreation Fund	<u>-</u>	<u>144,012</u>
	<u>\$ 144,012</u>	<u>\$ 144,012</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

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

Government interfund transfers during the year ended September 30, 2017, were as follows:

	Transfers Out	Transfers In
General Fund	\$ -	\$ 310,431
Debt Service Fund	127,009	-
Other Funds	77,905	-
Water and Sewer Fund	105,517	-
Total primary government	<u>\$ 310,431</u>	<u>\$ 310,431</u>

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, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due in One Year
Governmental activities:					
General Obligation Bond	\$ 401,314	\$ -	\$ 65,000	\$ 336,314	\$ 185,000
Compensated absences	7,280	-	411	6,869	-
Total Governmental activities	<u>\$ 408,594</u>	<u>\$ -</u>	<u>\$ 65,411</u>	<u>\$ 343,183</u>	<u>\$ 185,000</u>
Business-type activities:					
Tax Notes, 2012	\$ 371,314	\$ -	\$ 60,000	\$ 311,314	\$ 175,000
Compensated absences	30,099	3,389	-	33,488	-
Total Business-type activities	<u>\$ 401,413</u>	<u>\$ 3,389</u>	<u>\$ 60,000</u>	<u>\$ 344,802</u>	<u>\$ 175,000</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS – Continuation

General obligation bonds and tax notes at September 30, 2017, are comprised of the following individual issues:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding At 9/30/17
Governmental activities:					
General Obligation Bond	1.62%	2/15/19	\$ 65,000- 190,000	\$ 700,000	\$ 336,314
Business-type activities:					
Tax Notes, 2012	1.62%	2/15/19	\$60,000- 175,000	650,000	311,314

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			
2018	\$ 185,000	\$ 5,448	\$ 190,448
2019	151,314	2,451	153,765
Total	<u>\$ 336,314</u>	<u>\$ 7,899</u>	<u>\$ 344,213</u>
Business-type activities:			
Tax Notes, 2012			
2018	\$ 175,000	\$ 5,043	\$ 180,043
2019	136,314	2,208	138,522
Total	<u>\$ 311,314</u>	<u>\$ 7,251</u>	<u>\$ 318,565</u>

Clarendon Economic Development Corporation notes at September 30, 2017, are comprised of the following:

	Range of Interest Rates	Final Maturity Date	Quarterly Serial Payments	Original Amount	Outstanding At 9/30/17
Note payable	3.95%	8/23/37	\$ 12,087	\$ 666,250	\$ 666,250

Debt maturities for notes, are as follows:

Due During Fiscal Year Ending	Principal	Interest	Total
Economic Development Corporation Notes			
2018	\$ 22,283	\$ 26,064	\$ 48,367
2019	23,252	25,095	48,347
2020	24,184	24,163	48,347
2021	25,154	23,193	48,347
2022	26,162	22,185	48,347
2023-27	147,406	94,328	241,734
2028-32	179,421	62,313	241,734
2033-37	218,388	23,346	241,734
Total	<u>\$ 666,250</u>	<u>\$ 300,687</u>	<u>\$ 966,937</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

The City of Clarendon participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

BENEFITS PROVIDED

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City of Clarendon were as follows:

Deposit rate:	7%
Matching ratio (to employee)	1 to 1
A member is vested after:	5 years
Service retirement eligibility	60/5, 0/20
Updated service credit	0%
Annuity increase (no retirees)	0% of CPI

Employees covered by benefit terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>16</u>
Total	<u>40</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - CONTINUED:

CONTRIBUTIONS

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Clarendon were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Clarendon were 1.51% and 1.20% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$4,696, and were equal to the required contributions.

NET PENSION LIABILITY

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-district RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scales BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - CONTINUED:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - CONTINUED:

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2015	\$ 616,948	\$ 706,102	\$ (89,154)
Changes for the year:			
Service cost	45,485	-	45,485
Interest	42,693	-	42,693
Change of benefit terms	-	-	-
Difference between expected and actual experience	(650)	-	(650)
Changes of assumptions	-	-	-
Contributions – employer	-	2,162	(2,162)
Contributions – employee	-	32,892	(32,892)
Net investment income	-	47,722	(47,722)
Benefit payments, including refunds of employee contributions	(14,402)	(14,402)	-
Administrative expense	-	(539)	539
Other changes	-	(29)	29
Net changes	73,126	67,806	5,320
Balance at 12/31/2016	\$ 690,074	\$ 773,908	\$ (83,834)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (7%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$(12,151)	\$ (83,834)	\$ (144,961)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - CONTINUED:

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$20,633.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 5,354
Changes in actuarial assumptions	6,059	-
Difference between projected and actual investment earnings	32,094	-
Contributions subsequent to the measurement date	<u>5,573</u>	<u>-</u>
Total	<u>\$ 43,726</u>	<u>\$ 5,354</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2017	\$ 12,441
2018	10,821
2019	9,549
2020	<u>(12)</u>
Total	<u>\$ 32,799</u>

Supplemental Death Benefits Fund- 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; the coverage is an "other postemployment benefit," or OPEB.

