

**CITY OF CANYON, TEXAS**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2011**

**BROWN, GRAHAM & COMPANY**  
**PROFESSIONAL CORPORATION**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
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CITY OF CANYON, TEXAS

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## BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT AUDITOR'S REPORT

The Honorable Quinn Alexander, Mayor  
Members of the City Commission  
City of Canyon, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of City of Canyon, Texas, (the City) as of and for the year ended September 30, 2011, 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 administration. Our responsibility is to express an opinion 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of City of Canyon, Texas, as of September 30, 2011, 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 8, 2012 on our consideration of the City's 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 internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

*Brown, Graham & Company, P. C.*

Canyon, Texas  
February 8, 2012

Management's Discussion and Analysis  
City of Canyon, Texas

In this section of the Annual Financial and Compliance Report we, the city management of the City of Canyon, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2011. Please read it in conjunction with the independent auditor's report and the City's Basic Financial Statements.

Financial Highlights:

The City's assets exceed its liabilities by \$46,088,575 (net assets) for the fiscal year reported.

Total net assets are comprised of the following:

1. Capital assets, net of related debt, of \$36,998,257 include property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
2. Unrestricted net assets of \$6,598,407 represent the portion available to maintain the City's continuing obligation to citizens and creditors.

The City's governmental activities reported total ending net assets of \$20,575,017 this year. \$2,714,452 of this amount is unrestricted.

The City's net assets increased by \$1,723,822 during the fiscal year. Governmental activities increased by \$155,083, while business-type activities increased by \$1,568,739.

The City has total liabilities of \$9,532,843. Current liabilities were \$2,011,078 and non-current liabilities were \$7,521,765.

The governmental activities received \$2,000,690 in fees for services and \$603,355 in contributions, grants and inter-governmental revenue. The governmental fund also received \$4,526,379 of general revenues. Property and sales taxes accounted for \$3,531,565 of the general revenue.

The business-type activities of the City generated \$6,768,468 in charges for services and \$216,451 in contributions, grants and intergovernmental revenue. The business-type activities also had \$(193,250) in general revenues.

Total governmental activities expenditures were \$6,768,468. Police, fire, streets, and sanitation accounted for \$4,128,976 of the total expenditures.

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.

The first of these government-wide statements is the statement of net assets. This City-wide statement of financial position presents 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 of the condition of the City's infrastructure in addition to the financial information provided in this report.

## Management's Discussion and Analysis (continued)

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, and parks and recreation. Business-type activities include water and sewer utilities and the city golf course.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate entity- Canyon Economic Development Corporation (CEDC) - for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The CEDC functions separately from the City, however the City has the ability to appoint CEDC board members and can therefore exercise control over the CEDC. Due to this control the financial information of the CEDC is included in the government-wide financial statements of the City.

### 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 individual funds rather than the City as a whole.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund financial statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The city has one proprietary fund, the Water and Sewer Fund, which is an enterprise fund. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

### 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.

Management's Discussion and Analysis (continued)

Government-wide Overview of the City's Financial Position and Operations

Below is a summarization of the City's financial position and operations as reported in the government-wide financial statements with comparable information from the previous year.

	CITY OF CANYON, TEXAS					
	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 3,185,482	\$ 3,720,316	\$ 8,004,681	\$ 8,504,939	\$ 11,190,163	\$ 12,225,255
Capital assets, net of depreciation	17,626,328	16,815,405	26,804,929	24,905,749	44,431,257	41,721,154
Total assets	20,811,810	20,535,721	34,809,610	33,410,688	55,621,420	53,946,409
Other liabilities	236,793	115,787	2,147,285	1,932,614	2,384,078	2,048,401
Long-term liabilities	-	-	7,148,765	7,533,255	7,148,765	7,533,255
Total liabilities	236,793	115,787	9,296,050	9,465,869	9,532,843	9,581,656
Net assets:						
Investment in capital assets, net	17,626,328	16,815,405	19,371,929	17,112,747	36,998,257	33,928,152
Restricted for:						
Capital outlay	-	-	2,257,674	2,177,093	2,257,674	2,177,093
Other specific purposes	234,237	221,418	-	-	234,237	221,418
Unrestricted net assets	2,714,452	3,383,111	3,883,955	4,654,979	6,598,407	8,038,090
Total net assets	\$ 20,575,017	\$ 20,419,934	\$ 25,513,558	\$ 23,944,819	\$ 46,088,575	\$ 44,364,753

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Canyon, assets exceeded liabilities by \$46,088,575 at the close of the most recent fiscal year, which is an increase of 1,723,822 from the prior year.

Government-wide total assets increased by \$1,675,011 while the total liabilities decreased by \$48,811. Investment in capital assets represents approximately 80% of the total assets of the City. These assets are not available for future spending. Unrestricted net assets, which are available for future spending, decreased by \$1,439,683.

An additional portion of the City's net assets (less than 1%) represent resources that are subject to external restrictions on how they may be used. These include funds in the Board of City Development, Library Gift and Memorial Fund, D-FI-IT program, LEOSE fund and Emergency Management fund.

