

CITY OF CLARENDON, TEXAS

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

CITY OF CLARENDON, TEXAS

CITY COUNCIL MEMBERS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2012

Larry Hicks	Mayor
Abby Patten	Mayor Pro Tem
Terry Noble	Council Member
Tommy Hill	Council Member
Jesus Hernandez	Council Member
Will Thompson	Council Member

CITY OFFICIALS

Lambert Little, City Administrator

Machiel Covey, City Secretary

CITY OF CLARENDON, TEXAS

Annual Financial Report
for the Year Ended September 30, 2012

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 Assets.....	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 Assets.....	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 Assets – Proprietary Funds.....	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.....	15
Statement of Cash Flows – Proprietary Fund.....	16
Notes to the Financial Statements.....	17
Required Supplementary Information:	
Analysis of Funding Progress – Texas Municipal Retirement System.....	31
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	32
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Hotel/Motel Bed Tax Fund.....	33
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Library Savings Fund.....	34
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Combining Balance Sheet – Nonmajor Funds.....	35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Funds.....	36
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.....	37
Schedule of Findings and Questioned Costs.....	39
Corrective Action Plan.....	40

Independent Auditor's Report

Mayor and City Council
City of Clarendon
Clarendon, TX

Members of the Board:

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, (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, 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, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is supplementary information required by 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarendon, Texas' financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Foster & Lambert, L.L.C.

February 12, 2013

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2012

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, 2012. 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, 2012

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 users (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 at September 30, 2012.

SUMMARY OF NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$ 893,041	\$ 859,515	\$ 588,819	\$ 598,583	\$ 1,481,860	\$ 1,458,098
Capital assets-net	<u>5,606,496</u>	<u>5,507,305</u>	<u>1,315,656</u>	<u>1,383,816</u>	<u>6,922,152</u>	<u>6,891,121</u>
Total assets	<u>6,499,537</u>	<u>6,366,820</u>	<u>1,904,475</u>	<u>1,982,399</u>	<u>8,404,012</u>	<u>8,349,219</u>
Other liabilities	18,696	16,388	98,335	99,804	117,031	116,192
Term liabilities	<u>207,984</u>	<u>35,484</u>	<u>9,608</u>	<u>13,220</u>	<u>217,592</u>	<u>48,704</u>
Total liabilities	<u>226,680</u>	<u>51,872</u>	<u>107,943</u>	<u>113,024</u>	<u>334,623</u>	<u>164,896</u>
Net assets:						
Invested in capital assets, net of related debt	5,398,512	5,472,120	1,315,656	1,383,816	6,714,168	6,855,936
Unrestricted - (Deficit)	<u>874,345</u>	<u>842,828</u>	<u>480,876</u>	<u>485,559</u>	<u>1,355,221</u>	<u>1,328,387</u>
Total net assets	<u>\$6,272,857</u>	<u>\$6,314,948</u>	<u>\$ 1,796,532</u>	<u>\$ 1,869,375</u>	<u>\$8,069,389</u>	<u>\$8,184,323</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2012

SUMMARY OF CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program revenues						
Charges for services	\$ 141,311	\$ 127,921	\$ 841,167	\$ 872,155	\$ 982,478	\$ 1,000,076
Operating grants and contributions	76,690	63,111	-	-	76,690	63,111
Capital grants and contributions	82,466	28,913	55,426	28,913	137,892	57,826
General revenues						
Sales taxes	329,825	248,434	-	-	329,825	248,434
Property taxes	354,518	349,371	-	-	354,518	349,371
Franchise taxes	84,981	79,276	-	-	84,981	79,276
Hotel/motel tax	70,040	72,487	-	-	70,040	72,487
Investment earnings	9,793	6,197	-	-	9,793	6,197
Other income	<u>28,092</u>	<u>29,184</u>	<u>-</u>	<u>-</u>	<u>28,092</u>	<u>29,184</u>
Total revenues	<u>1,177,716</u>	<u>1,004,894</u>	<u>896,593</u>	<u>901,068</u>	<u>2,074,309</u>	<u>1,905,962</u>
Expenses:						
Financial administration	441,800	293,266	-	87,064	441,800	380,330
Municipal Court	17,940	27,768	-	-	17,940	27,768
Code Compliance	8,524	44,720	-	-	8,524	44,720
Police	133,589	136,257	-	-	133,589	136,257
Fire	40,364	21,345	-	-	40,364	21,345
Streets	266,246	256,043	-	-	266,246	256,043
Parks	2,412	5,808	-	-	2,412	5,808
Libraries	73,681	74,034	-	-	73,681	74,034
Airport	31,036	16,433	-	-	31,036	16,433
Interest on long-term debt	7,141	5,165	-	-	7,141	5,165
Water & Sewer	-	-	430,675	486,823	430,675	486,823
Sanitation	-	-	<u>296,638</u>	<u>336,302</u>	<u>296,638</u>	<u>336,302</u>
Total expenses	<u>1,022,733</u>	<u>880,839</u>	<u>727,313</u>	<u>910,189</u>	<u>1,750,046</u>	<u>1,791,028</u>
Increase (Decrease) in net assets before transfers	154,983	124,055	169,280	(9,121)	324,263	114,934
Transfers In (Out)	<u>38,069</u>	<u>(81,964)</u>	<u>(38,069)</u>	<u>81,964</u>	<u>-</u>	<u>-</u>
Change in net assets	193,052	42,091	131,211	72,843	324,263	114,934
Beginning net assets	<u>6,079,805</u>	<u>6,272,857</u>	<u>1,665,321</u>	<u>1,796,532</u>	<u>7,745,126</u>	<u>8,069,389</u>
Ending net assets	<u>\$6,272,857</u>	<u>\$6,314,948</u>	<u>\$1,796,532</u>	<u>\$1,869,375</u>	<u>\$8,069,389</u>	<u>\$8,184,323</u>

