

CITY OF CLARENDON, TEXAS
FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

CITY OF CLARENDON, TEXAS

Annual Financial Report
for the Year Ended September 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Statement of Net Position – Proprietary Funds.....	14
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund.....	15
Statement of Cash Flows – Proprietary Fund.....	16
Notes to the Financial Statements.....	17
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	40
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Improvement Fund.....	41
Schedule of Changes in Net Pension Liability and Related Ratios.....	42
Schedule of Contributions – Texas Municipal Retirement System.....	43
Schedule of Changes in Net Other Post Employment Benefit Liability and Related Ratios.....	44
Schedule of City's Other Post Employment Benefit (OPEB) Contributions – Texas Municipal Retirement System.....	45
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Combining Balance Sheet – Nonmajor Funds.....	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Funds.....	47
OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	48
Schedule of Findings and Questioned Costs.....	50
Corrective Action Plan.....	51

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, 2018, 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, 2018, 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, schedules related to the City's participation in the Texas Municipal Retirement System identified as Required Supplementary Information in the table of contents, and budgetary comparison information 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 24, 2019, 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 24, 2019

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2018

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, 2018. 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, 2018

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, 2018.

	SUMMARY OF NET POSITION					
	Governmental Activities		Business-type Activities		Totals	
	2017	2018	2017	2018	2017	2018
Current and other assets	\$1,818,920	\$ 3,051,476	\$ 561,612	\$ 707,987	\$ 2,380,532	\$ 3,759,463
Capital assets-net	5,968,927	5,950,663	2,225,332	2,353,794	8,194,259	8,304,457
Total assets	7,787,847	9,002,139	2,786,944	3,061,781	10,574,791	12,063,920
Deferred outflow	21,011	15,122	22,762	16,383	43,773	31,505
Other liabilities	23,368	58,201	107,969	118,755	131,337	176,956
Term liabilities	343,182	522,468	344,802	454,144	687,984	976,612
Total liabilities	366,550	580,669	452,771	572,899	819,321	1,153,568
Deferred inflow	2,593	23,903	2,809	25,895	5,402	49,798
Net position:						
Net investment in capital assets	5,632,613	5,437,351	1,914,018	1,937,480	7,546,631	7,374,831
Restricted	573,235	2,464,298	-	-	573,235	376,827
Unrestricted – (Deficit)	1,233,867	511,040	440,108	541,890	1,673,975	3,140,401
Total net position	\$7,439,715	\$8,412,689	\$2,354,126	\$2,479,370	\$9,793,841	\$10,892,059

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2018

SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2018	2017	2018	2017	2018
Revenues:						
Program revenues						
Charges for services	\$ 124,315	\$ 132,031	\$1,160,680	\$1,180,018	\$1,284,995	\$1,312,049
Operating grants and contributions	30,000	30,000	-	-	30,000	30,000
Capital grants and contributions	144,900	1,197,381	-	-	144,900	1,197,381
General revenues						
Sales taxes	292,092	303,823	-	-	292,092	303,823
Property taxes	419,527	429,284	-	-	419,527	429,284
Franchise taxes	73,312	76,958	-	-	73,312	76,958
Hotel/motel tax	92,231	94,650	-	-	92,231	94,650
Investment earnings	10,030	37,987	-	460	10,030	38,447
Other income	<u>25,712</u>	<u>15,212</u>	<u>-</u>	<u>-</u>	<u>25,712</u>	<u>15,212</u>
Total revenues	<u>1,212,119</u>	<u>2,317,326</u>	<u>1,160,680</u>	<u>1,180,018</u>	<u>2,372,799</u>	<u>3,497,804</u>
Expenses:						
Financial administration	410,208	832,808	-	-	410,208	832,808
Municipal Court	25,574	27,239	-	-	25,574	27,239
Code Compliance	47,112	64,490	-	-	47,112	64,490
Police	149,667	152,725	-	-	149,667	152,725
Fire	23,119	23,349	-	-	23,119	23,349
Streets	223,810	245,273	-	-	223,810	245,273
Parks	8,494	19,706	-	-	8,494	19,706
Libraries	71,521	71,272	-	-	71,521	71,272
Airport	16,234	17,920	-	-	16,234	17,920
Interest on long-term debt	5,838	17,813	-	-	5,838	17,813
Water & Sewer	-	-	548,516	574,147	548,516	574,147
Sanitation	-	-	<u>335,994</u>	<u>317,434</u>	<u>335,994</u>	<u>317,434</u>
Total expenses	<u>981,577</u>	<u>1,472,595</u>	<u>884,510</u>	<u>891,581</u>	<u>1,866,087</u>	<u>2,364,176</u>
Increase (Decrease) in net assets before transfers	230,542	844,731	276,170	288,897	506,712	1,133,628
Transfers In (Out)	<u>105,517</u>	<u>145,240</u>	<u>(105,517)</u>	<u>(145,240)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>336,059</u>	<u>989,971</u>	<u>170,653</u>	<u>143,657</u>	<u>506,712</u>	<u>1,133,628</u>
Beginning net position	7,103,656	7,439,715	2,183,473	2,354,126	9,287,129	9,793,841
Prior period adjustment	-	<u>(16,997)</u>	-	<u>(18,413)</u>	-	<u>(35,410)</u>
Ending net position	<u>\$7,439,715</u>	<u>\$8,412,689</u>	<u>\$2,354,126</u>	<u>\$2,479,370</u>	<u>\$9,793,841</u>	<u>\$10,892,059</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2018

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 \$8,412,689. Of this year-end total, approximately \$511,040 is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$989,971 from current year activity.

Proprietary funds

Proprietary Funds - Revenues of the City's business-type activities were \$1,180,018 which consisted mostly of water, sewer, and sanitation system charges. Water, sewer, and sanitation system revenues for the year ended September 30, 2018, exceeded operating expenses by \$293,815.