Management's Discussion and Analysis (continued)

CITY OF CANYON, TEXAS

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Charges for services	\$ 2,000,690	\$ 1,899,383	\$ 6,768,468	\$ 5,516,382	\$ 8,769,158	\$ 7,415,765
Operating Grants and contributions	603,355	534,389	216,451	-	819,806	534,389
Property taxes	1,900,342	1,864,475	-	-	1,900,342	1,864,475
Sales taxes	1,631,223	1,616,852	-	-	1,631,223	1,616,852
Franchise taxes	605,233	601,865	-	-	605,233	601,865
Other taxes	7,908	6,292	-	-	7,908	6,292
Penalty and interest	8,450	8,744	-	-	8,450	8,744
Miscellaneous revenue	136,332	61,908	-	-	136,332	61,908
Investment earnings	13,642	20,917	29,999	71,223	43,641	92,140
Operating transfers	223,249	-	(223,249)	-	-	-
<b>Total revenues</b>	<b>7,130,424</b>	<b>6,614,825</b>	<b>6,791,669</b>	<b>5,587,605</b>	<b>13,922,093</b>	<b>12,202,430</b>
Legislative	32,991	77,857	-	-	32,991	77,857
Executive	195,394	169,021	-	-	195,394	169,021
Financial Administration	31,821	23,999	-	-	31,821	23,999
Restricted	163,129	157,376	-	-	163,129	157,376
Civic Complex	129,368	98,586	-	-	129,368	98,586
Police	1,926,617	1,776,863	-	-	1,926,617	1,776,863
Fire Protection	763,775	722,886	-	-	763,775	722,886
Code Enforcement	131,163	112,270	-	-	131,163	112,270
Vector Control	21,232	17,555	-	-	21,232	17,555
Randall County	140,509	146,313	-	-	140,509	146,313
Streets	1,321,699	1,197,881	-	-	1,321,699	1,197,881
Sanitation	821,356	787,031	-	-	821,356	787,031
Parks	617,228	463,813	-	-	617,228	463,813
Libraries	393,741	372,450	-	-	393,741	372,450
Community Center	41,143	37,212	-	-	41,143	37,212
Pool	76,938	80,197	-	-	76,938	80,197
Mainstreet Program	167,236	137,560	-	-	167,236	137,560
Business-type activities	-	-	5,222,930	4,132,368	5,222,930	4,132,368
<b>Total expenses</b>	<b>6,975,341</b>	<b>6,378,870</b>	<b>5,222,930</b>	<b>4,132,368</b>	<b>12,198,271</b>	<b>10,511,238</b>
<b>Increase in net assets</b>	<b>\$ 155,083</b>	<b>\$ 235,955</b>	<b>\$ 1,568,739</b>	<b>\$ 1,455,237</b>	<b>\$ 1,723,822</b>	<b>\$ 1,691,192</b>

Government-wide total revenues increased \$1,719,663 from the prior year. Most of this increase was in the business-type activities due to higher water and sewer rates and increased revenue generated from the golf course. Total expenses increased by \$1,687,033. Again much of this increase was due to the higher cost of water purchased from Amarillo and increased water usage during the year.

Overall, the City's net assets increased \$1,723,822 during the year.

Management's Discussion and Analysis (continued)

Governmental activities: Governmental activities increased the City's net assets by \$155,083 for the year. The key elements of this increase included an increase in total revenues of \$292,168 (excluding a transfer from the water fund of \$223,249). Most of this increase was from increases in charges for services and increased grants and contributions. Total expenditures increased \$596,471. Much of this increase is due to increased employee wage and benefit costs. Depreciation on capital assets in the governmental activities was \$678,814 for the year.

Business-type activities: Revenue for business-type activities increased \$1,427,313 (excluding a transfer to the general fund of \$223,249). This increase was from both increases water and sewer income and an increase in revenue at the golf course. Expenses in the business-type activities increased \$1,090,562 with most of that being the increased cost of water. Depreciation in the business-type activities was \$866,998 for the year.

The City invested in significant capital assets during the year. In the governmental activities \$1,488,711 in capital assets were purchased. Most of this was in the addition of 2 new fire trucks and improvements to the city parks. A new truck for the sanitation department was also purchased this year. In the business type activities \$2,846,196 in new additions were made. Much of this was additional work on water and sewer projects using the money from bonds issued a few years ago. The golf course added a new fleet of golf carts during the year.

The table below shows capital asset activity along with the prior year information.

	CITY OF CANYON, TEXAS					
	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land and Easements	\$ 496,589	\$ 496,589	\$ 3,328,120	\$ 3,328,120	\$ 3,824,709	\$ 3,824,709
Buildings	3,777,708	3,224,781	619,495	619,495	4,397,203	3,844,276
Equipment	4,777,080	4,210,314	3,914,639	3,541,799	8,691,719	7,752,113
Improvements	1,411,592	1,080,139	11,723,792	11,432,274	13,135,384	12,512,413
Infrastructure	28,348,783	28,348,783	22,567,606	20,385,768	50,916,389	48,734,551
Total	38,811,752	37,360,606	42,153,652	39,307,456	80,965,404	76,668,062
Accumulated Depreciation	<u>(21,186,452)</u>	<u>(20,545,203)</u>	<u>(15,348,723)</u>	<u>(14,481,725)</u>	<u>(36,535,175)</u>	<u>(35,026,928)</u>
Net Capital Assets	<u>\$ 17,625,300</u>	<u>\$ 16,815,403</u>	<u>\$ 26,804,929</u>	<u>\$ 24,825,731</u>	<u>\$ 44,430,229</u>	<u>\$ 41,641,134</u>

Summary and Future Outlook:

The City of Canyon, like other governmental entities, continues to face financial challenges. Our citizens are accustomed to a certain level of service, and we remain committed to providing that level of service. But it gets more and more difficult to do. We will always have to deal with the rising costs of supplies, equipment, services, and personnel. It is our job to meet our commitments in the most cost effective way possible. We must make choices between reducing or eliminating services, or generating additional revenue to cover the costs of those existing services. In the past and also today, the City of Canyon and its leadership have chosen to continue the level of services we have historically provided, and to utilize every method we can to meet that level of service at the lowest cost. We try to maximize what we do with the public's dollars. We work lean in Canyon. Most cities our size have a significantly larger workforce. We ask our employees to work smarter and harder. We have a competitive tax rate. We have competitive utility fees. We do the best we can with as little as we can.

