

**CITY OF CLARENDON, TEXAS**  
**FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

# CITY OF CLARENDON, TEXAS

Annual Financial Report  
for the Year Ended September 30, 2007

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Clarendon, Texas

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Clarendon, Texas, (the City) as of and for the year ended September 30, 2007, which comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of City of Clarendon, Texas. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clarendon, Texas, as of September 30, 2007, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2008, on our consideration of City of Clarendon, Texas', internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Foster & Lambert, L.L.C.

February 8, 2008

CITY OF CLARENDON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

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, 2007. 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 Assets*. 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 assets*. Over time, increases or decreases in net assets 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 assets 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, 2007

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 Assets 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 uses (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets 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 assets ad September 30, 2007.

#### SUMMARY OF NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 788,665	\$ 797,165	\$ 78,195	\$ 60,087	\$ 866,860	\$ 857,252
Capital assets-net	<u>5,984,465</u>	<u>5,907,161</u>	<u>884,568</u>	<u>992,778</u>	<u>6,869,033</u>	<u>6,899,939</u>
Total assets	<u>6,773,130</u>	<u>6,704,326</u>	<u>962,763</u>	<u>1,052,865</u>	<u>7,735,893</u>	<u>7,757,191</u>
Other liabilities	42,694	36,783	58,923	64,915	101,617	101,698
Term liabilities	<u>721,119</u>	<u>608,777</u>	<u>64,644</u>	<u>25,632</u>	<u>785,763</u>	<u>634,409</u>
Total liabilities	<u>763,813</u>	<u>645,560</u>	<u>123,567</u>	<u>90,547</u>	<u>887,380</u>	<u>736,107</u>
Net assets:						
Invested in capital assets, net of related debt	5,265,284	5,298,409	819,924	975,616	6,085,208	6,274,025
Unrestricted – (Deficit)	<u>744,033</u>	<u>760,357</u>	<u>19,272</u>	<u>(13,298)</u>	<u>763,305</u>	<u>747,059</u>
Total net assets	<u>\$6,009,317</u>	<u>\$6,058,766</u>	<u>\$839,196</u>	<u>\$962,318</u>	<u>\$6,848,513</u>	<u>\$7,021,084</u>

CITY OF CLARENDON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

**SUMMARY OF CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2006	2007	2006	2007	2006	2007
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 53,167	\$ 151,555	\$ 714,313	\$ 580,619	\$767,480	\$732,174
Operating grants and contributions	17,520	76,058	-	-	17,520	76,058
Capital grants and contributions	186,688	153,024	6,688	153,024	193,376	306,048
General revenues						
Sales taxes	222,313	222,594	-	-	222,313	222,594
Property taxes	260,434	258,461	-	-	260,434	258,461
Franchise taxes	79,680	79,930	-	-	79,680	79,930
Hotel/motel tax	68,291	66,365	-	-	68,291	66,365
Investment earnings	31,810	37,848	-	-	31,810	37,848
Other income	17,090	17,457	-	-	17,090	17,457
<b>Total revenues</b>	<u>936,993</u>	<u>1,063,292</u>	<u>721,001</u>	<u>733,643</u>	<u>1,657,994</u>	<u>1,796,935</u>
<b>Expenses:</b>						
Financial administration	185,091	419,331	-	-	185,091	419,331
Municipal Court	7,468	27,882	-	-	7,468	27,882
Animal Control	5,106	2,272	-	-	5,106	2,272
Police	131,586	131,399	-	-	131,586	131,399
Fire	23,286	20,719	-	-	23,286	20,719
Streets	225,156	233,894	-	-	225,156	233,894
Parks	5,047	4,755	-	-	5,047	4,755
Libraries	78,782	79,918	-	-	78,782	79,918
Airport	15,364	17,400	-	-	15,364	17,400
Interest on long-term debt	-	25,966	-	-	-	25,966
Water & Sewer	-	-	435,829	403,998	435,829	403,998
Sanitation	-	-	256,628	256,830	256,628	256,830
<b>Total expenses</b>	<u>676,886</u>	<u>963,536</u>	<u>692,457</u>	<u>660,828</u>	<u>1,369,343</u>	<u>1,624,364</u>
<b>Increase (Decrease) in net assets before transfers</b>	<b>260,107</b>	<b>99,756</b>	<b>28,544</b>	<b>72,815</b>	<b>288,651</b>	<b>172,571</b>
Transfers In (Out)	<u>81,486</u>	<u>(50,307)</u>	<u>(81,486)</u>	<u>50,307</u>	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	<b>341,593</b>	<b>49,449</b>	<b>(52,942)</b>	<b>123,122</b>	<b>288,651</b>	<b>172,571</b>
Beginning net assets	6,488,204	6,009,317	-	-	6,488,204	6,848,513
Prior period adjustments	<u>(820,480)</u>	<u>-</u>	<u>892,138</u>	<u>-</u>	<u>71,658</u>	<u>-</u>
<b>Ending net assets</b>	<b><u>\$6,009,317</u></b>	<b><u>\$6,058,766</u></b>	<b><u>\$ 839,196</u></b>	<b><u>\$ 962,318</u></b>	<b><u>\$6,848,513</u></b>	<b><u>\$7,021,084</u></b>

CITY OF CLARENDON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

**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 \$658,766. Of this year-end total, approximately \$760,357 is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$49,449 from current year activity.

***Proprietary funds***

Proprietary Funds - Revenues of the City's business-type activities were \$733,643 which consisted mostly of water, sewer, and sanitation system charges. Water, sewer, and sanitation system expenses for the year ended September 30, 2007, exceeded revenues by \$78,489.

**General Fund Budgetary Highlights**

The General Fund budgeted expenditures for fiscal year 2007 was approximately \$717,046.