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2012

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$6,314,948. Of this year-end total, approximately \$842,827 is unreserved indicating availability for continuing City service requirements.

The total ending fund balances of governmental funds show an increase of \$42,091 from current year activity.

Proprietary funds

Proprietary Funds - Revenues of the City's business-type activities were \$872,155 which consisted mostly of water, sewer, and sanitation system charges. Water, sewer, and sanitation system expenses for the year ended September 30, 2012, exceeded revenues by \$38,034.

General Fund Budgetary Highlights

The General Fund expenditures for fiscal year 2012 were \$674,636, which were \$145,377 less than the budgeted amount of \$820,013.

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, 2012, amounts to \$6,891,121 (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 2011	Governmental Activities 2012	Business- type Activities 2011	Business- type Activities 2012	Total 2011	Total 2012
Land	\$ 24,503	\$ 24,503	\$ -	\$ -	\$ 24,503	\$ 24,503
Infrastructure	5,350,627	5,267,944	1,209,317	1,214,646	6,559,944	6,482,590
Buildings	118,661	112,232	13,823	13,123	132,484	125,355
Equipment	<u>112,705</u>	<u>102,626</u>	<u>92,516</u>	<u>156,047</u>	<u>205,221</u>	<u>258,673</u>
Totals	<u>\$5,606,496</u>	<u>\$5,507,305</u>	<u>\$1,315,656</u>	<u>\$1,383,816</u>	<u>\$6,922,152</u>	<u>\$6,891,121</u>

This year's major additions included:

Business-type activities:	
John Deere Backhoe	\$ 81,964
Sewer Project	28,913

CITY OF CLARENDON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2012

Debt

At year-end, the City had \$26,326 of capital leases and notes payable, as shown below:

Outstanding Debt at Year-end

	Governmental Activities 2011	Governmental Activities 2012	Business-type Activities 2011	Business-type Activities 2012	Total 2011	Total 2012
Notes payable	\$ 73,000	\$ 26,326	\$ -	\$ -	\$ 73,000	\$ 26,326
Tax Notes	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,000</u>	<u>-</u>
Total	<u>\$ 203,000</u>	<u>\$ 26,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,000</u>	<u>\$ 26,326</u>

Economic Factors and Next Year

For the 2012-13 fiscal year the City has three major projects in process; a \$275,000 sewer line improvement grant, a \$700,000 paving project, and a \$650,000 project to replace water lines under City streets.

Contacting the City's Financial Management

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

CITY OF CLARENDON, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
Assets				
Cash and cash equivalents	\$ 235,689	\$ 470,457	\$ 706,146	\$ 198,468
Receivables (net of allowance for uncollectibles)	102,601	77,120	179,721	15,090
Restricted assets:				
Cash and cash equivalents	515,926	51,006	566,932	-
Investments	5,000	-	5,000	-
Capital assets not being depreciated:				
Land	24,503	-	24,503	-
Capital assets net of accumulated depreciation:				
Infrastructure	5,267,944	1,214,646	6,482,590	-
Buildings, net	114,094	13,123	127,217	65,240
Machinery and Equipment, net	101,063	156,047	257,110	-
Total assets	6,366,820	1,982,399	8,349,219	278,798
Liabilities				
Accounts payable and other current liabilities				
Customer deposits	16,388	45,798	62,186	-
Customer deposits	-	54,006	54,006	-
Noncurrent Liabilities				
Due Within One Year	14,600	-	14,600	-
Due in More Than One Year	20,884	13,220	34,104	-
Total liabilities	51,872	113,024	164,896	-
Net Assets				
Invested in Capital Assets, net of related debt	5,472,120	1,383,816	6,855,936	-
Restricted for:				
Economic development	-	-	-	278,798
Unrestricted Net Assets	842,828	485,559	1,328,387	-
Total net assets	\$ 6,314,948	\$ 1,869,375	\$ 8,184,323	\$ 278,798