With regard to our General Fund, revenues have reflected a stable local economy. Most other local governments have seen peaks and valleys. Our property in Canyon has held its value, and with new growth, we have seen increases in our ad valorem collections. We have also raised taxes a little each year so we don't wake up one day and find ourselves with a problem. However, it should be noted that our ad valorem tax rate has been reduced by about 6 ½ cents over the years due to our 4B Sales Tax. Speaking of sales tax, this is another indicator of our stable economy. While many cities

## Management's Discussion and Analysis (continued)

have seen their sales taxes go up and down, ours have been fairly constant, roughly \$1.6 million for each of the past four years. We haven't seen significant increases like some cities are seeing right now, but we never saw the severe decreases that they had to deal with. I believe that West Texas A & M University is a large part of the reason why our local economy is so strong. We are very fortunate to have them as our partner.

Another large revenue source in the General Fund is Franchise Taxes. We haven't seen increases in this area for the past couple of years. This is primarily due to decreases in natural gas prices, which affects our franchise payments from both Atmos Energy and Xcel Energy.

Overall, the General Fund revenues have been steady, but I would like to see them begin to increase as in years past. We've had to make sacrifices in the General Fund to balance our budget. We have continued our commitment to maintenance of our infrastructure and providing high quality services, but we haven't been able to completely pay for those things with General Fund revenues. We are required to supplement the General Fund from the Utility Fund, which ultimately results in sacrifices in the Utility Fund. I continue to look forward to the day when our tax revenue (property, sales, and franchise) is sufficient to meet the needs of the General Fund without subsidy.

The Utility Fund saw a huge increase over budgeted revenue this year because of the drought. Even though we had to spend more than budgeted for water from Amarillo, we still saw a tremendous surplus of revenue from water sales. This is good for the bank account, but not that good in the overall picture. We will hope for relief from the drought in the coming year. We need to conserve our water when we can, to ensure that it's there for our residents in the future. We will continue to be vigilant in this matter. We will be discussing in the future, the final development of the Rockwell Road Well Field, and the continuing need to secure our water future. We will also be conducting an analysis of our utility rates in the coming year, to determine if we are where we should be, and to develop a model to help us with future debt and how that should affect rates.

The Golf Course Fund had its best year ever. Drought is good for the golf business! We had just over 31,000 rounds of golf played in 2011. Our ultimate goal has always been to approach 34,000. After this past year, we aren't sure that's a realistic possibility, because our golf course was busy most days. So we don't know if we can get another 3,000 rounds or not, but we'll continue to strive toward maximizing those numbers.

Canyon continues to grow. The Creekside Subdivision is basically full, with the exception of the commercial property along Soncy. The Canyon East Subdivision began building homes in early 2011, and is rapidly filling up. Phase 2 will not be far away. And the Hunsley Hills subdivision is in its final phase. We continue to have conversations with potential developers. I have always believed that Canyon could sell lots nearly as fast as they could be developed, and it looks like that's happening.

Canyon's financial condition continues to be strong. In Fiscal Year 2011, we managed our budget very well. While adding significant capital assets in both the General Fund and the Utility fund the City was able to maintain a stable financial position. Even in these difficult economic times, we were able to maintain our reserves. Management feels strongly about maintaining a level of reserves equal to at least 50% of our annual operating budget, with a preferred level of one year's operating expenses. These funds can be very valuable in the event of unforeseen emergencies or opportunities.

Over the past year we have accomplished much, and we should be proud. We have taken care of our obligations, both financially and otherwise. We have new developments in town, and new growth. We have long-term projects for our infrastructure and our parks underway. We have maintained our commitment to maintenance and operating costs of our systems, and have committed dollars toward capital improvements. We purchased 2 new fire trucks to replace old, outdated equipment. We were able to make that purchase without debt, and without reducing our reserves. We also replaced our golf car fleet and absorbed that expense, which allowed us to terminate an existing lease that was not in our best long term interest. That investment will allow us greater flexibility to replace the fleet in the future, hopefully at a lower price.

In summary, the City of Canyon is stable financially. We are weathering the economic storm, and we are healthy. We make the sacrifices we need to make, but we also have been able to invest in our assets. We continue to grow. I want to commend my staff for their commitment to our fiduciary responsibilities, and I want to thank the Canyon City

Management's Discussion and Analysis (continued)

Commission for their support and leadership. We will continue to provide necessary services for our citizens, we will take care of our employees, we will maintain and invest in our infrastructure, and we will look to the future.

Contacting the City's 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 desire additional information, contact City Hall, City of Canyon, 301 16<sup>th</sup> Street, Canyon, Texas 79015.

A copy of the separately issued financial statements for the Canyon Economic Development Corporation, a component unit, may be obtained by contacting the CEDC, 308 14<sup>th</sup> Street, Suite 100, Canyon, Texas 79015.

BASIC FINANCIAL STATEMENTS

CITY OF CANYON, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 103,571	\$ 2,566,180	\$ 2,669,751	\$ 158,825
Investments	1,800,436	4,407,454	6,207,890	375,269
Receivables (net of allowance for uncollectibles)	152,539	589,646	742,185	51,965
Internal Balances	589,513	(589,513)	-	-
Inventories	-	174,643	174,643	-
Prepaid Items	305,186	1,050	306,236	1,000
Capitalized Debt Issuance Costs	-	81,600	81,600	-
Restricted Assets:				
Cash and Cash Equivalents	234,237	773,621	1,007,858	86,698
Capital Assets:				
Land	496,589	3,328,120	3,824,709	-
Infrastructure, net	12,050,093	13,063,213	25,113,306	-
Buildings, net	2,343,582	361,386	2,704,968	-
Improvements other than Buildings, net	770,784	9,312,525	10,083,309	-
Machinery and Equipment, net	1,964,253	739,685	2,703,938	8,822
Construction in Progress	1,027	-	1,027	-
<b>Total Assets</b>	<b>20,811,810</b>	<b>34,809,610</b>	<b>55,621,420</b>	<b>682,579</b>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	34,852	1,491,174	1,526,026	10,139
Customer Deposits	94,933	205,749	300,682	-
Accrued Interest Payable	-	41,134	41,134	-
Accrued Absences	107,008	36,228	143,236	-
Noncurrent Liabilities				
Debt payments due within one year	-	373,000	373,000	170,000
Debt payments due more than one year	-	7,060,000	7,060,000	510,000
Amortizable Bond Premium	-	88,765	88,765	-
<b>Total Liabilities</b>	<b>236,793</b>	<b>9,296,050</b>	<b>9,532,843</b>	<b>690,139</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	17,626,328	19,371,929	36,998,257	8,822
Restricted Assets	234,237	-	234,237	-
Restricted for Capital Outlay	-	2,257,674	2,257,674	-
Unrestricted Net Assets	2,714,452	3,883,955	6,598,407	(16,382)
<b>Total Net Assets</b>	<b>\$ 20,575,017</b>	<b>\$ 25,513,558</b>	<b>\$ 46,088,575</b>	<b>\$ (7,560)</b>