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, 2007, amounts to \$6,899,940 (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 2006	Governmental Activities 2007	Business- type Activities 2006	Business- type Activities 2007	Total 2006	Total 2007
Land	\$ 24,503	\$ 24,503	\$ -	\$ -	\$ 24,503	\$ 24,503
Construction in Progress	-	-	6,688	159,712	6,688	159,712
Infrastructure	5,736,499	5,675,449	734,160	713,315	6,470,659	6,388,764
Buildings	129,635	122,294	17,317	48,797	146,952	171,091
Equipment	93,828	84,916	126,403	70,954	220,231	155,870
Totals	<u>\$ 5,984,465</u>	<u>\$ 5,907,162</u>	<u>\$ 884,568</u>	<u>\$ 992,778</u>	<u>\$6,869,033</u>	<u>\$6,899,940</u>

CITY OF CLARENDON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

This year's major additions included:

Governmental activities:	
2002 Ford pickup	\$ 7,000
Street improvements	36,186
Business-type activities:	
TCDP grant project	153,024

Debt

At year-end, the City had \$623,541 of capital leases and notes payable, as shown below:

**Outstanding Debt at Year-end**

	Governmental Activities 2006	Governmental Activities 2007	Business-type Activities 2006	Business-type Activities 2007	Total 2006	Total 2007
Notes payable	\$ 9,182	\$ 6,380	\$ 18,364	\$ 12,926	\$ 27,546	\$ 19,306
Capital leases	-	-	33,851	4,235	33,851	4,235
Tax Notes	<u>710,000</u>	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>710,000</u>	<u>600,000</u>
Total	<u>\$ 719,182</u>	<u>\$ 606,380</u>	<u>\$ 52,215</u>	<u>\$ 17,161</u>	<u>\$ 771,397</u>	<u>\$ 623,541</u>

**Economic Factors and Next Year**

The City is in process on a \$301,858 water facility improvement project that they plan to work on in the coming year. Budgeted revenues for the 2007-08 year for the general fund are up \$5,874 from the 2007-08 final budget, while expenditures are also up by the same amount. The increase projected is from increases in sales tax revenues.

**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 ASSETS

SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental	Business		Nonmajor
	Activities	Type	Total	Component
		Activities		Unit
<b>Assets</b>				
Cash and cash equivalents	\$ 709,606	\$ -	\$ 709,606	\$ 131,079
Receivables (net of allowance for uncollectibles)	82,558	60,087	142,645	13,711
Intergovernmental Receivable	-			5,598
Restricted assets:				
Investments	5,000	-	5,000	-
Capital assets not being depreciated:				
Land	24,503	-	24,503	-
Capital assets net of accumulated depreciation:				
Infrastructure	5,675,449	713,315	6,388,764	-
Buildings, net	122,295	48,797	171,092	-
Machinery and Equipment, net	84,914	70,954	155,868	-
Construction in progress	-	159,712	159,712	-
<b>Total assets</b>	<b>6,704,325</b>	<b>1,052,865</b>	<b>7,757,190</b>	<b>150,388</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	28,047	26,551	54,598	-
Intergovernmental Payable	5,598	-	5,598	-
Accrued interest payable	3,137	-	3,137	-
Customer deposits	-	38,364	38,364	-
Noncurrent Liabilities				
Due Within One Year	112,855	10,019	122,874	-
Due in More Than One Year	495,922	15,613	511,535	-
<b>Total liabilities</b>	<b>645,559</b>	<b>90,547</b>	<b>736,106</b>	<b>-</b>
<b>Net Assets</b>				
Invested in Capital Assets, net of related debt	5,298,409	975,616	6,274,025	-
Restricted for:				
Economic development	-	-	-	150,388
Unrestricted Net Assets	760,357	(13,298)	747,059	-
<b>Total net assets</b>	<b>\$ 6,058,766</b>	<b>\$ 962,318</b>	<b>\$ 7,021,084</b>	<b>\$ 150,388</b>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Nonmajor Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
Financial Administration	\$ 419,331	\$ -	\$ -	\$ 153,024	\$ (266,307)	\$ -	\$ (266,307)	\$ -
Municipal Court	27,882	48,634	-	-	20,752	-	20,752	-
Animal Control	2,272	-	-	-	(2,272)	-	(2,272)	-
Police Department	131,399	-	-	-	(131,399)	-	(131,399)	-
Fire Protection	20,719	-	-	-	(20,719)	-	(20,719)	-
Highways and Streets	233,894	95,159	30,000	-	(108,735)	-	(108,735)	-
Parks	4,755	-	-	-	(4,755)	-	(4,755)	-
Libraries	79,918	7,762	46,058	-	(26,098)	-	(26,098)	-
Airport	17,400	-	-	-	(17,400)	-	(17,400)	-
Interest on long-term debt	25,966	-	-	-	(25,966)	-	(25,966)	-
Total governmental activities	963,536	151,555	76,058	153,024	(582,899)	-	(582,899)	-
Business-type activities:								
Water and Sewer Fund	403,998	363,344	-	153,024	-	112,370	112,370	-
Sanitation	256,830	217,275	-	-	-	(39,555)	(39,555)	-
Total business-type activities	660,828	580,619	-	153,024	-	72,815	72,815	-
Total primary government	\$ 1,624,364	\$ 732,174	\$ 76,058	\$ 306,048	\$ (582,899)	\$ 72,815	\$ (510,084)	\$ -
<b>Component Unit</b>								
Nonmajor Component Unit	\$ 54,762	\$ -	\$ -	\$ -				(54,762)
Total Component Units	\$ 54,762	\$ -	\$ -	\$ -				(54,762)
General revenues:								
Property taxes					258,461	-	258,461	-
Sales taxes					222,594	-	222,594	74,198
Franchise taxes					79,930	-	79,930	-
Other taxes					66,365	-	66,365	-
Miscellaneous revenue					17,457	-	17,457	5,415
Investment earnings					37,848	-	37,848	4,719
Transfers In (Out)					(50,307)	50,307	-	-
Total general revenues and transfers					632,348	50,307	682,655	84,332
Change in net assets					49,449	123,122	172,571	29,570
Net assets - Beginning					6,009,317	839,196	6,848,513	120,818
Net assets - Ending					\$ 6,058,766	\$ 962,318	\$ 7,021,084	\$ 150,388