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Net (Expense) Revenue and Changes in Net Assets						Component Unit Nonmajor Component Unit
	Program Revenues			Primary Government Business-type Activities		Total	
	Expenses	Charges for Services	Operating Contributions	Capital Grants and Contributions	Governmental Activities		
Primary Government							
Governmental activities:							
Financial Administration	\$ 293,266	\$ -	\$ -	\$ 28,913	\$ (264,353)	\$ (264,353)	\$ -
Municipal Court	27,768	17,829	-	-	(9,939)	(9,939)	-
Code compliance	44,720	551	-	-	(44,169)	(44,169)	-
Police Department	136,257	-	-	-	(136,257)	(136,257)	-
Fire Protection	21,345	-	-	-	(21,345)	(21,345)	-
Highways and Streets	256,043	101,827	30,000	-	(124,216)	(124,216)	-
Parks	5,808	-	-	-	(5,808)	(5,808)	-
Libraries	74,034	4,168	33,111	-	(36,755)	(36,755)	-
Airport	16,433	3,546	-	-	(12,887)	(12,887)	-
Interest on long-term debt	5,165	-	-	-	(5,165)	(5,165)	-
Total governmental activities	880,839	127,921	63,111	28,913	(660,894)	(660,894)	-
Business-type activities:							
Water and Sewer Fund	486,823	536,703	-	-	-	49,880	-
Sanitation	336,302	335,452	-	28,913	-	28,063	-
Financial Administration	87,064	-	-	-	-	(87,064)	-
Total business-type activities	910,189	872,155	-	28,913	-	(9,121)	-
Total primary government	\$ 1,791,028	\$ 1,000,076	\$ 63,111	\$ 57,826	\$ (660,894)	\$ (670,015)	\$ -
Component Unit							
Nonmajor Component Unit	\$ 58,733	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,733)
Total Component Units	\$ 58,733	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,733)
General revenues:							
Property taxes					349,371	349,371	-
Sales taxes					248,434	248,434	83,011
Franchise taxes					79,276	79,276	-
Other taxes					72,487	72,487	-
Miscellaneous revenue					29,184	29,184	-
Investment earnings					6,197	6,197	1,281
Transfers In (Out)					(81,964)	-	-
Total general revenues and transfers					81,964	81,964	-
Change in net assets					72,843	72,843	25,559
Net assets - Beginning					1,796,532	8,069,389	253,239
Net assets - Ending					\$ 1,869,375	\$ 8,184,323	\$ 278,798

The accompanying notes are an integral part of this statement.

CITY OF CLARENJON, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2011

	2012						2011	
	General Fund	Hotel/Motel Fund	Library Savings Fund	Improvement Fund	Debt Service Fund	Other Funds	Total Government Funds	Total Government Funds
ASSETS								
Cash and cash equivalents	\$ 235,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,688	\$ 245,770
Receivables (net of allowances for uncollectibles)	88,347	-	-	-	14,254	-	102,601	99,499
Restricted assets:								
Cash and cash equivalents	89,716	177,212	96,874	146,460	3,618	2,046	515,926	542,772
Investments	-	-	5,000	-	-	-	5,000	5,000
Total assets	\$ 413,751	\$ 177,212	\$ 101,874	\$ 146,460	\$ 17,872	\$ 2,046	\$ 859,215	\$ 893,041
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 11,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,334	\$ 14,097
Accrued wages payable	5,055	-	-	-	-	-	5,055	3,418
Deferred revenues	33,223	-	-	-	14,254	-	47,477	43,810
Total liabilities	\$ 49,612	\$ -	\$ -	\$ -	\$ 14,254	\$ -	\$ 63,866	\$ 61,325
Fund balances:								
Restricted								
Debt Service	-	-	-	-	3,618	-	3,618	93,510
Assigned for:								
Court technology	-	-	-	-	-	2,046	2,046	1,915
Library	-	-	101,874	-	-	-	101,874	98,264
Tourism	-	177,212	-	-	-	-	177,212	168,850
Airport improvement	14,431	-	-	-	-	-	14,431	14,294
Capital improvement	75,284	-	-	146,460	-	-	221,744	170,938
Unassigned	274,424	-	-	-	-	-	274,424	283,945
Total fund balances	\$ 364,139	\$ 177,212	\$ 101,874	\$ 146,460	\$ 3,618	\$ 2,046	\$ 795,349	\$ 831,716
Total liabilities and fund balances	\$ 413,751	\$ 177,212	\$ 101,874	\$ 146,460	\$ 17,872	\$ 2,046	\$ 859,215	\$ 893,041