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 programs 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 year ended 2017, 2016, and 2015 were \$1,468, \$1,323, and \$1,085, respectively, which equal the required contributions each year.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2017

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 \$214,729 to the Authority for the fiscal year ended September 30, 2017.

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, 2017, the City had expenditures in excess of the budgeted account in the General Fund in the following areas and amounts:

General Fund	
Municipal Court	\$ 364

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to year end the City authorized the issuance of the City of Clarendon, Texas Certificates of Obligation, Series 2017 for \$375,000 to be repaid from tax funds and to be used for renovations to the Multi-Purpose Event Center.

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2017

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS Last 10 Years (will ultimately be displayed)

	12/31/2014	12/31/2015	12/31/2016
Total pension liability			
Service Cost	\$ 23,988	\$ 28,970	\$ 45,485
Interest (on the Total Pension Liability)	36,806	39,096	42,693
Changes of benefit terms	-	8,426	-
Difference between expected and actual experience	(12,072)	(2,926)	(650)
Change of assumptions	-	16,159	-
Benefit payments, including refunds of employee contributions	(37,067)	(16,773)	(14,402)
Net change in Total Pension Liability	11,655	72,952	73,126
Total Pension Liability - Beginning	532,341	543,996	616,948
Total Pension Liability - Ending	<u>\$ 543,996</u>	<u>\$ 616,948</u>	<u>\$ 690,074</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ (2)	\$ 522	\$ 2,162
Contributions - Employee	19,442	24,464	32,892
Net Investment Income	38,721	1,029	47,722
Benefit payments, including refunds of employee contributions	(37,067)	(16,773)	(14,402)
Administrative expense	(404)	(627)	(539)
Other	(33)	(31)	(29)
Net Change in Plan Fiduciary Net Position	20,657	8,584	67,806
Plan Fiduciary Net Position - Beginning	676,861	697,518	706,102
Plan Fiduciary Net Position - Ending	<u>\$ 697,518</u>	<u>\$ 706,102</u>	<u>\$ 773,908</u>
Net Pension Liability Ending (a)-(b)	\$ (153,522)	\$ (89,154)	\$ (83,834)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	128.22%	114.45%	112.15%
Covered Employee Payroll	\$ 388,834	\$ 439,608	\$ 469,883
Net Pension Liability as a Percentage of Covered Employee Payroll	-39.48%	-20.28%	-17.84%

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2017

SCHEDULE OF CONTRIBUTIONS Last 10 Fiscal Years (will ultimately be displayed)

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Actuarially Determined Contribution	\$ -	\$ 521	\$ 2,162
Contributions in relation to the actuarially determined contribution	-	521	2,162
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 388,834	\$ 439,608	\$ 469,883
Contributions as a percentage of covered employee payroll	0.00%	0.12%	0.46%

Notes to Schedule of Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB.

Other Information:

Notes

There wer no benefit changes during the year.

CITY OF CLARENDON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016

	2017				2016
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	Actual Amounts
	Original	Final	Actual Amounts		
Revenues					
Taxes:					
Property taxes	\$ 270,510	\$ 270,510	\$ 250,014	\$ (20,496)	\$ 258,293
General sales and use taxes	292,687	292,687	292,092	(595)	298,379
Franchise tax	79,070	79,070	73,312	(5,758)	73,633
Intergovernmental revenue and grants	30,000	30,000	30,000	-	22,917
Fines and fees	22,910	22,910	16,657	(6,253)	22,132
Donation	-	-	1,000	1,000	-
Investment earnings	1,100	1,100	9,650	8,550	8,291
Other revenue	18,570	18,570	21,941	3,371	21,387
Total revenues	<u>714,847</u>	<u>714,847</u>	<u>694,666</u>	<u>(20,181)</u>	<u>705,032</u>
Expenditures					
Current:					
General government:					
Administration	331,154	331,154	306,067	25,087	302,956
Municipal court	25,210	25,210	25,574	(364)	18,554
Code compliance	46,145	46,145	42,849	3,296	27,880
Public safety:					
Police	149,667	149,667	149,667	-	146,815
Fire protection	34,160	34,160	20,883	13,277	21,819
Public works:					
Highways and streets	139,592	139,592	118,665	20,927	116,795
Culture and recreation:					
Parks	6,655	6,655	5,005	1,650	4,133
Libraries	71,224	71,224	70,337	887	74,446
Airport	3,920	3,920	2,788	1,132	3,500
Capital outlay:					
Capital outlay	341,801	341,801	3,391	338,410	156,920
Total expenditures	<u>1,149,528</u>	<u>1,149,528</u>	<u>745,226</u>	<u>404,302</u>	<u>873,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(434,681)</u>	<u>(434,681)</u>	<u>(50,560)</u>	<u>384,121</u>	<u>(168,786)</u>
Other financing sources (uses)					
Transfers In	512,132	512,132	227,623	(284,509)	227,489
Total other financing sources (uses)	<u>512,132</u>	<u>512,132</u>	<u>227,623</u>	<u>(284,509)</u>	<u>227,489</u>
Net change	77,451	77,451	177,063	99,612	58,703
Fund balance - October 1 (Beginning)	704,675	704,675	704,675	-	645,972
Fund balance - September 30 (Ending)	<u>\$ 782,126</u>	<u>\$ 782,126</u>	<u>\$ 881,738</u>	<u>\$ 99,612</u>	<u>\$ 704,675</u>