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006**

	2007					2006	
	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Funds	Other Funds	Total Government Funds	Total Government Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 427,475	\$	\$ 70,041	\$ 202,473	\$ 9,617	\$ 709,606	\$ 218,596
Receivables (net of allowances for uncollectibles)	79,564	2,994				82,558	93,229
Restricted assets:							
Investments				5,000		5,000	5,000
<b>Total assets</b>	<b>507,039</b>	<b>2,994</b>	<b>70,041</b>	<b>207,473</b>	<b>9,617</b>	<b>797,164</b>	<b>316,825</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	22,128	-	-	5,920	-	28,048	32,414
Intergovernmental payable	5,598	-	-	-	-	5,598	5,598
Deferred revenues	28,280	2,994	-	-	-	31,274	35,507
<b>Total liabilities</b>	<b>56,006</b>	<b>2,994</b>	<b>-</b>	<b>5,920</b>	<b>-</b>	<b>64,920</b>	<b>73,519</b>
<b>Fund balances:</b>							
Unreserved and Undesignated:							
Reported in the General Fund	451,033	-	-	-	-	451,033	491,600
Reported in the Special Revenue Fund	-	-	-	201,553	9,617	211,170	155,792
Reported in the Capital Improvement Fund	-	-	70,041	-	-	70,041	62,753
<b>Total fund balances</b>	<b>451,033</b>	<b>-</b>	<b>70,041</b>	<b>201,553</b>	<b>9,617</b>	<b>732,244</b>	<b>710,145</b>
<b>Total liabilities and fund balances</b>	<b>\$ 507,039</b>	<b>\$ 2,994</b>	<b>\$ 70,041</b>	<b>\$ 207,473</b>	<b>\$ 9,617</b>	<b>\$ 797,164</b>	<b>\$ 783,664</b>

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.

5,907,162

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.

(580,640)

Net assets of governmental activities

\$ 6,058,766

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, 2007**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006**

	2007					2006
	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Funds	Other Funds	Total Government Funds
<b>Revenues</b>						
Taxes:						
Property taxes	\$ 134,147	\$ 128,548	\$ -	\$ -	\$ -	\$ 262,695
General sales and use taxes	222,594	-	-	-	-	222,594
Franchise tax	79,930	-	-	-	-	79,930
Other taxes	-	-	-	66,365	-	66,365
Intergovernmental revenue and grants	33,000	-	30,000	-	13,058	76,058
Federal government grants	-	-	153,024	-	-	153,024
Fines and fees	47,391	-	95,159	7,762	1,243	151,555
Investment earnings	26,252	-	-	11,596	-	37,848
Other revenue	15,457	-	2,000	-	-	17,457
Total revenues	<u>558,771</u>	<u>128,548</u>	<u>280,183</u>	<u>85,723</u>	<u>14,301</u>	<u>1,067,526</u>
<b>Expenditures</b>						
Current:						
General government:						
Administration	208,113	-	-	43,178	-	251,291
Municipal court	27,882	-	-	-	-	27,882
Animal control	2,273	-	-	-	-	2,273
Public safety:						
Police	131,399	-	-	-	-	131,399
Fire protection	18,944	-	-	-	-	18,944
Public works:						
Highways and streets	147,041	-	-	-	-	147,041
Culture and recreation:						
Parks	395	-	-	-	-	395
Libraries	73,949	-	-	1,220	5,248	80,417
Airport	3,954	-	-	-	-	3,954
Debt service:						
Bond principal	2,801	110,000	-	-	-	112,801
Bond interest	330	27,183	-	-	-	27,513
Capital outlay:						
Capital outlay	43,186	-	153,024	-	-	196,210
Total expenditures	<u>660,267</u>	<u>137,183</u>	<u>153,024</u>	<u>44,398</u>	<u>5,248</u>	<u>1,000,120</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(101,496)</u>	<u>(8,635)</u>	<u>127,159</u>	<u>41,325</u>	<u>9,053</u>	<u>(640,737)</u>
<b>Other financing sources (uses)</b>						
Transfers In	111,236	8,635	-	-	-	119,871
Transfers Out (use)	(50,307)	-	(119,871)	-	-	(170,178)
Total other financing sources (uses)	<u>60,929</u>	<u>8,635</u>	<u>(119,871)</u>	<u>-</u>	<u>-</u>	<u>(50,307)</u>
Net change	(40,567)	-	7,288	41,325	9,053	(59,251)
Fund balance - October 1 (Beginning)	491,600	-	62,753	160,228	564	715,145
Prior period adjustment	-	-	-	-	-	(17,643)
Fund balance - September 30 (Ending)	<u>\$ 451,033</u>	<u>\$ -</u>	<u>\$ 70,041</u>	<u>\$ 201,553</u>	<u>\$ 9,617</u>	<u>\$ 715,145</u>

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 30,2007**

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

Net change in fund balances-total governmental funds	\$ 17,099
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 depreciation exceeded capital outlays in the current period.	(77,303)
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.	113,887
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(4,234)
Changes in net assets of governmental activities	<u><u>\$ 49,449</u></u>

The accompanying notes are a integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2006**

	Business-type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Total Enterprise Funds	
			2007	2006
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 17,907
Accounts receivable (net of allowance for uncollectibles)	36,667	23,420	60,087	60,288
Total current assets	36,667	23,420	60,087	78,195
Noncurrent assets:				
Capital assets:				
Infrastructure	1,218,008	-	1,218,008	1,218,008
Buildings	23,572	23,225	46,797	46,797
Machinery and Equipment	235,719	151,714	387,433	387,433
Accumulated Depreciation-Capital Assets	(693,030)	(126,142)	(819,172)	(774,358)
Construction in process	159,712	-	159,712	6,688
Total noncurrent assets	943,981	48,797	992,778	884,568
Total assets	980,648	72,217	1,052,865	962,763
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	20,746	5,805	26,551	25,301
Customer deposits	38,364	-	38,364	33,623
Notes payable-current	5,784	-	5,784	5,516
Capital leases payable-current	826	3,409	4,235	29,617
Total current liabilities	65,720	9,214	74,934	94,057
Noncurrent liabilities:				
Notes payable-noncurrent	7,143	-	7,143	12,848
Capital leases payable-noncurrent	-	-	-	4,235
Compensated absences	5,690	2,780	8,470	12,428
Total noncurrent liabilities	12,833	2,780	15,613	29,511
Total liabilities	78,553	11,994	90,547	123,568
<b>Net Assets</b>				
Invested in capital assets, net of related debt	930,228	45,388	975,616	832,352
Unrestricted net assets	(28,133)	14,835	(13,298)	6,844
Total net assets	\$ 902,095	\$ 60,223	\$ 962,318	\$ 839,196