The accompanying notes are an integral part of these statements.

## EXHIBIT B-1

Net (expenses) Revenue and  
Changes in Net Assets  
Primary Government

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (32,991)	\$ -	\$ (32,991)	\$ -
(195,394)	-	(195,394)	-
(31,821)	-	(31,821)	-
12,819	-	12,819	-
(129,368)	-	(129,368)	-
(1,531,683)	-	(1,531,683)	-
(447,501)	-	(447,501)	-
(55,973)	-	(55,973)	-
17,477	-	17,477	-
(140,509)	-	(140,509)	-
(1,321,699)	-	(1,321,699)	-
384,053	-	384,053	-
(440,263)	-	(440,263)	-
(336,663)	-	(336,663)	-
(22,902)	-	(22,902)	-
(29,942)	-	(29,942)	-
(68,935)	-	(68,935)	-
<u>(4,371,296)</u>	<u>-</u>	<u>(4,371,296)</u>	<u>-</u>
-	2,122,817	2,122,817	-
-	(360,828)	(360,828)	-
-	1,761,989	1,761,989	-
<u>(4,371,296)</u>	<u>1,761,989</u>	<u>(2,609,307)</u>	<u>-</u>
-	-	-	(664,327)
-	-	-	(664,327)
1,900,342	-	1,900,342	-
1,631,223	-	1,631,223	553,633
605,233	-	605,233	-
7,908	-	7,908	-
8,450	-	8,450	-
136,332	-	136,332	-
13,642	29,999	43,641	2,811
223,249	(223,249)	-	-
<u>4,526,379</u>	<u>(193,250)</u>	<u>4,333,129</u>	<u>556,444</u>
155,083	1,568,739	1,723,822	(107,883)
20,419,934	23,944,819	44,364,753	100,323
<u>\$ 20,575,017</u>	<u>\$ 25,513,558</u>	<u>\$ 46,088,575</u>	<u>\$ (7,560)</u>

CITY OF CANYON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 103,571
Investments	1,800,436
Interest Receivable - Investments	397
Taxes Receivable	74,954
Allowance for Uncollectible Taxes (credit)	(31,275)
Receivables (net of allowance for uncollectible)	108,464
Due to Other Funds	589,513
Prepaid Amount to TxDOT	305,186
Temporarily Restricted Cash and Cash Equivalents	<u>234,237</u>
Total Assets	<u>\$ 3,185,483</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts Payable	\$ 34,852
Accrued Sick Time Payable	107,008
Claims and Judgments Payable	500
Customer Deposits	94,433
Deferred Revenues	<u>44,617</u>
Total Liabilities	<u>281,410</u>
Fund Balances:	
Reserved for Designated Purpose	234,237
Unreserved and Undesignated:	
Reported in the General Fund	<u>2,669,836</u>
Total Fund Balances	<u>2,904,073</u>
Total Liabilities and Fund Balances	<u>\$ 3,185,483</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2011

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 2,904,073</b>
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$37,221,584 and the accumulated depreciation was \$19,960,230. The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net assets.</p>	
	16,815,403
<p>Construction in progress on the Highway 87 entrance into Canyon</p>	
	1,027
<p>Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2011 capital outlays is to increase net assets.</p>	
	1,488,711
<p>The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>	
	(678,814)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net assets</p>	
	<u>44,617</u>
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 20,575,017</u></u></b>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>General Fund</u>
<b>REVENUES:</b>	
<b>Taxes:</b>	
Property Taxes	\$ 1,900,342
General Sales and Use Taxes	1,631,223
Franchise Tax	605,233
Other Taxes	7,908
Penalty and Interest on Taxes	8,450
Licenses and Permits	61,370
Intergovernmental Revenue and Grants	598,920
Charges for Services	1,573,818
Fines	365,500
Investment Earnings	13,642
Other Revenue	140,767
<b>Total Revenues</b>	<u><u>6,907,173</u></u>
<b>EXPENDITURES:</b>	
<b>General Government:</b>	
Legislative	32,991
Executive	195,394
Financial Administration	31,821
Restricted Funds	163,129
Civic Complex	103,959
<b>Public Safety:</b>	
Police	1,920,420
Fire Protection	1,178,652
Code Enforcement	127,127
Vector Control	21,232
Randall County Communications Agreement	140,509
Streets	1,016,666
Sanitation	920,913
<b>Culture and Recreation:</b>	
Parks	1,279,813
Libraries	360,274
Community Center	34,436
Pool	90,871
<b>Conservation and Development:</b>	
Mainstreet Program	167,236
<b>Total Expenditures</b>	<u><u>7,785,443</u></u>
Net Change in Fund Balances (before operating transfer)	(878,270)
Operating transfer from Water Fund	223,249
Net Change in Fund Balances	(655,021)
Fund balance - October 1 (Beginning)	3,559,094
Fund Balance - September 30 (Ending)	<u><u>\$ 2,904,073</u></u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**Total Net Change in Fund Balances- Governmental Funds** \$ (655,021)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2011 capital outlays is to increase net assets. 1,488,711