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 ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Governmental activities fund balance	\$ 795,349
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.	5,507,605
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.	11,994
Net assets of governmental activities	<u>\$ 6,314,948</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, 2012
 WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2011

	2012					2011	
	General Fund	Hotel/Motel Fund	Library Savings Fund	Improvement Fund	Debt Service Fund	Other Funds	Total Government Funds
Revenues							
Taxes:							
Property taxes	\$ 200,610	\$ -	\$ -	\$ -	\$ 145,094	\$ -	\$ 345,704
General sales and use taxes	248,434	-	-	-	-	-	248,434
Franchise tax	79,276	-	-	-	-	-	79,276
Other taxes	-	72,487	-	-	-	-	72,487
Intergovernmental revenue and grants	33,111	-	-	-	30,000	28,913	92,024
Fines and fees	21,550	-	4,168	101,827	-	-	127,545
Investment earnings	5,006	452	739	-	-	376	6,573
Other revenue	28,503	-	681	-	-	-	29,184
Total revenues	616,490	72,939	5,588	101,827	175,094	29,289	1,001,227
Expenditures							
Current:							
General government:							
Administration	192,983	64,577	-	2,259	-	-	259,819
Municipal court	27,523	-	-	-	-	245	27,768
Code compliance	44,202	-	-	-	-	-	44,202
Public safety:							
Police	136,257	-	-	-	-	-	136,257
Fire protection	19,036	-	-	-	-	-	19,036
Public works:							
Highways and streets	176,942	-	-	-	-	-	176,942
Culture and recreation:							
Parks	4,683	-	-	-	-	-	4,683
Libraries	70,023	-	911	-	-	1,067	72,001
Airport	2,987	-	-	-	-	-	2,987
Debt service:							
Principal	-	-	-	-	258,638	-	258,638
Interest	-	-	-	-	6,348	-	6,348
Capital outlay:							
Capital outlay	-	-	-	-	-	28,913	28,913
Total expenditures	674,636	64,577	911	2,259	264,986	30,225	1,037,594
Excess (deficiency) of revenues over (under) expenditures	(58,146)	8,362	4,677	99,568	(89,892)	(936)	(36,367)
Other financing sources (uses)							
Loan proceeds	-	-	-	-	-	-	-
Transfers (net)	52,000	-	-	(52,000)	-	-	-
Total other financing sources (uses)	52,000	-	-	(52,000)	-	-	-
Net change	(6,146)	8,362	4,677	47,568	(89,892)	(936)	(36,367)
Fund balance - October 1 (Beginning)	370,285	168,850	97,197	98,892	93,510	2,982	831,716
Fund balance - September 30 (Ending)	\$ 364,139	\$ 177,212	\$ 101,874	\$ 146,460	\$ 3,618	\$ 2,046	\$ 795,349
							\$ 831,716

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, 2012

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

Net change in fund balances-total governmental funds	\$ (36,367)
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.	(98,891)
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.	177,856
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.	(4,174)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. The current-year change recognized in the government-wide financial statements is \$3,667. This results in an increase in net assets.	3,667
Changes in net assets of governmental activities	<u>\$ 42,091</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, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011

	Business-type Activities Enterprise Funds	
Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 470,457	\$ 462,428
Accounts receivable (net of allowance for uncollectibles)	77,120	74,665
Restricted assets:		
Cash and cash equivalents	51,006	51,726
Total current assets	598,583	588,819
Noncurrent assets:		
Capital assets:		
Infrastructure	1,749,417	1,720,504
Buildings	46,797	46,797
Machinery and Equipment	540,823	458,859
Accumulated Depreciation-Capital Assets	(953,221)	(910,504)
Total noncurrent assets	1,383,816	1,315,656
Total assets	1,982,399	1,904,475
Liabilities		
Current liabilities:		
Bank overdraft	-	5,060
Accounts payable	36,663	35,604
Accrued payroll	9,135	5,945
Customer deposits	54,006	51,726
Total current liabilities	99,804	98,335
Noncurrent liabilities:		
Compensated absences	13,220	9,608
Total noncurrent liabilities	13,220	9,608
Total liabilities	113,024	107,943
Net Assets		
Invested in capital assets, net of related debt	1,383,816	1,315,656
Unrestricted net assets	485,559	480,876
Total net assets	\$ 1,869,375	\$ 1,796,532

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, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011