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2006**

	Business-type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Total Enterprise Funds	
			2007	2006
<b>Operating revenues:</b>				
Charges for Water Services	\$ 363,344	\$ -	\$ 363,344	\$ 487,123
Sanitation Charges for Services	-	217,275	217,275	227,190
Total operating revenues	<u>363,344</u>	<u>217,275</u>	<u>580,619</u>	<u>714,313</u>
<b>Operating expenses:</b>				
Personal Services-Salaries and Wages	104,748	118,808	223,556	242,830
Personal Services-Employee Benefits	26,864	33,644	60,508	60,071
Purchased Property Services	174,061	53,020	227,081	281,414
Other Operating Expenses	14,542	30,530	45,072	11,739
Supplies	43,611	14,465	58,076	47,993
Depreciation	39,074	5,741	44,815	44,769
Total operating expenses	<u>402,900</u>	<u>256,208</u>	<u>659,108</u>	<u>688,816</u>
Operating income	<u>(39,556)</u>	<u>(38,933)</u>	<u>(78,489)</u>	<u>25,497</u>
<b>Non-operating revenue (expense):</b>				
Interest Expense	(1,096)	(622)	(1,720)	(3,641)
Loss before contributions and transfers	(40,654)	(39,555)	(80,209)	21,856
<b>Contributions and operating transfers:</b>				
Capital contributions	153,024	-	153,024	6,888
Transfer in	1,502	63,253	64,755	59,546
Transfers out	<u>(14,448)</u>	<u>-</u>	<u>(14,448)</u>	<u>(141,032)</u>
Change in Net Assets	99,424	23,698	123,122	(52,942)
Total Net Assets - October 1 (Beginning)	802,671	36,525	839,196	-
Prior Period Adjustment	-	-	-	892,138
Total Net Assets - September 30 (Ending)	<u>\$ 902,095</u>	<u>\$ 60,223</u>	<u>\$ 962,318</u>	<u>\$ 839,196</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, 2007**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2006**

	Business-type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Total Enterprise Funds	
			2007	2006
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 367,724	\$ 213,096	\$ 580,820	\$ 717,159
Payments to suppliers	(254,514)	(134,973)	(389,487)	(376,376)
Payments to employees	(106,704)	(120,810)	(227,514)	(238,240)
Net cash provided by operating activities	<u>6,506</u>	<u>(42,687)</u>	<u>(36,181)</u>	<u>102,543</u>
<b>Cash flows provided by noncapital financing activities</b>				
Operating transfers	(12,946)	63,253	50,307	(81,486)
<b>Cash flows from capital and related financing activities</b>				
Principal paid on long-term debt	(15,110)	(19,944)	(35,054)	(33,133)
Proceeds customer deposits	4,741	-	4,741	6,755
Interest paid on debt	(1,098)	(622)	(1,720)	(3,641)
Net cash (used) by capital and related financing activities	<u>(11,467)</u>	<u>(20,566)</u>	<u>(32,033)</u>	<u>(30,019)</u>
<b>Net increase in cash and cash equivalents</b>	(17,907)	-	(17,907)	(8,962)
<b>Cash and cash equivalents at beginning of year</b>	17,907	-	17,907	26,869
<b>Cash and cash equivalents at end of year</b>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 17,907</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income	\$ (39,556)	\$ (38,933)	\$ (78,489)	\$ 21,856
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	39,074	5,741	44,815	44,769
Interest expense				3,641
(Increase) decrease in current assets:				
Receivables	4,380	(4,179)	201	2,846
Increase (decrease) in current liabilities:				
Accounts payable	4,565	(3,314)	1,251	24,840
Accrued payroll	(1,957)	(2,002)	(3,959)	4,591
Net cash provided by operating activities	<u>\$ 6,506</u>	<u>\$ (42,687)</u>	<u>\$ (36,181)</u>	<u>\$ 102,543</u>
<b>Noncash investing, capital, and financing activities:</b>				
Assets contributed from TCDP grant	\$ 153,024	\$ -	\$ 153,024	\$ 6,688

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**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 (Home Rule Amendment). 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 are 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 component unit, which has a September 30 year-end, is as follows:

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**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 revenues 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 to revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The City reports the following major governmental funds:

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

The **Construction Capital Project Fund** was established to account for the proceeds received from the issuance of Tax Notes and for the expenditure of those proceeds.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

**D. ASSETS, LIABILITIES, AND NET ASSETS 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.

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation**

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

**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 allowance for uncollectible trade accounts receivable represents approximately 20% of the balance. The property tax receivable allowance is equal to 50% of the delinquent taxes receivable at September 30, 2006.

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

**3. Capital Assets**

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

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

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

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

**4. Compensated Absences**

A liability for unused vacation time for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered
- leave or compensation is not contingent on specific events (such as illness)

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 160 hours per year) based on days employed. Upon retirement or termination, payment of accumulated vacation may not exceed 120 hours. Unused sick leave is not payable upon retirement or termination.

Amounts of accrued vacation leave and comp time are accrued in the government-wide financial statements.

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation**

**D. ASSESTS, LIABILITIES, AND NET ASSESTS OR EQUALITY - Continuation**

**4. Estimates**

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

**5. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that are subject to change.

Designations for special purposes of the special revenue fund unreserved fund balance are segregated so as to be utilized in accordance with state law or other restricted purpose as applied to hotel/motel tax revenue, grants, and contributions that are designated to finance particular functions or activities of the City. Designations of the capital projects fund balance are not legally required segregations, but are segregated for construction projects.

**E. BUDGETS AND BUDGETARY ACCOUNTING**

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

1. Prior to September of each fiscal year, the City Secretary submits an annual budget to the City Council.
2. 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.
3. Prior to October 1, the budget is legally adopted by order of the Council for the General Fund.
4. 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.
5. 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.
6. Formal budgetary integration on an annual basis is employed as a management control device during the year for the General Fund.
7. All appropriations lapse at the end of the City's fiscal year and may be re-budgeted the next year.