Construction in progress on Highway 87 entrance into Canyon 1,027

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. (678,814)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to decrease net assets. (820)

**Change in Net Assets of Governmental Activities** \$ 155,083

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (GAAP Basis)	Positive (Negative)
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,828,689	\$ 1,828,689	\$ 1,900,342	\$ 71,653
General Sales and Use Taxes	1,550,000	1,550,000	1,631,223	81,223
Franchise Tax	600,000	600,000	605,233	5,233
Other Taxes	7,000	7,000	7,908	908
Penalty and Interest on Taxes	18,000	18,000	8,450	(9,550)
Licenses and Permits	45,750	45,750	61,370	15,620
Intergovernmental Revenue	523,828	523,828	598,920	75,092
Charges for Services	1,242,500	1,242,500	1,573,818	331,318
Fines	241,000	241,000	365,500	124,500
Investment Earnings	20,000	20,000	13,642	(6,358)
Other Revenue	34,000	34,000	140,767	106,767
Transfer from Utility Fund	223,249	223,249	223,249	-
Total Revenues	<u>6,334,016</u>	<u>6,334,016</u>	<u>7,130,422</u>	<u>796,406</u>
<b>EXPENDITURES:</b>				
General Government	-	-	-	-
Legislative	51,744	51,744	32,991	18,753
Executive	180,601	180,601	195,394	(14,793)
Financial Administration	32,994	32,994	31,821	1,173
Restricted	-	-	163,129	(163,129)
Civic Complex	91,492	91,492	103,959	(12,467)
Public Safety:				
Police	1,895,282	1,895,282	1,920,420	(25,138)
Fire Protection	700,470	700,470	1,178,652	(478,182)
Code Enforcement	135,609	135,609	127,127	8,482
Vector Control	25,700	25,700	21,232	4,468
Randall County Communications	140,509	140,509	140,509	-
Streets	1,149,688	1,149,688	1,016,666	133,022
Sanitation	817,662	817,662	920,913	(103,251)
Culture and Recreation:				
Recreation	5,000	5,000	-	5,000
Parks	442,964	442,964	1,279,813	(836,849)
Libraries	371,413	371,413	360,274	11,139
Community Center	38,085	38,085	34,436	3,649
Pool	88,617	88,617	90,871	(2,254)
Conservation and Development:				
Mainstreet Program	166,186	166,186	167,236	(1,050)
Total Expenditures	<u>6,334,016</u>	<u>6,334,016</u>	<u>7,785,443</u>	<u>(1,451,427)</u>
Net Change	<u>\$ -</u>	<u>\$ -</u>	<u>(655,021)</u>	<u>\$ (655,021)</u>
Fund Balance- October 1 (Beginning)			<u>3,559,094</u>	
Fund Balance- September 30 (Ending)			<u>\$ 2,904,073</u>	