General Fund Budgetary Highlights

The General Fund budgeted revenues of \$703,687 and expenditures of \$869,276 for fiscal year 2018. Actual revenues over expenditures were \$63,805 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, 2018, amounts to \$8,304,457 (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 2017	Governmental Activities 2018	Business- type Activities 2017	Business- type Activities 2018	Total 2017	Total 2018
Land	\$ 24,503	\$ 24,503	\$ -	\$ -	\$ 24,503	\$ 24,503
Infrastructure	5,746,267	5,580,664	1,930,994	2,089,306	7,677,261	7,669,970
Buildings	95,023	262,262	9,629	8,930	104,652	271,192
Equipment	103,134	83,234	284,709	255,558	387,843	338,792
Totals	<u>\$5,968,927</u>	<u>\$5,950,663</u>	<u>\$2,225,332</u>	<u>\$2,353,794</u>	<u>\$8,194,259</u>	<u>\$8,304,457</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2018

This year's major additions included:

Governmental activities:	
ADA City Hall	\$ 13,028
Water park project	99,430
Business-type activities:	
2012 F250 Pickup	17,000
Water project	199,500

Debt

At year-end, the City had \$929,628 of bonds, tax notes and notes payable, as shown below:

Outstanding Debt at Year-end

	Governmental Activities 2017	Governmental Activities 2018	Business- type Activities 2017	Business- type Activities 2018	Total 2017	Total 2018
Obligation bonds	\$ 336,314	\$ 513,314	\$ -	\$ 280,000	\$ 336,314	\$ 793,314
Tax Notes	-	-	311,314	136,314	311,314	136,314
Total	<u>\$ 336,314</u>	<u>\$ 513,314</u>	<u>\$ 311,314</u>	<u>\$ 416,314</u>	<u>\$ 647,628</u>	<u>\$ 929,628</u>

Component Unit

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 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.

Economic Factors and Next Year

In the subsequent year the City will continue 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.

The City issued certificates of obligation which they plan to use to continue renovations to the Multi-Purpose Event Center and continue construction on a water recreation park. The City has also been awarded a \$500,000 Texas Parks and Wildlife grant to be used on the water recreation park.

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, 2018

	Primary Government			Component Unit
	Governmental	Business		Nonmajor
	Activities	Type	Total	Component
		Activities		Unit
Assets				
Cash and cash equivalents	\$ -	\$ 461,424	\$ 461,424	262,217
Investments	385,761	-	385,761	-
Receivables (net of allowance for uncollectibles)	133,085	103,717	236,802	17,003
Net pension asset	68,331	74,026	142,357	-
Restricted assets:				
Cash and cash equivalents	240,563	68,820	32,500	27,588
Investments	2,223,735	-	2,223,735	237,652
Capital assets not being depreciated:				
Land	24,503	-	24,503	-
Capital assets net of accumulated depreciation:				
Infrastructure	5,580,664	2,089,306	7,669,970	-
Buildings, net	262,263	8,930	271,193	706,797
Machinery and Equipment, net	83,234	255,558	338,792	-
Total assets	9,002,139	3,061,781	12,063,920	1,251,257
Deferred Outflow of Resources				
Other post employment benefits	1,129	1,223	2,352	-
Pension expenditures	13,993	15,160	29,153	-
Total deferred outflow of resources	15,122	16,383	31,505	-
Liabilities				
Accounts payable and other current liabilities	37,331	27,325	64,656	24,279
Payable from restricted assets:				
Customer deposits	-	68,820	68,820	-
Noncurrent Liabilities				
Net other post employment benefits payable	20,871	22,610	43,481	-
Compensated absences payable	9,154	37,830	46,984	-
Tax notes and bonds payable				
Due Within One Year	151,314	136,314	287,628	23,252
Due in More Than One Year	361,999	280,000	641,999	620,715
Total liabilities	580,669	572,899	1,153,568	668,246
Deferred Inflow of Resources				
Pension expenditures	23,903	25,895	49,798	-
Net Position				
Net Investment in Capital Assets	5,437,351	1,937,480	7,374,831	-
Restricted	2,464,298	-	2,464,298	583,011
Unrestricted Net Position	511,040	541,890	1,052,930	-
Total net position	8,412,689	2, \$ 2,479,370	\$ 10,892,059	\$ 583,011

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit Nonmajor Component Unit
				Governmental Activities	Business-type Activities	
Expenses					Total	
Primary Government						
Governmental activities:						
Financial Administration	832,808	\$ -	60,000	\$ (676,162)	\$ (676,162)	\$ -
Municipal Court	27,239	-	-	(7,030)	(7,030)	-
Code compliance	64,490	-	-	(61,287)	(61,287)	-
Police Department	152,725	-	-	(152,725)	(152,725)	-
Fire Protection	23,349	-	-	(23,349)	(23,349)	-
Highways and Streets	245,273	-	-	(245,273)	(245,273)	-
Parks	19,706	-	1,137,381	1,117,675	1,117,675	-
Libraries	71,272	30,000	-	(35,603)	(35,603)	-
Airport	17,920	-	-	(11,616)	(11,616)	-
Interest on long-term debt	17,813	-	-	(17,813)	(17,813)	-
Total governmental activities	1,472,595	30,000	1,197,381	(113,183)	(113,183)	-
Business-type activities:						
Water	469,717	-	-	174,293	174,293	-
Sewer	104,431	-	-	80,347	80,347	-
Sanitation	317,434	-	-	33,796	33,796	-
Total business-type activities	891,582	-	-	288,436	288,436	-
Total primary government	\$ 2,364,177	\$ 30,000	\$ 1,197,381	\$ (113,183)	\$ 175,253	\$ -
Component Unit						
Nonmajor Component Unit	\$ 655,491	\$ -	\$ 414,807	\$ -	\$ -	\$ (240,684)
Total Component Units	\$ 655,491	\$ -	\$ 414,807	\$ -	\$ -	\$ (240,684)
General revenues:						
Property taxes				429,284	429,284	-
Sales taxes				303,823	303,823	101,275
Franchise taxes				76,958	76,958	-
Other taxes				94,650	94,650	43,611
Miscellaneous revenue				15,212	15,212	1,680
Investment earnings				37,987	38,447	3,203
Transfers In (Out)				145,240	-	-
Total general revenues and transfers				1,103,154	958,374	149,769
Change in net position				889,971	1,133,627	(90,915)
Net position - Beginning				7,439,715	9,793,842	673,926
Prior period adjustment				(16,997)	(35,410)	-
Net position - Ending				\$ 8,412,689	\$ 10,892,059	\$ 583,011