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Following is a reconciliation of the City's cash and deposit balances as of September 30, 2007:

Cash and deposit balances consist of	
Bank deposits	\$ 237,055
Certificates of deposit	<u>477,551</u>
Total	<u>\$ 714,606</u>

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

Government-wide Statement of net assets	\$ 714,606
Component Unit	<u>131,079</u>
Total	<u>\$ 845,685</u>

As of September 30, 2007, the carrying amount of the City's bank deposits and certificates of deposit was \$714,606 and the respective bank balances totaled \$764,695. Of the total bank balance, \$205,000 was covered by federal depository insurance. The remaining \$559,695 was collateralized with securities held by the pledging financial institution's agent held in City's name.

As of September 30, 2007, the carrying amount of the Economic Development Corporation's bank and certificate of deposit was \$131,079 and the respective bank balances totaled \$131,079. Of the total bank balance, \$100,000 was covered by federal depository insurance. The remaining \$31,079 was collateralized with securities held by the pledging financial institution's agent held in City's name.

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

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

As of September 30, 2007, the City held investments only in certificates of deposit with a maturity of less than one year and are included in cash and cash equivalents in the Statement of Net Assets. These were adequately insured and collateralized as discussed above.

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

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

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

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

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation**

- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

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

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

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

As of September 30, 2006, the City held investments only in certificates of deposit with a maturity of less than one year and are included in cash and cash equivalents in the Statement of Net Assets. These were adequately insured and collateralized as discussed above.

**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, 2007, were \$.2315 and \$.2640, respectively, per \$100 valuation. The combined tax rate on the 2006 tax roll was \$.4955 per \$100, which means that the City has a tax margin of \$.3045 per \$100 and could raise up to \$164,895 additional taxes from the 2006 assessed valuation.

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

**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	\$ 113,498	\$ -	\$ 113,498
Customer-trade	-	67,755	67,755
Accrued interest receivable	<u>332</u>	<u>-</u>	<u>332</u>
Gross receivables	113,830	67,755	181,585
Less: Allowance for uncollectible accounts	<u>31,272</u>	<u>7,668</u>	<u>38,940</u>
Net total receivables	<u>\$ 82,558</u>	<u>\$ 60,087</u>	<u>\$ 142,645</u>

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 4 – RECEIVABLES – Continuation**

Discretely Presented Component Unit

Clarendon Economic Development Corporation receivables at September 30, 2007, consist of the following:

Taxes and assessments \$ 13,711

**NOTE 5 – CAPITAL ASSETS**

A summary of changes in capital assets for the year ended September 30, 2007, is as follows:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 24,503	\$ -	\$ -	\$ 24,503
Total capital assets, not being depreciated:	<u>24,503</u>	<u>-</u>	<u>-</u>	<u>24,503</u>
Capital assets, being depreciated:				
Infrastructure	7,703,805	36,186	-	7,739,991
Buildings and improvements	435,404	-	-	435,404
Equipment	<u>867,646</u>	<u>7,000</u>	<u>-</u>	<u>874,646</u>
Total capital assets, being depreciated:	<u>9,006,855</u>	<u>43,186</u>	<u>-</u>	<u>9,050,041</u>
Less accumulated depreciation for:				
Infrastructure	(1,967,306)	(97,236)	-	(2,064,542)
Buildings and improvements	(305,769)	(7,340)	-	(313,109)
Equipment	<u>(773,818)</u>	<u>(15,914)</u>	<u>-</u>	<u>(789,732)</u>
Total accumulated depreciation	<u>(3,046,893)</u>	<u>(120,490)</u>	<u>-</u>	<u>(3,167,383)</u>
Total capital assets, being depreciated, net	<u>5,959,962</u>	<u>(77,304)</u>	<u>-</u>	<u>5,882,658</u>
Governmental activities capital assets, net	<u>\$ 5,984,465</u>	<u>\$ (77,304)</u>	<u>\$ -</u>	<u>\$ 5,907,161</u>

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 – CAPITAL ASSETS – Continuation**

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 6,688	\$ 153,024	\$ -	\$ 159,713
Total capital assets not being depreciated:				
Infrastructure	1,218,008	-	-	1,218,008
Buildings	46,797	-	-	46,797
Equipment	387,433	-	-	387,433
Total capital assets, being depreciated:	1,652,238	-	-	1,652,238
Less accumulated depreciation for:				
Infrastructure	(483,848)	(20,845)	-	(504,693)
Buildings	(29,480)	(699)	-	(30,179)
Equipment	(261,030)	(23,271)	-	(284,301)
Total accumulated depreciation	(774,358)	(44,815)	-	(819,173)
Total capital assets, being depreciated, net	877,880	(44,815)	-	833,065
Business-type activities capital assets, net	\$ 884,568	\$ (44,815)	\$ -	\$ 992,778

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

<u>Governmental activities:</u>		
General government		\$ 15,188
Street		85,722
Fire		1,775
Park		4,359
Airport		13,446
Total depreciation expense – governmental activities:		\$ 120,490
<u>Business-type activities:</u>		
Water and Sewer		\$ 39,074
Sanitation		5,741
Total depreciation expense – business-type activities:		\$ 44,815

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 6 – INTERFUND TRANSFERS**

Government interfund transfers during the year ended September 30, 2007 were as follows:

	Transfers Out	Transfers In
Governmental activities:		
Major funds:		
General Fund	\$ 50,307	\$ 111,236
Debt Service	-	8,635
Construction Capital Project Fund	119,871	-
Total government funds	<u>170,178</u>	<u>119,871</u>
Business-type activities:		
Water and Sewer	14,448	1,502
Sanitation	-	63,253
Total business-type activities	<u>14,448</u>	<u>64,755</u>
Total primary government	<u>\$ 184,626</u>	<u>\$ 184,626</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 approval 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, 3) move any amount recorded in an inappropriate fund to the correct fund in which the amount should be accounted for.

**NOTE 7 – LEASES**

Operating Lease

The City was not obligated on any significant operating leases as of September 30, 2007

Capital Leases

The City acquired a Freightliner trash truck by a capitalized lease with Daimler-Chrysler Services of North America in December 2002 for a contract purchase price of \$92,590. The term of the contract is for 60 monthly installment payments of \$1,714 each, including both principal interest, with the first installment beginning December 2002 and the final installment due November 2008. The lease contract carries an annual interest rate of 4.36% per annum. The balance at year end was \$3,409. Total interest expense incurred and paid was \$622 for the year ended September 30, 2007. The accumulated amortization of the leases equipment was \$55,940 as of September 30, 2007.