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2011

	Business-Type Activities		
	Water/Sewer	Golf Course	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,396,396	\$ 169,784	\$ 2,566,180
Investments	4,407,454	-	4,407,454
Interest Receivable - Investments	458	-	458
Accounts Receivable - Net of Uncollectible Amounts	589,188	-	589,188
Inventories	146,766	27,877	174,643
Prepaid Items	1,050	-	1,050
Due from Other Funds	1,605,689	-	1,605,689
Capitalized Debt Issuance Costs	69,072	12,528	81,600
Restricted Assets- Cash and Cash Equivalents	773,621	-	773,621
Total Current Assets	<u>9,989,694</u>	<u>210,189</u>	<u>10,199,883</u>
Noncurrent Assets:			
Capital Assets:			
Land	2,930,982	397,138	3,328,120
Infrastructure	21,877,176	690,430	22,567,606
Buildings	300,909	318,586	619,495
Improvements other than Buildings	11,262,017	461,775	11,723,792
Machinery and Equipment	3,350,753	563,886	3,914,639
Accumulated Depreciation	(14,666,583)	(682,140)	(15,348,723)
Construction in Progress	-	-	-
Total Noncurrent Assets	<u>25,055,254</u>	<u>1,749,675</u>	<u>26,804,929</u>
Total Assets	<u>35,044,948</u>	<u>1,959,864</u>	<u>37,004,812</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	1,484,053	7,121	1,491,174
Due to Other Funds	-	2,195,202	2,195,202
Accrued Interest Payable	30,626	10,508	41,134
Bonds Payable- Current	285,000	88,000	373,000
Total Current Liabilities	<u>1,799,679</u>	<u>2,300,831</u>	<u>4,100,510</u>
Noncurrent Liabilities:			
Bonds Payable- Noncurrent Portion	5,170,000	1,890,000	7,060,000
Unamortized Premiums on Bonds Payable	88,765	-	88,765
Accrued Compensated Absences	36,228	-	-
Customer Deposits	205,749	-	205,749
Total Noncurrent Liabilities	<u>5,500,742</u>	<u>1,890,000</u>	<u>7,354,514</u>
Total Liabilities	<u>7,300,421</u>	<u>4,190,831</u>	<u>11,455,024</u>
<b>NET ASSETS</b>			
Capital Assets, Net of Related Debt	19,600,254	(228,325)	19,371,929
Reserved for Capital Outlay	2,257,674	-	2,257,674
Unrestricted Net Assets	5,886,597	(2,002,642)	3,883,955
Total Net Assets	<u>\$ 27,744,525</u>	<u>\$ (2,230,967)</u>	<u>\$ 25,513,558</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-Type Activities		
	Water and Sewer Fund	Golf Course	Total
<b>OPERATING REVENUES:</b>			
Charges for Water Services	\$ 4,147,159	\$ -	\$ 4,147,159
Charges for Sewer Services	1,556,783	-	1,556,783
Penalties and Interest	74,887	-	74,887
Plumbing Inspections	13,110	-	13,110
Water Taps, Turn on and Reconnect Fees	53,134	-	53,134
Golf Services	-	625,494	625,494
Sales of Goods	-	248,031	248,031
Other Income	49,365	505	49,870
Total Operating Revenues	<u>5,894,438</u>	<u>874,030</u>	<u>6,768,468</u>
<b>OPERATING EXPENSES:</b>			
Personnel Costs	1,399,306	493,796	1,893,102
Contractual Services	1,743,376	343,667	2,087,043
Supplies	171,561	204,227	375,788
Depreciation	673,829	193,168	866,997
Total Operating Expenses	<u>3,988,072</u>	<u>1,234,858</u>	<u>5,222,930</u>
Operating Income	<u>1,906,366</u>	<u>(360,828)</u>	<u>1,545,538</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Community Development Block Grant	216,451	-	216,451
Operating transfer to General Fund	(223,249)	-	(223,249)
Investment Earnings	29,177	822	29,999
Total Non-Operating Revenue	<u>22,379</u>	<u>822</u>	<u>23,201</u>
Change in Net Assets	1,928,745	(360,006)	1,568,739
Total Net Assets- October 1 (Beginning)	<u>25,815,780</u>	<u>(1,870,961)</u>	<u>23,944,819</u>
Total Net Assets- September 30 (Ending)	<u>\$ 27,744,525</u>	<u>\$ (2,230,967)</u>	<u>\$ 25,513,558</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Business-Type Activities</u>		
	<u>Water and Sewer Fund</u>	<u>Golf Course</u>	<u>Total</u>
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 5,812,153	\$ 876,337	\$ 6,688,490
Cash Payments to Employees for Services	(1,399,306)	(493,796)	(1,893,102)
Cash Payments for Suppliers	<u>(1,798,238)</u>	<u>(574,753)</u>	<u>(2,372,991)</u>
Net Cash provided (used) by Operating Activities	<u>2,614,609</u>	<u>(192,212)</u>	<u>2,422,397</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating transfer to General Fund	(223,249)	-	(223,249)
Decrease (increase) in Due from Other Funds	(638,787)	-	(638,787)
Increase (decrease) in Due to Other Funds	-	(7,892)	(7,892)
Net cash (used) by Non-Capital Financing Activities	<u>(862,036)</u>	<u>(7,892)</u>	<u>(869,928)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Grant received for purchase of Capital Assets	216,451	-	216,451
Net Acquisition of Capital Assets	(2,529,754)	(316,545)	(2,846,299)
Principal Payments on Bond Debt	<u>(275,000)</u>	<u>(85,000)</u>	<u>(360,000)</u>
Net Cash (used) by Capital Financing Activities	<u>(2,588,303)</u>	<u>(401,545)</u>	<u>(2,989,848)</u>
<u>Cash flows from Investing Activities:</u>			
Sale of Investments	751,156	-	751,156
Interest on Investments	30,241	822	31,063
Net Cash provided by Investing Activities	<u>781,397</u>	<u>822</u>	<u>782,219</u>
Net Increase (decrease) in Cash and Cash Equivalents	(54,333)	(600,827)	(655,160)
Cash and Cash Equivalents at Beginning of the Year:	<u>3,224,350</u>	<u>770,611</u>	<u>3,994,961</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 3,170,017</u>	<u>\$ 169,784</u>	<u>\$ 3,339,801</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ 1,906,366	\$ (360,828)	\$ 1,545,538
Adjustments to reconcile Operating Income to Net Cash provided by Operating Activities:			
Depreciation	673,829	193,168	866,997
Effect of Increases and Decreases in Assets and Liabilities:			
Decrease (increase) in Receivables	(82,285)	2,306	(79,979)
Decrease (increase) in Inventories	(27,848)	(27,877)	(55,725)
Increase (decrease) in Accounts Payable	107,895	1,470	109,365
Increase (decrease) in Interest Payable	(1,461)	(451)	(1,912)
Increase (decrease) in Accrued Absences	36,228	-	-
Increase (decrease) in Customer Deposits	1,885	-	1,885
Net Cash provided (used) by Operating Activities	<u>\$ 2,614,609</u>	<u>\$ (192,212)</u>	<u>\$ 2,386,169</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

City of Canyon, Texas (the City) is a municipality operating under the applicable laws and regulations of the State of Texas. It is governed by a five member City Council (the Council) elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Government Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirement of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The Council is elected by the public and it has the authority to make decisions, appoint administrators and management, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

The City has one component unit. A component unit is a separate entity that the city or council can exert significant influence over. The Canyon Economic Development Corporation (CEDC) is a component unit due to the fact that the council appoints the CEDC board and also approves the annual budget. The CEDC has issued separately audited financial statements. Copies of the CEDC audit may be obtained by contacting the City.

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

The statement of net assets and the statement of activities are government-wide financial statements. They report information on all of the City's non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, user fees and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the City. Examples include utility charges, service fees, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. An example is payment for fire protection by Randall County. If a type of revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the governmental fund balance sheet and proprietary fund statement of net assets and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance and on the proprietary fund statement of revenues, expenses and changes in fund net assets. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide statement of net assets as due from/due to and on the statement of activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers all governmental and proprietary funds major and reports their financial condition and results of operations in a separate column.

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditure related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of taxes. Property tax revenues are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they are collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of net assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**D. FUND ACCOUNTING**

The City reports the following major governmental fund:

1. **The General Fund** – The general fund is the City’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The City reports the following proprietary funds:

1. **Water and Sewer Fund** – The water and sewer fund accounts for the operations of the water and sewer utilities furnished by the City to its residents.
2. **Golf Course Fund** – The golf course fund accounts for all the operations of Palo Duro Creek Golf Course.