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	2018					2017	
	General Fund	Debt Service Fund	Community Development Fund	Improvement Fund	Water Recreation Fund	Other Funds	Total Government Funds
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,129
Investments	-	-	-	-	-	-	177,110
Receivables (net of allowances for uncollectibles)	106,465	26,620	-	-	-	-	130,189
Due from other fund	-	-	-	346,232	1,222,446	93,904	1,662,582
Restricted assets:							
Cash and cash equivalents	-	26,951	2,918	32,500	1,954	176,239	240,582
Investments	2,259,620	349,876	-	-	-	-	2,609,496
Total assets	<u>\$ 2,366,085</u>	<u>\$ 403,447</u>	<u>\$ 2,918</u>	<u>\$ 378,732</u>	<u>\$ 1,224,400</u>	<u>\$ 270,143</u>	<u>\$ 1,922,892</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES							
Liabilities:							
Accounts payable	10,189	\$ -	\$ -	\$ -	26,840	\$ -	\$ 37,029
Accrued wages payable	-	-	-	-	-	-	-
Due to other funds	1,695,237	-	-	-	-	-	1,695,237
Total liabilities	<u>1,705,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,840</u>	<u>-</u>	<u>1,732,266</u>
Deferred Inflows of Resources:							
Unearned Revenue - Property Taxes	46,345	26,620	-	-	-	-	72,965
Fund balances:							
Restricted	-	376,827	-	-	-	194,869	571,696
Debt Service	-	-	-	-	-	1,863	1,863
Assigned for:							
Court technology	-	-	-	-	-	-	-
Library	5,000	-	-	-	-	51,170	50,885
Tourism	-	-	-	-	-	-	-
Airport Improvement	0	-	-	-	-	-	-
Capital Expenditures	0	-	2,918	378,732	1,197,560	22,241	1,601,451
Unassigned	609,314	-	-	-	-	-	609,314
Total fund balances	<u>614,314</u>	<u>376,827</u>	<u>2,918</u>	<u>378,732</u>	<u>1,197,560</u>	<u>270,143</u>	<u>2,840,494</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,366,085</u>	<u>\$ 403,447</u>	<u>\$ 2,918</u>	<u>\$ 378,732</u>	<u>\$ 1,224,400</u>	<u>\$ 270,143</u>	<u>\$ 1,922,892</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, 2018

Governmental activities fund balance	\$ 2,840,494
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.	5,950,664
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 \$68,331, a deferred outflow of resources of \$13,993, and a deferred inflow of \$23,903. The net effect of this is to increase net position.	58,421
Included in the items related to position is the recognition of the City's proportionate share of the other post employment benefits liability required by GASB 75 in the amount of \$20,871, and a deferred outflow of resources of \$1,129. The net effect of this is to decrease net position.	(19,742)
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.	(522,768)
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.	72,965
Elimination interfund receivables on government wide statement.	32,655
Net position of governmental activities	<u>\$ 8,412,689</u>

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, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	2018						2017
	General Fund	Debt Service Fund	Community Development Fund	Improvement Fund	Water Recreation Fund	Other Funds	Total Government Funds
Revenues							
Taxes:							
Property taxes	\$ 256,872	\$ 166,559	\$ -	\$ -	\$ -	\$ -	423,431
General sales and use taxes	303,823	-	-	-	-	-	303,823
Franchise tax	76,958	-	-	-	-	-	76,958
Other taxes	-	-	-	-	-	94,650	94,650
Intergovernmental revenue and grants	30,000	-	60,000	-	-	-	90,000
Fines and fees	28,288	-	-	96,646	-	673	125,607
Donation	-	-	-	-	1,126,421	-	1,137,381
Investment earnings	14,755	-	10,960	-	12,469	-	37,987
Other revenue	21,637	5,727	-	3,449	-	1,587	21,637
Total revenues	732,333	172,286	70,960	100,095	1,138,890	96,910	2,311,474
Expenditures							
Administration	323,066	-	435,000	-	-	67,314	825,380
Municipal court	25,850	-	-	-	-	1,379	27,229
Code compliance	61,144	-	-	-	-	-	61,144
Police	152,725	-	-	-	-	-	152,725
Fire protection	21,114	-	-	-	-	-	21,114
Highways and streets	139,756	-	-	-	-	-	139,756
Parks	16,217	-	-	-	-	-	16,217
Libraries	71,145	-	-	-	-	-	71,145
Airport	4,082	-	-	-	-	-	4,082
Debt service:							
Principal	-	185,000	-	-	-	13,000	198,000
Interest	-	3,962	-	-	-	14,221	18,183
Capital outlay	19,018	-	199,500	-	93,440	-	311,958
Total expenditures	834,117	188,962	634,500	-	93,440	95,914	1,846,933
Excess (deficiency) of revenues over (under) expenditures	(101,784)	(16,676)	(563,540)	100,095	1,045,450	896	464,541
Other financing sources (uses)							
Transfers (net)	(165,640)	(179,732)	188,558	270,543	8,098	189,258	312,085
Loan proceeds	-	-	375,000	-	-	-	375,000
Total other financing sources (uses)	(165,640)	(179,732)	563,558	270,543	8,098	189,258	687,085
Net change	(267,424)	(196,408)	1,018	370,638	1,053,548	190,254	1,151,626
Fund balance - October 1 (Beginning)	881,738	573,235	1,900	8,094	144,012	79,889	1,688,868
Fund balance - September 30 (Ending)	\$ 614,314	\$ 376,827	\$ 2,918	\$ 378,732	\$ 1,197,560	\$ 270,143	\$ 2,840,494
							\$ 1,688,868