The City acquired a John Deere loader-backhoe by a capitalized lease with Deere Credit, Inc. in October 2002 for a contract purchase price of \$44,463. The term of the contract is for 60 monthly installments payments of \$829 each, including both principal and interest, with the first installment beginning November 2002 and the final installment due October 2007. The lease contract carries an annual interest rate of 4.5% per annum. The balance due at year end was \$826. Total interest expense incurred and paid was \$275 for the year ended September 30, 2007. The accumulated amortization of the leases equipment was \$22,232 as of September 30, 2007.

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 7 – LEASES – Continuation**

The future minimum lease obligations as of September 30, 2007, are as follows:

2008	\$ <u>4,257</u>
Net minimum lease payments	4,257
Less amount representing interest	22
Present value of net minimum lease payments	\$ <u>4,235</u>

**NOTE 8 – LONG-TERM DEBT AND OBLIGATIONS**

On February 22, 2005, the City authorized the issuance of \$800,000 City of Clarendon, Texas Tax Notes, Series 2005, for the purpose of paying contractual obligations incurred for the construction of any public work, for the purchase of materials, supplies, equipment, machinery, buildings, lands and rights-of-way for the City's needs and purposes and for professional services, including services provided by tax on all taxable property within the City to pay the principal and interest on the Tax Notes and will create a sinking fund for the assessment and collection of taxes and the redemption of the Tax Notes. Principal payments on the Tax Notes are to be made annually, beginning February 15, 2006. Interest payments are to be made semi-annually on February 15 and August 15. The interest rate on the Series 2005 Tax Notes is 4.15%.

On November 8, 2004, the city financed the purchase of three pickups with a bank note payable. The note is due on demand, but if no demand is made then monthly payments of \$783, with the last payment due on November 8, 2009. The note bears interest at 4.85% annually and is collateralized by the three pickups.

The following is a summary of long-term debt activity of the City of Clarendon for the year ended September 30, 2007:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due in One Year
<b>Governmental Activities</b>					
Tax Notes, Series 2005	\$ 710,000	\$ -	\$ 110,000	\$ 600,000	\$ 110,000
Bank note payable	9,182	-	2,801	6,380	2,855
Compensated absences	1,937	485	-	2,422	-
Total Governmental activities	<u>\$ 721,119</u>	<u>\$ 485</u>	<u>\$ 112,801</u>	<u>\$ 608,802</u>	<u>\$ 112,855</u>
<b>Business-type activities</b>					
Bank note payable	18,364	-	5,438	12,926	5,784
Obligations under capital leases	33,851	-	29,616	4,235	4,235
Compensated absences	12,428	-	3,958	8,470	-
Total Business-type activities	<u>\$ 64,643</u>	<u>\$ -</u>	<u>\$ 39,012</u>	<u>\$ 25,631</u>	<u>\$ 10,019</u>

Maturities debt, tax notes and bank note, are as follows:

Due During Fiscal Year Ending	Principal	Interest	Total
<b>Governmental activities</b>			
2008	\$ 112,855	\$ 22,867	\$ 135,722
2009	117,998	18,055	136,053
2010	120,527	13,076	133,603
2011	125,000	7,989	132,989
2012	<u>130,000</u>	<u>2,696</u>	<u>132,696</u>
Total governmental activities	<u>\$ 606,380</u>	<u>\$ 64,683</u>	<u>\$ 671,063</u>

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 8 – LONG-TERM DEBT AND OBLIGATIONS – Continuation**

Due During Fiscal Year Ending	Principal	Interest	Total
Business-type activities			
2007	\$ 5,516	\$ 769	\$ 6,285
2008	5,734	497	6,231
2009	6,054	211	6,265
2010	<u>1,060</u>	<u>6</u>	<u>1,066</u>
Total business-type activities	<u>\$ 18,364</u>	<u>\$ 1,483</u>	<u>\$ 19,847</u>

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM**

Plan Description – The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employee retirement system.

Benefits depend upon the sum of the employee's contribution to the plan, with interest, and the City-financed monetary credit, with interest. At the date the plan began, the City granted monetary credits for services rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credit referred to as an updated service credit, which is a theoretical amount that when added to the employee's accumulated contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year that before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with five or more years of service or at an age with 20 or more year of service.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions – The contribution rate for the employees is 5% and the City matching ration is currently 1 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. The rate consists of the normal cost contributions rate and prior service contribution rate, both of which are calculated to be level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City a of an employee's retirement date, not at the time the employee' contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service cost contribution rate amortizes the unfunded (over-funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method issued for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006, valuation is effective for rates beginning January 2008.)

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – Continuation**

**ACTUARIAL VALUATION INFORMATION**

Actuarial valuation date	12/31/06	12/31/05	12/31/04
Actuarial cost method	Unit credit	Unit credit	Unit credit
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	25 years	25 years	25years
Asset valuation method	Amortized cost (to accurately reflect the requirements of GASB stmt, No. 25, paragraphs 36e, 138)	Amortized cost (to accurately reflect the requirements of GASB stmt, No. 25, paragraphs 36e, 138)	Amortized cost (to accurately reflect the requirements of GASB stmt, No. 25, paragraphs 36e, 138)
Actuarial Assumptions:			
Investment return	7.00%	8.00%	8.00%
Projected salary increases	None	None	None
Inflation	None	None	None
Cost-of-living adjustment	None	None	None

The City of Clarendon is one of 821 municipalities having the benefit plan administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006, valuation are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P.O. Box 149153, Austin, Texas 78714-9153.