CITY OF CLARENDON, TEXAS
WATER RECREATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2017			
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Donation	\$ -	\$ 119,063	\$ 144,012	\$ 24,949
Investment earnings	-	112	-	(112)
Total revenues	-	119,175	144,012	24,837
Expenditures				
Current:				
General government:	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	119,175	144,012	24,837
Other financing sources (uses)				
Transfers In (Out)	-	(118,981)	-	118,981
Total other financing sources (uses)	-	(118,981)	-	118,981
Net change	-	194	144,012	143,818
Fund balance - October 1 (Beginning)	-	-	-	-
Prior period adjustment				
Fund balance - September 30 (Ending)	\$ -	\$ 194	\$ 144,012	\$ 143,818

CITY OF CLARENDON, TEXAS

COMBINING BALANCE SHEET

NONMAJOR FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

2017

	Court Tech Fund	Hotel/Motel Fund	Community Development Fund	Rolling Stock Fund	Improvement Fund	Municipal Court Building Security Fund	Total Nonmajor Funds
ASSETS							
Restricted assets:							
Cash and cash equivalents	\$ 2,203	\$ 50,685	\$ 1,900	\$ 26,636	\$ 8,094	\$ 365	\$ 89,883
Total assets	\$ 2,203	\$ 50,685	\$ 1,900	\$ 26,636	\$ 8,094	\$ 365	\$ 89,883
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-	-	-
Fund balances:							
Unreserved and Undesignated:							
Reported in the							
Special Revenue Fund	2,203	50,685	1,900	26,636	8,094	365	89,883
Total fund balances	2,203	50,685	1,900	26,636	8,094	365	89,883
Total liabilities and fund balances	\$ 2,203	\$ 50,685	\$ 1,900	\$ 26,636	\$ 8,094	\$ 365	\$ 89,883

CITY OF CLARENDON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	2017						
	Court Tech Fund	Hotel/Motel Fund	Community Development Fund	Rolling Stock Fund	Improvement Fund	Municipal Court Building Security Fund	Total Nonmajor Funds
Revenues							
Other taxes	\$ -	\$ 92,231	\$ -	\$ -	\$ -	\$ -	\$ 92,231
Fines and fees	191	-	-	-	97,958	130	98,279
Investment earnings	-	206	-	62	-	-	268
Other	-	-	13,150	-	-	-	13,150
Total revenues	191	92,437	13,150	62	97,958	130	203,928
Expenditures							
Tourism	-	92,402	4,375	-	-	-	96,777
Capital Expenditure	-	-	6,875	-	-	-	6,875
Total expenditures	-	92,402	11,250	-	-	-	103,652
Excess (deficiency) of revenues over (under) expenditures	191	35	1,900	62	97,958	130	100,276
Transfers in (Out)	-	-	-	18,834	(89,864)	-	(71,030)
Net change	191	35	1,900	18,896	8,094	130	29,246
Fund balance - Beginning	2,012	50,650	-	7,740	-	235	60,637
Fund balance - Ending	\$ 2,203	\$ 50,685	\$ 1,900	\$ 26,636	\$ 8,094	\$ 365	\$ 89,883

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, 2017, 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 January 25, 2018.

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 black ink that reads "Foster & Lambert LLC". The signature is written in a cursive, flowing style.

Foster & Lambert L.L.C.
January 25, 2018

CITY OF CLARENDON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

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 2 CFR 200 Subpart F, a Single Audit was not required for
the year ended September 30, 2017.

B. Financial Statement Findings

No findings

C. Federal Award Findings and Questioned Costs

Under the guidelines of 2 CFR 200 Subpart F, a Single Audit was not required for the
year ended September 30, 2017.

CITY OF CLARENDON, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017

None