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, 2018

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

Net change in fund balances-total governmental funds	\$ 1,151,626
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.	(18,265)
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.	(178,915)
The implementation of GASB 68 and 75 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 decrease net position.	(2,982)
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 \$5,852. This results in an increase in net position.	5,852
Elimination interfund receivables on government wide statement.	32,655
Changes in net position of governmental activities	<u>\$ 989,971</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, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	Business-type Activities Enterprise Fund	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 461,424	\$ 347,396
Accounts receivable (net of allowance for uncollectibles)	103,717	104,217
Due from other funds	32,655	-
Net pension asset	74,026	43,594
Restricted assets:		
Cash and cash equivalents	68,820	66,405
Total current assets	<u>740,642</u>	<u>561,612</u>
Noncurrent assets:		
Capital assets:		
Infrastructure	2,850,981	2,651,481
Buildings	46,797	46,797
Machinery and Equipment	848,300	831,300
Accumulated Depreciation-Capital Assets	(1,392,284)	(1,304,246)
Total noncurrent assets	<u>2,353,794</u>	<u>2,225,332</u>
Total assets	<u>3,094,436</u>	<u>2,786,944</u>
Deferred Outflow of Resources		
Pension expenditures	15,160	22,762
Other post employment benefits	1,223	-
Total deferred outflow of resources	<u>16,383</u>	<u>22,762</u>
Liabilities		
Current liabilities:		
Accounts payable	26,190	29,214
Accrued payroll	-	11,728
Accrued interest payable	1,135	622
Customer deposits-payable from restricted assets	68,820	66,405
Tax notes payable-current portion	136,314	175,000
Total current liabilities	<u>232,459</u>	<u>282,969</u>
Noncurrent liabilities:		
Compensated absences	37,830	33,488
Net other post employment benefits payable	22,610	-
Tax notes payable-net of current portion	280,000	136,314
Total noncurrent liabilities	<u>340,440</u>	<u>169,802</u>
Total liabilities	<u>572,899</u>	<u>452,771</u>
Deferred Inflow of Resources-pension	<u>25,895</u>	<u>2,809</u>
Net Position		
Net Investment in capital assets	1,937,480	1,914,018
Unrestricted net position	<u>574,545</u>	<u>440,108</u>
Total net position	<u>\$ 2,512,025</u>	<u>\$ 2,354,126</u>
Adjustment to eliminate interfund receivable to agree to statement of Net Position	(32,655)	
Government wide statement of net position	<u>\$ 2,479,370</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, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	Business-type Activities- Enterprise Fund	
	2018	2017
Operating revenues:		
Charges for Water Services	644,010	\$ 614,770
Charges for Sewer Services	184,778	171,255
Charges for Sanitation Services	351,230	374,655
Total operating revenues	<u>1,180,018</u>	<u>1,160,680</u>
Operating expenses:		
Personal Services-Salaries and Wages	279,727	287,694
Personal Services-Employee Benefits	91,064	94,534
Purchased Property Services	309,589	299,793
Other Operating Expenses	96,134	92,227
Supplies	21,651	17,927
Depreciation	88,038	86,930
Total operating expenses	<u>886,203</u>	<u>879,105</u>
Operating income (loss)	<u>293,815</u>	<u>281,575</u>
Other income (expense):		
Interest income	460	-
Interest expense	<u>(5,378)</u>	<u>(5,405)</u>
Total other income (expense)	<u>(4,918)</u>	<u>(5,405)</u>
Contributions and operating transfers:		
Contributed capital	199,500	-
Transfers (net)	<u>(312,085)</u>	<u>(105,517)</u>
Total contributions and operating transfers	<u>(112,585)</u>	<u>(105,517)</u>
Change in Net Position	176,312	170,653
Total Net Position - October 1 (Beginning)	2,354,126	2,183,473
Prior period adjustment	(18,413)	-
Total Net Position - September 30 (Ending)	<u>\$ 2,512,025</u>	<u>\$ 2,354,126</u>
Adjustment to eliminate interfund receivable to agree to statement of Net Position	(32,655)	
Government wide statement of net position	<u>\$ 2,479,370</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, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	Total Enterprise Fund	
	2018	2017
Cash flows from operating activities		
Receipts from customers and users	\$ 1,180,518	\$ 1,148,428
Payments to suppliers	(430,398)	(416,171)
Payments to employees	(374,947)	(358,980)
Net cash provided by operating activities	<u>375,173</u>	<u>373,277</u>
Cash flows provided by noncapital financing activities		
Interest income	460	-
Due from General	(32,655)	
Operating transfers	(312,085)	(105,517)
Net cash (used by noncapital financing activities	<u>(344,280)</u>	<u>(105,517)</u>
Cash flows from capital and related financing activities		
Proceeds from long term debt	280,000	-
Principal paid on long-term debt	(175,000)	(60,000)
Interest paid	(4,865)	(5,541)
Purchase of equipment	(17,000)	-
Net cash (used) by capital and related financing activities	<u>83,135</u>	<u>(65,541)</u>
Cash flows from investing activities		
Customer deposits	<u>2,415</u>	<u>2,072</u>
Net cash provided by investing activities	<u>2,415</u>	<u>2,072</u>
Net increase in cash and cash equivalents	116,443	204,291
Cash and cash equivalents at beginning of year	<u>413,801</u>	<u>209,510</u>
Cash and cash equivalents at end of year	<u>\$ 530,244</u>	<u>\$ 413,801</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 293,815	\$ 281,585
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	88,038	86,930
Pension expense	3,230	18,457
(Increase) decrease in current assets:		
Receivables	500	(12,252)
Increase (decrease) in current liabilities:		
Accounts payable	(3,024)	(6,224)
Accrued payroll	(7,386)	4,791
Net cash provided by operating activities	<u>\$ 375,173</u>	<u>\$ 265,280</u>
Noncash investing, capital, and financing activities:		
Assets contributed from Capital Projects Fund	<u>\$ 119,500</u>	

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

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 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continuation

Separate **fund financial statements** are provided for the governmental funds. The General Fund, Debt Service, Community Development, Improvement, and Water Recreation 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.

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:

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.

Community Development Fund is a capital projects fund used to account for funds reserved for capital improvements.

Improvement Fund is a special revenue used to account for funds to be used for capital outlay.

Water Recreation Fund is a capital projects fund used to account for funds to be used for the water recreation facility.