	Business-type Activities- Enterprise Funds	
	<u>2012</u>	<u>2011</u>
Operating revenues:		
Charges for Water Services	\$ 536,703	\$ 580,480
Sanitation Charges for Services	335,452	260,687
Total operating revenues	<u>872,155</u>	<u>841,167</u>
Operating expenses:		
Personal Services-Salaries and Wages	293,985	239,233
Personal Services-Employee Benefits	76,730	51,890
Purchased Property Services	242,323	280,327
Other Operating Expenses	245,322	73,864
Supplies	9,111	38,486
Depreciation	42,718	43,513
Total operating expenses	<u>910,189</u>	<u>727,313</u>
Operating income (loss)	<u>(38,034)</u>	<u>113,854</u>
Contributions and operating transfers:		
Capital contributions	28,913	55,426
Transfer in	81,964	17,667
Transfers out	-	(55,736)
Total contributions and operating transfers	<u>110,877</u>	<u>17,357</u>
Change in Net Assets	72,843	131,211
Total Net Assets - October 1 (Beginning)	1,796,532	1,665,321
Total Net Assets - September 30 (Ending)	<u>\$ 1,869,375</u>	<u>\$ 1,796,532</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, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011

	Total Enterprise Funds	
	2012	2011
Cash flows from operating activities		
Receipts from customers and users	\$ 869,700	\$ 844,620
Payments to suppliers	(572,428)	(441,328)
Payments to employees	(287,183)	(245,130)
Net cash provided by operating activities	<u>10,089</u>	<u>158,162</u>
Cash flows provided by noncapital financing activities		
Operating transfers	<u>81,964</u>	<u>(38,069)</u>
Cash flows from capital and related financing activities		
Purchase of equipment	(81,964)	-
Proceeds customer deposits	<u>-</u>	<u>316</u>
Net cash (used) by capital and related financing activities	<u>(81,964)</u>	<u>316</u>
Cash flows from investing activities		
Customer deposits	<u>2,280</u>	<u>-</u>
Net cash provided by investing activities	<u>2,280</u>	<u>-</u>
Net increase in cash and cash equivalents	12,369	120,409
Cash and cash equivalents at beginning of year	<u>509,094</u>	<u>388,685</u>
Cash and cash equivalents at end of year	<u>\$ 521,463</u>	<u>\$ 509,094</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ (38,034)	\$ 113,854
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	42,718	43,513
Interest expense		
(Increase) decrease in current assets:		
Receivables	(2,455)	3,453
Increase (decrease) in current liabilities:		
Accounts payable	1,058	3,239
Accrued payroll	6,802	(5,897)
Net cash provided by operating activities	<u>\$ 10,089</u>	<u>\$ 158,162</u>
Noncash investing, capital, and financing activities:		
Assets contributed from grants	\$ 28,913	\$ 55,426

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The **Hotel/Motel Fund** is used to account for the funds restricted for tourism.

The **Library Savings Fund** is used to account for the funds restricted for the library.

The **Improvement Fund** is used to account for the funds designated for capital improvement.

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

Private-sector standards of accounting and financial reporting issued prior to November 30, 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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.

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, 2012.

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

3. Capital Assets

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

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

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

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

4. Restricted Assets

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

General Fund:

Cash and cash equivalents	
Tourism	\$ 177,211
Library	96,874
Improvement	221,746
Debt service	3,618
Airport improvement	14,431
Technology	<u>2,046</u>
Total Cash and cash equivalents	<u>\$ 515,926</u>
Investments	
Library	<u>\$ 5,000</u>
Water & Sewer Fund:	
Cash and cash equivalents	<u>\$ 51,006</u>

5. Compensated Absences

The City changed their compensated absences policy as of October 1, 2008. 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 resign.

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

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

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

6. Estimates

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

7. Fund Equity

Fund Equity, beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

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

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

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

8. Budgets and budgetary accounting

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

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City's cash and deposit balances as of September 30, 2012:

Cash and deposit balances consist of	
Bank deposits	\$ 907,583
Certificates of deposit	569,256
Total	<u>\$ 1,476,839</u>

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

Government-wide Statement of net assets	\$ 1,278,077
Component Unit	198,468
Total	<u>\$ 1,476,545</u>

As of September 30, 2012, the carrying amount of the City's bank deposits and certificates of deposit was \$1,278,077, and the respective bank balances totaled \$1,336,866. 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, 2012, the carrying amount of the Economic Development Corporation's book balance was \$198,468, and the respective bank balances totaled \$200,218. The total bank balance was covered by federal depository insurance.

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

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, 2012, 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.

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

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

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

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

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

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

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

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

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

NOTE 3 – PROPERTY TAXES

The City is authorized by the tax laws of the State of Texas to levy taxes up to \$.80 per \$100 of assessed valuation, for general governmental services, and the payment of principal and interest on long-term debt. The tax rates to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2012, were \$.386511 and \$.263489, respectively, per \$100 valuation. The combined tax rate on the 2011 tax roll was \$.65 per \$100, which means that the City has a tax margin of \$.15 per \$100 and could raise up to \$80,806 additional taxes from the 2011 assessed valuation.