**E. OTHER ACCOUNTING POLICIES**

1. For the purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
3. Employees of the City are entitled to paid vacation, paid sick days and personal days off, depending on full-time status, length of service, and other factors.
4. Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	50
Vehicles	10
Office Equipment	10
Computer Equipment	5
Other Equipment	10

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**E. OTHER ACCOUNTING POLICIES (continued)**

5. The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the City purchased insurance through Texas Municipal League (TML) to cover general liabilities. There are no significant changes in coverage in the past fiscal year and there were no settlements in excess of the insurance coverage for any of the past three years.
6. The preparation of the 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. Accordingly, actual results could differ from those estimates.
7. 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.
8. When the City incurs an expense for which it may use either restricted or unrestricted assets, the City's policy is to use restricted assets first and then unrestricted funds as needed.
9. The amounts on these statements have been rounded individually and therefore some columns may not total because of rounding.
10. The Canyon Economic Development Corporation is a component unit of the City.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. The details of capital assets at the beginning of the year are as follows:

Capital Assets Beginning of Year	Historic Cost	Accumulated Depreciation	Net Value Beginning of Year
Land	\$ 496,589	\$ -	\$ 496,589
Buildings	3,224,781	1,346,157	1,878,624
Equipment	4,210,314	2,607,400	1,602,914
Improvements	1,080,139	575,790	504,349
Infrastructure	<u>28,348,783</u>	<u>16,015,856</u>	<u>12,332,927</u>
Net Capital Assets at October 1, 2010			<u>\$ 16,815,403</u>

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

Current Year Capital Outlay	Amount	Adjustments to Net Assets
Infrastructure	\$ -	\$ -
Buildings	552,927	-
Equipment	604,331	-
Improvements	331,453	-
Total Capital Outlay	\$ 1,488,711	\$ 1,488,711

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The City adopts an “appropriated budget” for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5.

The following procedures are used in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to September 30<sup>th</sup>, the City prepares a budget for the next fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Any amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end. The City had no budget amendments during the year.

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**IV. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a 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 Corporation ("FDIC") insurance.

At September 30, 2011, the carrying amount of the City's deposits, (certificates of deposit, and interest-bearing savings accounts included in temporary investments), held at the depository bank was \$6,056,672 and the bank balance was \$6,571,621. The City's cash deposits at September 30, 2011 and during the year ended September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City also has funds deposited through the Certificate of Deposit Account Registry Service (CDARS). These funds are deposited in various banks throughout the country in amounts below the FDIC insurance limits. At year end, the City had \$3,828,826 invested in the CDARS program. This program is administered by Happy State Bank and the entire amount is fully insured under the FDIC limits of the various banks.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Happy State Bank
- b. The market value of securities pledged as of September 30, 2011 was \$9,509,826.
- c. Total amount of FDIC coverage as of September 30, 2011 was \$250,000.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**A. DEPOSITS AND INVESTMENTS (continued)**

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit policy. That policy addresses the following risks:

- a. **Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk for its deposits as all are covered by depository insurance and pledged securities.
- b. **Interest-Rate Risk –** The City does not have a policy dealing with interest-rate risk because they do not have any risk.
- c. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments include certificates of deposit that are covered by depository insurance and pledged securities.

The City's investments at September 30, 2011, are shown below:

<u>Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash in Bank	\$ 3,677,818	\$ 3,677,818
Certificates of Deposit	\$ 6,207,890	\$ 6,207,890

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City's fiscal year.

**C. DELINQUENT TAXES RECEIVABLE**

Allowances for uncollectable tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at September 30, 2011, consisted of the following amounts:

<u>Due From (To):</u>	<u>General Fund</u>	<u>Water &amp; Sewer Fund</u>	<u>Golf Course</u>
General Fund	\$ -	\$ (628,349)	\$ 1,217,862
Golf Course	(1,217,862)	(977,340)	-
Water & Sewer Fund	628,349	-	977,340
<b>Total</b>	<b>\$ (589,513)</b>	<b>\$ (1,605,689)</b>	<b>\$ 2,195,202</b>

**E. RECEIVABLES**

Receivables at September 30, 2011, were as follows:

	<u>General Fund</u>	<u>Water &amp; Sewer fund</u>	<u>Golf Course</u>
Accrued Interest	\$ 397	\$ 458	\$ -
Taxes	74,954	-	-
Accounts Receivable	108,463	489,188	-
Less: Allowance for Doubtful Accounts	(31,275)	-	-
<b>Net Accounts Receivable</b>	<b>\$ 152,539</b>	<b>\$ 489,646</b>	<b>\$ -</b>

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government			
	Beginning Balance September 30, 2010	Additions	Retirements	
<b>Governmental Activities:</b>				
Land	\$ 496,589	\$ -	\$ -	\$ 496,589
Buildings	3,224,781	552,927	-	3,777,708
Equipment	4,210,314	604,331	(37,565)	4,777,080
Improvements	1,080,139	331,453	-	1,411,592
Infrastructure	28,348,783	-	-	28,348,783
Totals at Historic Cost	<u>37,360,606</u>	<u>1,488,711</u>	<u>(37,565)</u>	<u>38,811,752</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(1,346,157)	(87,969)	-	(1,434,126)
Equipment	(2,607,400)	(242,992)	37,565	(2,812,827)
Improvements	(575,790)	(65,018)	-	(640,808)
Infrastructure	(16,015,856)	(282,835)	-	(16,298,691)
Total Accumulated Depreciation	<u>(20,545,203)</u>	<u>(678,814)</u>	<u>37,565</u>	<u>(21,186,452)</u>
<b>Governmental Activities</b>				
Capital Assets, Net	<u>\$ 16,815,403</u>	<u>\$ 809,897</u>	<u>\$ -</u>	<u>\$ 17,625,300</u>
<b>Business-Type Activities:</b>				
<b>Water and Sewer Fund</b>				
Land and Easements	\$ 2,930,982	\$ -	\$ -	\$ 2,930,982
Buildings	300,909	-	-	300,909
Equipment	3,262,324	88,429	-	3,350,753
Infrastructure	19,727,369	2,149,807	-	21,877,176
Improvements	10,970,499	291,518	-	11,262,017
Totals-Water and Sewer	<u>37,192,083</u>	<u>2,529,754</u>	<u>-</u>	<u>39,721,837</u>
<b>Less Accumulated Depreciation</b>				
Buildings	(114,342)	(6,018)	-	(120,360)
Equipment	(2,910,384)	(88,021)	-	(2,998,405)
Infrastructure	(8,927,766)	(356,099)	-	(9,283,865)
Improvements	(2,040,262)	(223,691)	-	(2,263,953)
Total Accum. Depr-Water and Sewer	<u>(13,992,754)</u>	<u>(673,829)</u>	<u>-</u>	<u>(14,666,583)</u>
Net Capital Assets-Water and Sewer	<u>23,199,329</u>	<u>1,855,925</u>	<u>-</u>	<u>25,055,254</u>