Trend Information – Trend information gives an indication of the progress made in the accumulation of sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

**TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF  
CITY OF CLARENDON, TEXAS**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2005	\$ 13,982	100%	\$ -
September 30, 2006	13,692	100	-
September 30, 2007	12,865	100	-

**CITY OF CLARENDON, TEXAS**  
**NOTES OF BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM (continued)**

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN  
FOR THE EMPLOYEES OF CITY OF CLARENDON, TEXAS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$ 274,395	\$ 322,997	\$ 48,602	85.00%	\$ 294,734	16.5%
12/31/06	281,503	327,349	45,846	86.00	292,527	15.7
12/31/07	322,803	369,656	46,853	87.33	304,867	15.37

**NOTE 10 - 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 11 – 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 \$156,298 to the Authority for the fiscal year ended September 30, 2007.

**NOTE 12 – 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 13 – EXPENDITURES IN EXCESS OF BUDGETED AMOUNTS**

During the year ended September 30, 2007, the City had expenditures in excess of the budgeted account in the General Fund in the following areas and amounts:

Library Saving	\$ 1,220
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**CITY OF CLARENDON, TEXAS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006**

	2007				2006
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	Actual Amounts
	Original	Final	Actual Amounts		
<b>Revenues</b>					
Taxes:					
Property taxes	\$ 277,000	\$ 277,000	\$ 134,147	\$ (142,853)	\$ 246,070
General sales and use taxes	205,000	205,000	222,594	17,594	222,313
Franchise tax	87,817	87,817	79,930	(7,887)	79,680
Intergovernmental revenue and grants	33,000	33,000	33,000	-	12,024
Fines and fees	72,064	72,064	47,391	(24,673)	47,186
Investment earnings	25,384	25,384	26,252	868	27,049
Other revenue	15,031	15,031	15,457	426	16,632
Total revenues	<u>715,296</u>	<u>715,296</u>	<u>558,771</u>	<u>(156,525)</u>	<u>650,954</u>
<b>Expenditures</b>					
Current:					
General government:					
Administration	228,808	228,808	208,113	20,695	124,738
Municipal court	36,153	36,153	27,882	8,271	6,366
Animal control	4,000	4,000	2,273	1,727	5,106
Public safety:					
Police	131,500	131,500	131,399	101	131,586
Fire protection	19,015	19,015	18,944	71	21,511
Public works:					
Highways and streets	170,746	170,746	147,041	23,705	150,655
Culture and recreation:					
Parks	700	700	395	305	688
Libraries	73,443	75,193	73,949	1,244	73,011
Airport	1,800	1,800	3,954	(2,154)	1,918
Debt service:					
Bond principal	2,801	2,801	2,801	-	2,395
Bond interest	330	330	330	-	736
Capital outlay:					
Capital outlay	46,000	46,000	43,186	2,814	-
Total expenditures	<u>715,296</u>	<u>717,046</u>	<u>660,267</u>	<u>56,779</u>	<u>518,710</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(1,750)</u>	<u>(101,496)</u>	<u>(99,746)</u>	<u>132,244</u>
<b>Other financing sources (uses)</b>					
Transfers In	-	1,750	111,236	109,486	15,639
Transfers Out (use)	-	-	(50,307)	(50,307)	(25,165)
Total other financing sources (uses)	<u>-</u>	<u>1,750</u>	<u>60,929</u>	<u>59,179</u>	<u>(9,526)</u>
Net change	-	-	(40,567)	(40,567)	122,718
Fund balance - October 1 (Beginning)	491,600	491,600	491,600	-	386,525
Prior period adjustment					(17,643)
Fund balance - September 30 (Ending)	<u>\$ 491,600</u>	<u>\$ 491,600</u>	<u>\$ 451,033</u>	<u>\$ (40,567)</u>	<u>\$ 491,600</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
HOTEL/MOTEL BED TAX FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006

	2007				2006
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	
	Original	Final	Actual Amounts		Actual Amounts
<b>Revenues</b>					
Taxes:					
Other taxes	\$ 64,090	\$ 64,090	\$ 66,365	\$ 2,275	\$ 68,291
Investment earnings	998	998	8,435	7,437	1,049
Total revenues	<u>65,088</u>	<u>65,088</u>	<u>74,800</u>	<u>9,712</u>	<u>69,340</u>
<b>Expenditures</b>					
Current:					
General government:	26,052	26,052	43,178	17,126	28,381
Total expenditures	<u>26,052</u>	<u>26,052</u>	<u>43,178</u>	<u>17,126</u>	<u>28,381</u>
Excess (deficiency) of revenues over (under) expenditures	<u>39,036</u>	<u>39,036</u>	<u>31,622</u>	<u>(7,414)</u>	<u>40,959</u>
Fund balance - October 1 (Beginning Prior period adjustment	72,098	72,098	78,098	-	31,138
					-
Fund balance - September 30 (Ending)	<u>\$ 111,134</u>	<u>\$ 111,134</u>	<u>\$ 109,720</u>	<u>\$ (7,414)</u>	<u>\$ 72,097</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
LIBRARY SAVINGS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2006