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

The government reports the following major proprietary fund:

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.

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, 2018.

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

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

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	\$ 51,170
Capital expenditures	59,614
Debt service	127,916
Court security	652
Technology	1,211
Total Cash and cash equivalents	\$ 240,563

Investments	
Debt service	\$ 443,780
Airport improvement	14,765
Library	106,279
Capital expenditures	1,658,911
Total investments	\$ 2,223,735

Water & Sewer Fund:	
Cash and cash equivalents	\$ 68,820

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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

6. Estimates

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

7. Fund Equity

The 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

8. Budgets and budgetary accounting

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

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

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Other Post Employment Benefits

In fiscal year 2018, the City adopted GASB 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits of OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, as amended and No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 41, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

10. Other Post Employment Benefits – Continuation

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Other Post-Employment Benefits recognize the fiduciary net position of the TMRS defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). The net positions has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go-plan and all cash is held in a cash account.

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City's cash and deposit balances as of September 30, 2018:

Cash and deposit balances consist of	
Bank deposits	\$ 959,838
Certificates of deposit	592,528
Government-sponsored investment pool (TexPool)	2,254,619
Total	<u>\$ 3,806,985</u>

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

Government-wide Statement of net position	\$ 3,279,528
Component Unit	527,457
Total	<u>\$ 3,806,985</u>

As of September 30, 2018, the carrying amount of the City's bank deposits and certificates of deposit was \$1,126,814, and the respective bank balances totaled \$1,178,487. 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, 2018, the carrying amount of the Economic Development Corporation's book balance was \$527,457, and the respective bank balances totaled \$529,513. 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, 2018

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, 2018, the City held investments 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. The City also had investments in TexPool a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAm by Standard & Poor's. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

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.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end, the City was 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

- 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.

- Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

NOTE 3 – PROPERTY TAXES

The City is authorized by the tax laws of the State of Texas to levy taxes up to \$.80 per \$100 of assessed valuation, for general governmental services, and the payment of principal and interest on long-term debt. The tax rates to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2018, were \$.466009 and \$.267812, respectively, per \$100 valuation. The combined tax rate on the 2017 tax roll was \$.733821 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	\$ 206,051	\$ -	\$ 206,051
Customer-trade	-	109,517	109,517
Gross receivables	206,051	109,517	315,568
Less: Allowance for uncollectible accounts	(72,966)	(5,800)	(78,766)
Net total receivables	<u>\$ 133,085</u>	<u>\$ 103,717</u>	<u>\$ 236,802</u>

Discretely Presented Component Unit

Clarendon Economic Development Corporation receivables at September 30, 2018, consist of the following:

Taxes and assessments \$ 17,003

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2018, 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	8,649,065	-	-	8,649,065
Buildings and improvements	526,698	112,458	-	639,156
Equipment	<u>1,045,591</u>	<u>-</u>	<u>-</u>	<u>1,045,591</u>
Total capital assets, being depreciated:	<u>10,221,354</u>	<u>112,458</u>	<u>-</u>	<u>10,333,812</u>
Less accumulated depreciation for:				
Infrastructure	(2,963,596)	(104,805)	-	(3,068,401)
Buildings and improvements	(370,877)	(6,016)	-	(376,893)
Equipment	<u>(942,457)</u>	<u>(19,900)</u>	<u>-</u>	<u>(962,357)</u>
Total accumulated depreciation	<u>(4,276,930)</u>	<u>(130,721)</u>	<u>-</u>	<u>(4,407,651)</u>
Total capital assets, being depreciated, net	<u>5,944,424</u>	<u>(18,263)</u>	<u>-</u>	<u>5,926,161</u>
Governmental activities capital assets, net	<u>\$ 5,968,927</u>	<u>\$ (18,263)</u>	<u>\$ -</u>	<u>\$ 5,950,664</u>
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Infrastructure	\$ 2,651,481	\$ 199,500	\$ -	\$ 2,850,981
Buildings	46,797	-	-	46,797
Equipment	<u>831,300</u>	<u>17,000</u>	<u>-</u>	<u>848,300</u>
Total capital assets, being depreciated:	<u>3,529,578</u>	<u>216,500</u>	<u>-</u>	<u>3,746,078</u>
Less accumulated depreciation for:				
Infrastructure	(720,487)	(41,188)	-	(761,675)
Buildings	(37,168)	(699)	-	(37,867)
Equipment	<u>(546,591)</u>	<u>(46,151)</u>	<u>-</u>	<u>(592,742)</u>
Total accumulated depreciation	<u>(1,304,246)</u>	<u>(88,038)</u>	<u>-</u>	<u>(1,392,284)</u>
Total capital assets, being depreciated, net	<u>2,225,332</u>	<u>128,462</u>	<u>-</u>	<u>2,353,794</u>
Business-type activities capital assets, net	<u>\$ 2,225,332</u>	<u>\$ 128,462</u>	<u>\$ -</u>	<u>\$ 2,353,794</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 5 – CAPITAL ASSETS – Continuation

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

Governmental activities:	
General government	\$ 3,744
Street	104,644
Fire	2,236
Animal control	3,164
Park	3,490
Airport	13,443
Total depreciation expense – governmental activities:	<u>\$ 130,721</u>
Business-type activities:	
Water and Sewer	\$ 57,563
Sanitation	30,475
Total depreciation expense – business-type activities:	<u>\$ 88,038</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	\$ 519,619	\$ 250,149	\$ -	\$ 769,768
Less accumulated depreciation	<u>(46,238)</u>	<u>(16,733)</u>	<u>-</u>	<u>(62,971)</u>
Economic Development activities capital assets (net)	<u>\$ 473,381</u>	<u>\$ 233,416</u>	<u>\$ -</u>	<u>\$ 706,797</u>

Component units:

Economic Development Corporation	<u>\$ 16,733</u>
----------------------------------	------------------

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Interfund receivables and payables at September 30, 2018 consisted of the following:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>	<u>Reason</u>
Improvement Fund	General Fund	\$ 346,232	Investment held in General Fund
Water Recreation Fund	General Fund	1,222,446	Investment held in General Fund
Enterprise Fund	General Fund	32,655	Investment held in General Fund
Non-major Governmental Funds	General Fund	93,904	Investment held in General Fund
		<u>\$ 1,695,237</u>	