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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	\$ 149,881	\$ -	\$ 149,881
Customer-trade	-	77,120	77,120
Accrued interest receivable	<u>197</u>	<u>-</u>	<u>197</u>
Gross receivables	150,078	77,120	227,198
Less: Allowance for uncollectible accounts	<u>47,477</u>	<u>-</u>	<u>47,477</u>
Net total receivables	<u>\$ 102,601</u>	<u>\$ 77,120</u>	<u>\$ 179,721</u>

Discretely Presented Component Unit

Clarendon Economic Development Corporation receivables at September 30, 2012, consist of the following:

Taxes and assessments	<u>\$15,090</u>
-----------------------	-----------------

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2012, is as follows:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 24,503	\$ -	\$ -	\$ 24,503
Total capital assets, not being depreciated:	<u>24,503</u>	<u>-</u>	<u>-</u>	<u>24,503</u>
Capital assets, being depreciated:				
Infrastructure	7,759,849	-	-	7,759,849
Buildings and improvements	458,434	-	-	458,434
Equipment	<u>964,946</u>	<u>-</u>	<u>-</u>	<u>964,946</u>
Total capital assets, being depreciated:	<u>9,183,229</u>	<u>-</u>	<u>-</u>	<u>9,183,229</u>
Less accumulated depreciation for:				
Infrastructure	(2,409,222)	(82,683)	-	(2,491,905)
Buildings and improvements	(339,773)	(4,567)	-	(344,340)
Equipment	<u>(852,241)</u>	<u>(11,642)</u>	<u>-</u>	<u>(863,883)</u>
Total accumulated depreciation	<u>(3,601,236)</u>	<u>(98,892)</u>	<u>-</u>	<u>(3,700,128)</u>
Total capital assets, being depreciated, net	<u>5,581,993</u>	<u>(98,892)</u>	<u>-</u>	<u>5,483,101</u>
Governmental activities capital assets, net	<u>\$ 5,606,496</u>	<u>\$ (98,892)</u>	<u>\$ -</u>	<u>\$ 5,507,604</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Infrastructure	1,720,504	28,913	-	1,749,417
Buildings	46,797	-	-	46,797
Equipment	<u>458,859</u>	<u>81,964</u>	-	<u>540,823</u>
Total capital assets, being depreciated:	<u>2,226,160</u>	<u>110,877</u>	-	<u>2,337,037</u>
Less accumulated depreciation for:				
Infrastructure	(511,187)	(23,585)	-	(534,772)
Buildings	(32,975)	(699)	-	(33,674)
Equipment	<u>(366,342)</u>	<u>(18,434)</u>	-	<u>(384,776)</u>
Total accumulated depreciation	<u>(910,504)</u>	<u>(42,718)</u>	-	<u>(953,222)</u>
Total capital assets, being depreciated, net	<u>1,315,656</u>	<u>68,159</u>	-	<u>1,383,815</u>
Business-type activities capital assets, net	<u>\$ 1,315,656</u>	<u>\$ 68,159</u>	<u>\$ -</u>	<u>\$ 1,383,815</u>

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

Governmental activities:		
General government		\$ 3,615
Street		77,933
Fire		2,309
Animal control		464
Park		1,125
Airport		<u>13,446</u>
Total depreciation expense – governmental activities:		<u>\$ 98,892</u>
Business-type activities:		
Water and Sewer		\$ 31,267
Sanitation		<u>11,451</u>
Total depreciation expense – business-type activities:		<u>\$ 42,718</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Government interfund transfers during the year ended September 30, 2012, were as follows:

	Transfers Out	Transfers In
Governmental activities:		
Major funds:		
Debt Service Fund	\$ 81,964	\$ -
Business-type activities:		
Water and Sewer	-	<u>81,964</u>
Total primary government	<u>\$ 81,964</u>	<u>\$ 81,964</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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

Eliminations

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

Purpose of Transfers

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

NOTE 7 – LONG-TERM DEBT AND OBLIGATIONS

The following is a summary of long-term debt activity of the City of Clarendon for the year ended September 30, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance	Amount Due in One Year
Governmental Activities					
Tax Notes, Series 2005	\$ 130,000	\$ -	\$ 130,000	\$ -	\$ -
Bank note payable	73,000	-	46,674	26,326	14,600
Compensated absences	4,984	4,174	-	9,158	-
Total Governmental activities	<u>\$ 207,984</u>	<u>\$ 4,174</u>	<u>\$ 176,674</u>	<u>\$ 35,484</u>	<u>\$ 14,600</u>
Business-type activities					
Compensated absences	\$ 9,608	\$ 3,612	-	\$ 13,220	-
Total Business-type activities	<u>\$ 9,608</u>	<u>\$ 3,612</u>	<u>\$ -</u>	<u>\$ 13,220</u>	<u>\$ -</u>

Debt maturities for tax notes and bank note, are as follows:

Due During Fiscal Year <u>Ending</u>	Principal	Interest	Total
Governmental activities			
Bank note:			
2013	\$ 14,600	\$ 592	\$ 15,192
2014	11,726	264	11,990
Total	<u>\$ 26,326</u>	<u>\$ 856</u>	<u>\$ 27,182</u>

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM

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

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

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

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

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

CONTRIBUTIONS:

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

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Contribution Made</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	13,369	13,369	100%	-
2011	12,919	12,919	100%	-
2012	5,227	5,227	100%	-

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – Continuation

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	21.0 Years – Closed Period	24.9 Years – Closed Period	37.3 Years – Closed Period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation At Cost-of-Living Adjustments	3.0% 0.0%	3.0% 0.0%	3.0% 0.0%

FUNDED STATUS AND FUNDING PROGRESS

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3)	<u>Unfunded AAL (UAAL)</u> (4)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/11	\$546,642	\$449,578	121,6%	\$(97,064)	\$382,040	(25.4)%

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

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

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

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – Continuation

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

City offers supplemental death to:	Plan Year 2011	Plan Year 2012
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2009 were \$1,351, \$1,938, and \$1,477, respectively, which equaled the required contributions each year.

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 \$210,456 to the Authority for the fiscal year ended September 30, 2012.

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, 2012, the City had expenditures in excess of the budgeted account in the General Fund in the following areas and amounts:

General Fund	
Libraries	\$ 806

CITY OF CLARENDON, TEXAS

NOTES OF BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2012

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to year end the City authorized the issuance and sale of the City's General Obligation Bond, Series 2012 for \$700,000 and the Limited Tax Notes, Series 2012 \$650,000. These obligations will be paid in five annual payments and two balloon payments from property taxes and other revenues. Proceeds from the obligations will be used to replace water lines under City streets and for paving.

CITY OF CLARENDON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2012 (UNAUDITED)

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

Actuarial Valuation Date	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial Value of Assets	\$546,642	\$527,965	\$381,886
Actuarial Accrued Liability	449,578	495,912	395,690
Percentage funded	121.6%	106.5%	96.5%
Unfunded Actuarial Accrued Liability (UAAL)	(97,064)	(32,053)	13,804
Annual covered payroll	382,040	353,503	384,437
UAAL as a percentage of covered payroll	(25.4%)	(9.1)%	3.6%

CITY OF CLARENDON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2011

	2012			Variance with Final Budget- Positive (Negative)	2011
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes:					
Property taxes	\$ 224,974	\$ 224,974	\$ 200,610	\$ (24,364)	\$ 216,988
General sales and use taxes	236,250	247,535	248,434	899	329,825
Franchise tax	82,250	82,250	79,276	(2,974)	84,981
Other taxes	-	50,367	-	(50,367)	-
Intergovernmental revenue and grants	33,000	33,110	33,111	1	52,121
Fines and fees	27,000	33,058	21,550	(11,508)	40,614
Investment earnings	7,500	7,500	5,006	(2,494)	8,859
Other revenue	33,100	43,260	28,503	(14,757)	13,207
Total revenues	<u>644,074</u>	<u>722,054</u>	<u>616,490</u>	<u>(105,564)</u>	<u>746,595</u>
Expenditures					
Current:					
General government:					
Administration	223,343	235,810	192,983	42,827	334,814
Municipal court	30,990	30,990	27,523	3,467	17,730
Code compliance	50,877	50,877	44,202	6,675	8,215
Public safety:					
Police	137,052	137,052	136,257	795	133,589
Fire protection	22,015	22,015	19,036	2,979	18,911
Public works:					
Highways and streets	171,054	198,117	176,942	21,175	181,648
Culture and recreation:					
Parks	47,102	47,102	4,683	42,419	558
Libraries	67,017	69,217	70,023	(806)	63,545
Airport	4,500	4,833	2,987	1,846	17,589
Capital outlay:					
Capital outlay	34,000	24,000	-	24,000	101,288
Total expenditures	<u>787,950</u>	<u>820,013</u>	<u>674,636</u>	<u>145,377</u>	<u>877,887</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(143,876)</u>	<u>(97,959)</u>	<u>(58,146)</u>	<u>39,813</u>	<u>(131,292)</u>
Other financing sources (uses)					
Loan proceeds	-	-	-	-	73,000
Transfers In	97,959	97,959	52,000	(45,959)	87,125
Total other financing sources (uses)	<u>97,959</u>	<u>97,959</u>	<u>52,000</u>	<u>(45,959)</u>	<u>160,125</u>
Net change	(45,917)	-	(6,146)	(6,146)	28,833
Fund balance - October 1 (Beginning)	370,285	370,285	370,285	-	341,452
Fund balance - September 30 (Ending)	<u>\$ 324,368</u>	<u>\$ 370,285</u>	<u>\$ 364,139</u>	<u>\$ (6,146)</u>	<u>\$ 370,285</u>