	2007				2006
	Budgeted Amounts			Variance with Final Budget- Positive (Negative)	Actual Amounts
	Original	Final	Actual Amounts		
<b>Revenues</b>					
Fines and fees	\$ 4,667	\$ 4,667	\$ 7,762	\$ 3,095	\$ 4,447
Investment earnings	3,400	3,400	3,161	(239)	3,300
Other revenue	-	-	-	-	458
Total revenues	<u>8,067</u>	<u>8,067</u>	<u>10,923</u>	<u>2,856</u>	<u>8,205</u>
<b>Expenditures</b>					
Current:					
Culture and recreation:					
Libraries	-	-	1,220	(1,220)	-
Total expenditures	<u>-</u>	<u>-</u>	<u>1,220</u>	<u>(1,220)</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,067</u>	<u>8,067</u>	<u>9,703</u>	<u>1,636</u>	<u>8,205</u>
<b>Other financing sources (uses)</b>					
Transfers In	-	-	-	-	-
Transfers Out (use)	(6,500)	(8,250)	-	(8,250)	(15,639)
Total other financing sources (uses)	<u>(6,500)</u>	<u>(8,250)</u>	<u>-</u>	<u>(8,250)</u>	<u>(15,639)</u>
Net change	1,567	(183)	9,703	(6,614)	(7,434)
Fund balance - October 1 (Beginning)	88,130	88,130	88,130	-	95,564
Prior period adjustment					-
Fund balance - September 30 (Ending)	<u>\$ 89,697</u>	<u>\$ 87,947</u>	<u>\$ 97,833</u>	<u>\$ (6,614)</u>	<u>\$ 88,130</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING BALANCE SHEET**  
**MAJOR CAPITAL PROJECTS FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Community Development Fund	Improvement Fund	Total Capital Projects Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 70,041	\$ 70,041
<b>Total assets</b>	<u>-</u>	<u>70,041</u>	<u>70,041</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved and Undesignated:			
Reported in the			
Capital Improvement Fund	-	70,041	70,041
<b>Total fund balances</b>	<u>-</u>	<u>70,041</u>	<u>70,041</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ 70,041</u>	<u>\$ 70,041</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING BALANCE SHEET**  
**MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Hotel/Motel Bed Tax Fund	Library Savings Fund	Total Special Revenue Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 109,640	\$ 92,833	\$ 202,473
Restricted assets:			
Investments		5,000	5,000
 Total assets	<u>109,640</u>	<u>97,833</u>	<u>207,473</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	5,920	-	5,920
 Total liabilities	<u>5,920</u>	<u>-</u>	<u>5,920</u>
 Fund balances:			
Restricted for:			
Library	-	5,000	5,000
Unreserved and Undesignated:			
Reported in the			
Special Revenue Fund	103,720	92,833	196,553
Total fund balances	<u>103,720</u>	<u>97,833</u>	<u>201,553</u>
 Total liabilities and fund balances	<u>\$ 109,640</u>	<u>\$ 97,833</u>	<u>\$ 207,473</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Court Tech Fund	Library Tooker Fund	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,807	\$ 7,810	\$ 9,617
Total assets	<u>1,807</u>	<u>7,810</u>	<u>9,617</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved and Undesignated:			
Reported in the			
Special Revenue Fund	<u>1,807</u>	<u>7,810</u>	<u>9,617</u>
Total fund balances	<u>1,807</u>	<u>7,810</u>	<u>9,617</u>
Total liabilities and fund balances	<u>\$ 1,807</u>	<u>\$ 7,810</u>	<u>\$ 9,617</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - MAJOR CAPITAL PROJECTS FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Community Development Fund	Improvement Fund	Total Capital Projects Fund
<b>Revenues</b>			
Intergovernmental revenue and grants	\$ -	\$ 30,000	\$ 30,000
Federal government grants	153,024	-	153,024
Fines and fees	-	95,159	95,159
Other revenue	-	2,000	2,000
Total revenues	<u>153,024</u>	<u>127,159</u>	<u>280,183</u>
<b>Expenditures</b>			
Capital outlay:			
Capital outlay	<u>153,024</u>	<u>-</u>	<u>153,024</u>
Total expenditures	<u>153,024</u>	<u>-</u>	<u>153,024</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>127,159</u>	<u>127,159</u>
<b>Other financing sources (uses)</b>			
Transfers Out (use)	-	(119,871)	(119,871)
Total other financing sources (uses)	<u>-</u>	<u>(119,871)</u>	<u>(119,871)</u>
Net change	-	7,288	7,288
Fund balance - October 1 (Beginning	-	62,753	62,753
Fund balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 70,041</u>	<u>\$ 70,041</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FUND BALANCE MAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Hotel/Motel Bed Tax Fund	Library Savings Fund	Total Special Revenue Fund
<b>Revenues</b>			
Taxes:			
Other taxes	\$ 66,365	\$ -	\$ 66,365
Fines and fees	-	7,762	7,762
Investment earnings	8,435	3,161	11,596
Total revenues	<u>74,800</u>	<u>10,923</u>	<u>85,723</u>
<b>Expenditures</b>			
Current:			
General government:			
Administration	43,178	-	43,178
Culture and recreation:			
Libraries	-	1,220	1,220
Total expenditures	<u>43,178</u>	<u>1,220</u>	<u>44,398</u>
Excess (deficiency) of revenues over (under) expenditures	31,622	9,703	41,325
Fund balance - October 1 (Beginning)	72,098	88,130	160,228
Fund balance - September 30 (Ending)	<u>\$ 103,720</u>	<u>\$ 97,833</u>	<u>\$ 201,553</u>

The accompanying notes are an integral part of this statement.

**CITY OF CLARENDON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	2007		
	Court Tech Fund	Library Tooker Fund	Total Nonmajor Special Revenue Funds
<b>Revenues</b>			
Intergovernmental revenue and grants		13,058	13,058
Fines and fees	1,243	-	1,243
Total revenues	<u>1,243</u>	<u>13,058</u>	<u>14,301</u>
<b>Expenditures</b>			
Culture and recreation:			
Libraries	-	5,248	5,248
Total expenditures	<u>-</u>	<u>5,248</u>	<u>5,248</u>
Excess (deficiency) of revenues over (under) expenditures	1,243	7,810	9,053
Fund balance - October 1 (Beginning)	<u>564</u>	<u>-</u>	<u>564</u>
Fund balance - September 30 (Ending)	<u>\$ 1,807</u>	<u>\$ 7,810</u>	<u>\$ 9,617</u>

The accompanying notes are an integral part of this statement.

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

Mayor and City Council  
City of Clarendon, Texas

Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Clarendon, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City of Clarendon, Texas', basic financial statements and have issued our report thereon dated December 11, 2007. 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.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Clarendon, Texas', ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Clarendon, Texas', financial statements that is more than inconsequential will not be prevented or detected by the City of Clarendon, Texas', internal control.

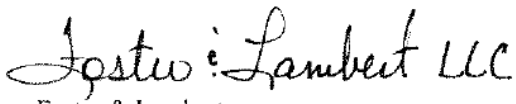
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Clarendon, Texas', internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Foster & Lambert  
February 12, 2008

**CITY OF CLARENDON, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   x   No

Reportable condition(s) identified that are  
not considered to be material weaknesses? \_\_\_\_\_ Yes   x   No

Non compliance material to financial  
statements noted? \_\_\_\_\_ Yes   x   No

2. Federal Awards

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the  
year ended September 30, 2007.

B. Financial Statement Findings

At September 30, 2007 there were unsecured cash balances.

C. Federal Award Findings and Questioned Costs

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended  
September 30, 2007.

**CITY OF CLARENDON, TEXAS**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

None