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

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

Government interfund transfers during the year ended September 30, 2018, were as follows:

	Transfers Out	Transfers In
General Fund	\$ 165,640	\$ -
Debt Service Fund	179,732	-
Community Development Fund	-	189,558
Improvement Fund	-	270,543
Water Recreation Fund	-	8,098
Other Funds	-	189,258
Water and Sewer Fund	<u>312,085</u>	<u>-</u>
Total primary government	<u>\$ 657,457</u>	<u>\$ 657,457</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, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due in One Year
Governmental activities:					
General Obligation Bond	\$ 336,314	\$ 375,000	\$ 198,000	\$ 513,314	\$ 151,314
Compensated absences	<u>6,869</u>	<u>2,285</u>	<u>-</u>	<u>9,154</u>	<u>-</u>
Total Governmental activities	<u>\$ 343,183</u>	<u>\$ 377,285</u>	<u>\$ 198,000</u>	<u>\$ 522,468</u>	<u>\$ 151,314</u>
Business-type activities:					
Tax Notes, 2012	\$ 311,314	\$ -	\$ 175,000	\$ 136,314	\$ 136,314
Certificate of Obligation	-	280,000	-	280,000	-
Compensated absences	<u>33,488</u>	<u>4,342</u>	<u>-</u>	<u>37,830</u>	<u>-</u>
Total Business-type activities	<u>\$ 344,802</u>	<u>\$ 284,342</u>	<u>\$ 175,000</u>	<u>\$ 454,144</u>	<u>\$ 136,314</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS – Continuation

General obligation bonds and tax notes at September 30, 2018, are comprised of the following individual issues:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding At 9/30/18
Governmental activities:					
General Obligation Bond			\$ 65,000-		
2012 Series	1.62%	2/15/19	190,000	\$ 700,000	\$ 151,314
Certificate of Obligation, 2017 Series	3.74%	10/15/37	\$13,000- 26,000	375,000	362,000
Business-type activities:					
Tax Notes, 2012	1.62%	2/15/19	\$60,000- 175,000	650,000	136,314
Certificate of Obligation, 2018 Series	2.50%	8/15/58	\$37,000- 97,000	2,522,000	280,000

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			
2019	\$ 151,314	\$ 8,001	\$ 159,315
2020	13,000	13,296	26,296
2021	14,000	12,791	26,791
2022	14,000	12,267	26,267
2023	15,000	11,725	26,725
2024-28	84,000	49,555	133,555
2029-33	101,000	32,370	133,370
2034-37	<u>121,000</u>	<u>11,613</u>	<u>132,613</u>
Total	<u>\$ 513,314</u>	<u>\$ 151,618</u>	<u>\$ 664,932</u>
Business-type activities:			
Tax Notes, 2012			
2019	\$ 173,314	\$ 4,610	\$ 177,924
2020	38,000	6,075	44,075
2021	39,000	5,125	44,125
2022	40,000	4,150	44,150
2023	41,000	3,150	44,150
2024-25	<u>85,000</u>	<u>3,200</u>	<u>88,200</u>
Total	<u>\$ 416,314</u>	<u>\$ 26,310</u>	<u>\$ 442,624</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS – Continuation

Clarendon Economic Development Corporation notes at September 30, 2018, are comprised of the following:

	Range of Interest Rates	Final Maturity Date	Quarterly Serial Payments	Original Amount	Outstanding At 9/30/18
Note payable	3.95%	8/23/37	\$ 12,087	\$ 666,250	\$ 643,967

Debt maturities for notes, are as follows:

Due During Fiscal Year Ending	Principal	Interest	Total
Economic Development Corporation Notes			
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	27,211	21,136	48,347
2024-28	157,315	84,419	241,734
2029-33	186,614	55,120	241,734
2034-37	174,075	15,312	189,387
Total	<u>\$ 643,967</u>	<u>\$ 270,623</u>	<u>\$ 914,590</u>

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

The City of Clarendon participates as one of 883 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.tmrs.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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - Continuation

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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>16</u>
Total	<u>41</u>

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 2018 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$8,239, and were equal to the required contributions.

NET PENSION LIABILITY

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - Continuation

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017, 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 disables. The rates are projected on a fully generational basis by scales BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. 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, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - Continuation

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 2018 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - Continuation

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 12/31/2016	\$ 690,074	\$ 773,908	\$ (83,834)
Changes for the year:			
Service cost	47,421	-	47,421
Interest	47,731	-	47,731
Change of benefit terms	-	-	-
Difference between expected and actual experience	(6,777)	-	(6,777)
Changes of assumptions	-	-	-
Contributions – employer	-	6,255	(6,255)
Contributions – employee	-	33,942	(33,942)
Net investment income	-	107,285	(107,285)
Benefit payments, including refunds of employee contributions	(13,323)	(13,323)	-
Administrative expense	-	(556)	556
Other changes	-	(28)	28
Net changes	75,052	133,575	(58,523)
Balance at 12/31/2017	\$ 765,126	\$ 907,483	\$ (142,357)

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	\$(65,662)	\$ (142,357)	\$ (207,490)

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, 2018

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM - Continuation

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

For the year ended September 30, 2018, the City recognized pension expense of \$8,468.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ -	\$ 5,724
Changes in actuarial assumptions	1,009	-
Difference between projected and actual investment earnings	-	23,223
Contributions subsequent to the measurement date	6,356	-
Total	<u>\$ 7,365</u>	<u>\$ 28,947</u>

\$6,356 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. 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:

2018	\$ (2,707)
2019	(3,199)
2020	(11,021)
2021	(11,011)
Total	<u>\$ (27,938)</u>

NOTE 9 - DEFINED OTHER POST EMPLOYMENT BENEFIT PLAN:

PLAN DESCRIPTION

The City of Clarendon participates in the Texas Municipal Retirement System (TMRS) defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund("SDBF"). The SDBF is considered to be a single-employer plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. 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). The death benefit for retirees is considered another postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 9 - DEFINED OTHER POST EMPLOYMENT BENEFIT PLAN - Continuation

BENEFITS PROVIDED

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

Employees covered by benefit terms:

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>16</u>
Total	<u>21</u>

CONTRIBUTIONS

The contribution rates for SDBF for the City of Clarendon were .54% and .30% in calendar years 2018 and 2017, respectively. The City's contributions to SDBF for the year ended September 30, 2018, were \$1,191, and were equal to the required contributions.