CITY OF CLARENDON, TEXAS
HOTEL/MOTEL BED TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2011

	2012			Variance with Final Budget- Positive (Negative)	2011
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes:					
Other taxes	\$ 70,300	\$ 74,364	\$ 72,487	\$ (1,877)	\$ 70,040
Investment earnings	300	417	452	35	-
Total revenues	<u>70,600</u>	<u>74,781</u>	<u>72,939</u>	<u>(1,842)</u>	<u>70,040</u>
Expenditures					
Current:					
General government:	70,600	70,600	64,577	6,023	42,970
Total expenditures	<u>70,600</u>	<u>70,600</u>	<u>64,577</u>	<u>6,023</u>	<u>42,970</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>4,181</u>	<u>8,362</u>	<u>4,181</u>	<u>27,070</u>
Fund balance - October 1 (Beginning)	168,850	168,850	168,850	-	141,780
Prior period adjustment					
Fund balance - September 30 (Ending)	<u>\$ 168,850</u>	<u>\$ 173,031</u>	<u>\$ 177,212</u>	<u>\$ 4,181</u>	<u>\$ 168,850</u>

CITY OF CLARENDON, TEXAS
LIBRARY SAVINGS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2011

	2012			Variance with Final Budget- Positive (Negative)	2011
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Fines and fees	\$ 3,500	\$ 4,168	\$ 4,168	\$ -	\$ 3,531
Investment earnings	800	800	739	(61)	934
Other revenue	110	745	681	(64)	9,894
Total revenues	<u>4,410</u>	<u>5,713</u>	<u>5,588</u>	<u>(125)</u>	<u>14,359</u>
Expenditures					
Culture and recreation					
Supplies	100	912	911	1	296
Total expenditures	<u>100</u>	<u>912</u>	<u>911</u>	<u>1</u>	<u>296</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,310</u>	<u>4,801</u>	<u>4,677</u>	<u>(124)</u>	<u>14,063</u>
Fund balance - October 1 (Beginning)	97,197	97,197	97,197	-	83,134
Prior period adjustment					
Fund balance - September 30 (Ending)	<u>\$ 101,507</u>	<u>\$ 101,998</u>	<u>\$ 101,874</u>	<u>\$ (124)</u>	<u>\$ 97,197</u>

CITY OF CLARENDON, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	2012			
	Court Tech Fund	Library Tooker Func	Community Development Fund	Total Nonmajor Funds
ASSETS				
Restricted assets:				
Cash and cash equivalents	\$ 2,046	\$ -	\$ -	\$ 2,046
Investments	-	-	-	-
Total assets	\$ 2,046	\$ -	\$ -	\$ 2,046
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund balances:				
Unreserved and Undesignated:				
Reported in the				
Special Revenue Fund	2,046	-	-	2,046
Total fund balances	2,046	-	-	2,046
Total liabilities and fund balances	\$ 2,046	\$ -	\$ -	\$ 2,046

The accompanying notes are an integral part of this statement.

CITY OF CLARENDON, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - NONMAJOR FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	2012			
	Court Tech Fund	Library Tooker Fund	Community Development Fund	Total Nonmajor Funds
Revenues				
Intergovernmental revenue and grants	\$ -	\$ -	\$ 28,913	\$ 28,913
Other taxes	-	-	-	-
Fines and fees	376	-	-	376
Investment earnings	-	-	-	-
Other	-	-	-	-
Total revenues	376	-	28,913	29,289
Expenditures				
Administration	-	-	-	-
Culture and recreation:				
Supplies	-	1,067	-	1,067
Repairs	245	-	-	245
Capital outlay	-	-	28,913	28,913
Total expenditures	245	1,067	28,913	30,225
Excess (deficiency) of revenues over (under) expenditures	131	(1,067)	-	(936)
Transfers Out	-	-	-	-
Net change	131	(1,067)	-	(936)
Fund balance - October 1 (Beginning)	1,915	1,067	-	2,982
Fund balance - September 30 (Ending)	\$ 2,046	\$ -	\$ -	\$ 2,046

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
Clarendon, Texas

We have audited 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, 2012, which collectively comprise the City of Clarendon, Texas' basic financial statements and have issued our report thereon dated February 12, 2013. 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

Management of City of Clarendon, Texas is responsible for establishing and maintaining effective 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 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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, others within the entity, 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 black ink that reads "Foster & Lambert LLC". The script is cursive and fluid, with the letters connected.

Foster & Lambert, L.L.C.
February 12, 2013

CITY OF CLARENDON, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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 No

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

Non compliance material to financial statements noted? Yes No

2. Federal Awards

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended September 30, 2012.

B. Financial Statement Findings

No findings

C. Federal Award Findings and Questioned Costs

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended September 30, 2012.

CITY OF CLARENDON, TEXAS

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

None