ACTUARIAL ASSUMPTIONS

The OPEB liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	\$-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	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 generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 9 - DEFINED OTHER POST EMPLOYMENT BENEFIT PLAN - Continuation

Discount Rate

The discount rate used to measure the OPEB Liability was 3.31%. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from the contributing employers are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of December 31, 2017.

Sensitivity of the OPEB liability to changes in the discount rate

The following presents the OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's OPEB liability	\$ 50,769	\$ 43,481	\$ 37,616

Changes in the OPEB Liability

	Total OPEB Liability (a)
Balance at 12/31/2016	<u>\$ 35,606</u>
Changes for the year:	
Service cost	3,782
Interest on Total OPEB Liability	1,414
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	2,873
Benefit payments*	<u>(194)</u>
Net changes	<u>7,875</u>
Balance at 12/31/2017	<u>\$ 43,481</u>

*Due to the SDBF being considered an unfunded OPEB plan under GASB 78, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 9 - DEFINED OTHER POST EMPLOYMENT BENEFIT PLAN - Continuation

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$1,011.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	2,283	-
Contributions subsequent to the measurement date	69	-
Total	<u>\$ 2,352</u>	<u>\$ -</u>

\$69 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2018	\$ 590
2019	590
2020	590
2021	513
2022	-
Total	<u>\$ 2,283</u>

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 \$210,698 to the Authority for the fiscal year ended September 30, 2018.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 10 – COMMITMENTS - Continuation

In May 2018, the City awarded bids of \$3,104,537, for the City of Clarendon's Water System Improvements Project, for the construction of 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. At September 30, 2018, the City was in early stages of the project.

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, 2018, the City had expenditures in excess of the budgeted account in the General Fund in the following areas and amounts:

General Fund	
Municipal Court	\$ 735
Airport	42
Capital outlay	19,018

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the City adopted GASB Statement No. 75 for Accounting and Financial Reporting for Post-Employment Benefits other than Pensions. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$35,410) which resulted in a restated beginning net position of \$9,758,432.

CITY OF CLARENDON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	2018				2017
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	
	Original	Final	Actual Amounts		Actual Amounts
Revenues					
Taxes:					
Property taxes	\$ 260,000	\$ 260,000	\$ 256,872	\$ (3,128)	\$ 250,014
General sales and use taxes	295,500	295,500	303,823	8,323	292,092
Franchise tax	80,275	80,275	76,958	(3,317)	73,312
Intergovernmental revenue and grants	30,000	30,000	30,000	-	30,000
Fines and fees	15,202	15,202	28,288	13,086	16,657
Donation	-	-	-	-	-
Investment earnings	4,500	4,500	14,755	10,255	9,650
Other revenue	18,210	18,210	21,637	3,427	21,941
Total revenues	<u>703,687</u>	<u>703,687</u>	<u>732,333</u>	<u>28,646</u>	<u>693,666</u>
Expenditures					
Current:					
General government:					
Administration	367,470	354,580	323,066	31,514	306,067
Municipal court	25,115	25,115	25,850	(735)	25,574
Code compliance	48,113	65,113	61,144	3,969	42,849
Public safety:					
Police	152,738	152,738	152,725	13	149,667
Fire protection	38,330	30,280	21,114	9,166	20,883
Public works:					
Highways and streets	143,960	143,960	139,756	4,204	118,665
Culture and recreation:					
Parks	7,330	20,220	16,217	4,003	5,005
Libraries	73,230	73,230	71,145	2,085	70,337
Airport	4,040	4,040	4,082	(42)	2,788
Capital outlay:					
Capital outlay	-	-	19,018	(19,018)	3,391
Total expenditures	<u>860,326</u>	<u>869,276</u>	<u>834,117</u>	<u>35,159</u>	<u>745,226</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(156,639)</u>	<u>(165,589)</u>	<u>(101,784)</u>	<u>63,805</u>	<u>(50,560)</u>
Other financing sources (uses)					
Transfers In	159,000	167,950	(165,640)	(333,590)	227,623
Total other financing sources (uses)	<u>159,000</u>	<u>167,950</u>	<u>(165,640)</u>	<u>(333,590)</u>	<u>227,489</u>
Net change	2,361	2,361	(267,424)	(269,785)	177,063
Fund balance - October 1 (Beginning)	<u>704,675</u>	<u>704,675</u>	<u>881,738</u>	<u>-</u>	<u>704,675</u>
Fund balance - September 30 (Ending)	<u>\$ 707,036</u>	<u>\$ 707,036</u>	<u>\$ 614,314</u>	<u>\$ (269,785)</u>	<u>\$ 881,738</u>

CITY OF CLARENDON, TEXAS
IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018			
	Budgeted Amounts			Variance with
	Original	Final	Actual Amounts	Final Budget- Positive (Negative)
Revenues				
Fines and fees	\$ 97,000	\$ 97,000	96,646	\$ (354)
Investment earnings	-	-	3,449	3,449
Total revenues	97,000	97,000	100,095	3,095
Expenditures				
Current:				
General government:	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	97,000	97,000	100,095	3,095
Other financing sources (uses)				
Transfers In (Out)	(97,000)	(97,000)	270,543	367,543
Total other financing sources (uses)	(97,000)	(97,000)	270,543	367,543
Net change	-	-	370,638	370,638
Fund balance - October 1 (Beginning)	-	-	8,094	-
Prior period adjustment				
Fund balance - September 30 (Ending)	\$ -	\$ -	\$ 378,732	\$ 370,638

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2018

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	12/31/2017
Total pension liability				
Service Cost	\$ 23,988	\$ 28,970	\$ 45,485	\$ 47,421
Interest (on the Total Pension Liability)	36,806	39,096	42,693	47,731
Changes of benefit terms	-	8,426	-	-
Difference between expected and actual experience	(12,072)	(2,926)	(650)	(6,777)
Change of assumptions	-	16,159	-	-
Benefit payments, including refunds of employee contributions	(37,067)	(16,773)	(14,402)	(13,323)
Net change in Total Pension Liability	11,655	72,952	73,126	75,052
Total Pension Liability - Beginning	532,341	543,996	616,948	690,074
Total Pension Liability - Ending	<u>\$ 543,996</u>	<u>\$ 616,948</u>	<u>\$ 690,074</u>	<u>\$ 765,126</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ (2)	\$ 522	\$ 2,162	\$ 6,255
Contributions - Employee	19,442	24,464	32,892	33,942
Net Investment Income	38,721	1,029	47,722	107,285
Benefit payments, including refunds of employee contributions	(37,067)	(16,773)	(14,402)	(13,323)
Administrative expense	(404)	(627)	(539)	(556)
Other	(33)	(31)	(29)	(28)
Net Change in Plan Fiduciary Net Position	20,657	8,584	67,806	133,575
Plan Fiduciary Net Position - Beginning	676,861	697,518	706,102	773,908
Plan Fiduciary Net Position - Ending	<u>\$ 697,518</u>	<u>\$ 706,102</u>	<u>\$ 773,908</u>	<u>\$ 907,483</u>
Net Pension Liability Ending (a)-(b)	\$ (153,522)	\$ (89,154)	\$ (83,834)	\$ (142,357)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	128.22%	114.45%	112.15%	118.61%
Covered Employee Payroll	\$ 388,834	\$ 439,608	\$ 469,883	\$ 484,879
Net Pension Liability as a Percentage of Covered Employee Payroll	-39.48%	-20.28%	-17.84%	-29.36%

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2018

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>	<u>12/31/2017</u>
Actuarially Determined Contribution	\$ -	\$ 521	\$ 2,162	\$ 6,255
Contributions in relation to the actuarially determined contribution	-	521	2,162	6,255
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 388,834	\$ 439,608	\$ 469,883	\$ 484,879
Contributions as a percentage of covered employee payroll	0.00%	0.12%	0.46%	1.29%

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 were no benefit changes during the year.

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2018

SCHEDULE OF CHANGES IN OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY AND RELATED RATIOS Last 10 Years (will ultimately be displayed)

	<u>12/31/2017</u>
Total OPEB liability	
Service Cost	\$ 3,782
Interest on Total OPEB Liability	1,414
Changes of benefit terms	-
Difference between expected and actual experience	-
Change in assumptions or other inputs	2,873
Benefit payments*	<u>(194)</u>
Net change in OPEB Liability	7,875
Total Pension Liability - Beginning	<u>35,606</u>
Total Pension Liability - Ending	<u>\$ 43,481</u>
Covered Employee Payroll	\$ 484,879
OPEB Liability as a Percentage of Covered Employee Payroll	8.97%

* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2018

SCHEDULE OF CITY'S OTHER POST EMPLOYMENT BENEFIT (OPEB) CONTRIBUTIONS Last 10 Fiscal Years (will ultimately be displayed)

	<u>12/31/2017</u>
Actuarially Determined Contribution	\$ 1,721
Contributions in relation to the actuarially determined contribution	<u>1,721</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 484,879
Contributions as a percentage of covered employee payroll	0.35%

Notes to Schedule of Contributions

Valuation Date:

The total OPEB liability shown in this report is based on an actuarial valuation performed as of December 31, 2017 and a measurement date of December 31, 2017: as such, no roll-forward is required.

Other Information:

Notes

There were no benefit changes during the year.

CITY OF CLARENDON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018					
	Court Tech Fund	Hotel/Motel Fund	Rolling Stock Fund	USDA Debt Service Fund	Municipal Court Building Security Fund	Total Nonmajor Funds
ASSETS						
Restricted assets:						
Cash and cash equivalents	\$ 1,211	\$ 51,170	\$ 22,241	\$ 100,965	\$ 652	\$ 176,239
Due from other funds	-	-	-	93,904	-	93,904
Total assets	\$ 1,211	\$ 51,170	\$ 22,241	\$ 194,869	\$ 652	\$ 270,143
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-	-
Fund balances:						
Unreserved and Undesignated:						
Reported in the						
Special Revenue Fund	1,211	51,170	22,241	194,869	652	270,143
Total fund balances	1,211	51,170	22,241	194,869	652	270,143
Total liabilities and fund balances	\$ 1,211	\$ 51,170	\$ 22,241	\$ 194,869	\$ 652	\$ 270,143

CITY OF CLARENDON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2018					
	Court Tech Fund	Hotel/Motel Fund	Rolling Stock Fund	USDA Debt Service Fund	Municipal Court Building Security Fund	Total Nonmajor Funds
Revenues						
Other taxes	\$ -	94,650	\$ -	\$ -	\$ -	\$ 94,650
Fines and fees	387	-	-	-	286	673
Investment earnings	-	369	105	1,112	-	1,586
Total revenues	387	95,019	105	1,112	286	96,909
Expenditures						
Tourism	-	67,313	-	-	-	67,313
Technology	1,379	-	-	-	-	1,379
Debt service:						
Principal	-	13,000	-	-	-	13,000
Interest	-	14,220	-	-	-	14,220
Total expenditures	1,379	94,533	-	-	-	95,912
Excess (deficiency) of revenues over (under) expenditures	(992)	486	105	1,112	286	997
Transfers In (Out)	-	-	(4,500)	193,757	-	189,257
Net change	(992)	486	(4,395)	194,869	286	190,254
Fund balance - Beginning	2,203	50,685	26,636	-	365	79,889
Fund balance - Ending	\$ 1,211	\$ 51,171	\$ 22,241	\$ 194,869	\$ 651	\$ 270,143

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, 2018, 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 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Foster & Lambert L.L.C.
January 24, 2019

CITY OF CLARENDON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2018

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, 2018.

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, 2018.

CITY OF CLARENDON, TEXAS

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

None