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**F. CAPITAL ASSET ACTIVITY (continued)**

	Primary Government			Ending Balance September 30, 2011
	Beginning Balance September 30, 2010	Additions	Retirements	
<b>Golf Course Fund</b>				
Land	\$ 397,138	\$ -	\$ -	\$ 397,138
Infrastructure	658,399	32,031	-	690,430
Buildings	318,586	-	-	318,586
Improvements- other	461,775	-	-	461,775
Machinery and Equipment	279,475	284,411	-	563,886
Totals- Golf Course	<u>2,115,373</u>	<u>316,442</u>	<u>-</u>	<u>2,431,815</u>
<b>Less Accumulated Depreciation</b>				
Infrastructure	(174,499)	(46,029)	-	(220,528)
Buildings	(105,890)	(31,859)	-	(137,749)
Improvements- other	(114,263)	(33,051)	-	(147,314)
Machinery and Equipment	(94,319)	(82,230)	-	(176,549)
Totals- Golf Course	<u>(488,971)</u>	<u>(193,169)</u>	<u>-</u>	<u>(682,140)</u>
<b>Net Capital Assets- Golf Course</b>	<u>1,626,402</u>	<u>123,273</u>	<u>-</u>	<u>1,749,675</u>
<b>Business-Type Activities</b>				
Capital Assets, Net	<u>\$ 24,825,731</u>	<u>\$ 1,979,198</u>	<u>\$ -</u>	<u>\$ 26,804,929</u>

**G. CERTIFICATES OF OBLIGATION**

On December 14, 2005, the City received proceeds from the issuance of Certificates of Obligation (CO's) totaling \$6,965,000. These CO's are due and payable between February 15, 2006 and February 15, 2025. The CO's carry variable interest rates of between 3.00% and 4.75%. The proceeds of these CO's are to be used for water system improvements.

On February 20, 2007, the City received the proceeds from the issuance of certificates of obligation (CO's) totaling \$2,250,000. These CO's are due and payable between February 15, 2008 and February 15, 2027. The CO's carry an interest rate of 4.25%. The proceeds of these CO's were used for the purchase and improvement of Palo Duro Creek Golf Course.

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**G. CERTIFICATES OF OBLIGATION (continued)**

	Outstanding Obligations October 1, 2010	Principal Payments during 2011	Outstanding Obligations September 30, 2011
Water	\$ 5,730,000	\$ 275,000	\$ 5,455,000
Golf Course	<u>2,063,000</u>	<u>85,000</u>	<u>1,978,000</u>
Total	<u>\$ 7,793,000</u>	<u>\$ 360,000</u>	<u>\$ 7,433,000</u>

	Accrued Interest Payable October 1, 2010	Interest due for year	Interest Capitalized for year	Interest expensed for year	Accrued Interest Payable September 30, 2011
Water	\$ 32,087	\$ 249,388	\$ 250,849	\$ -	\$ 30,626
Golf Course	<u>10,960</u>	<u>85,871</u>	<u>-</u>	<u>86,323</u>	<u>10,508</u>
Total	<u>\$ 43,047</u>	<u>\$ 335,259</u>	<u>\$ 250,849</u>	<u>\$ 86,323</u>	<u>\$ 41,134</u>

**H. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES**

Debt service requirements for the water and sewer CO's are as follows:

Year Ended September 30,	Water and Sewer Obligations		
	Principal	Interest	Total Requirements
2012	\$ 285,000	\$ 237,435	\$ 522,435
2013	300,000	224,924	524,924
2014	315,000	211,775	526,775
2015	325,000	198,122	523,122
2016	-	192,943	192,943
2017-2021	1,465,000	709,648	2,174,648
2022-2025	<u>2,765,000</u>	<u>181,998</u>	<u>2,946,998</u>
Total	<u>\$ 5,455,000</u>	<u>\$ 1,956,845</u>	<u>\$ 7,411,845</u>

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**H. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES (continued)**

The debt service requirements for the CO's issued for the purchase of the golf course are as follows:

Year Ended September 30,	Golf Course Obligations		
	Principal	Interest	Total Requirements
2012	88,000	82,195	170,195
2013	92,000	78,370	170,370
2014	97,000	74,354	171,354
2015	101,000	70,146	171,146
2016	104,000	65,790	169,790
2017 - 2021	594,000	256,870	850,870
2022 - 2026	736,000	116,068	852,068
2027	166,000	3,527	169,527
Total	<u>\$ 1,978,000</u>	<u>\$ 747,320</u>	<u>\$ 2,725,320</u>

The City assumed the lease on the golf carts when it purchased the golf course. This lease was an operating lease that terminated in April 2011. In 2011 the City decided to purchase a new golf cart fleet.

**I. EMPLOYEES' RETIREMENT PLAN**

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, and agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service 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 credits for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit, which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year 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.

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. Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio:	2 to 1

CITY OF CANYON, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. EMPLOYEES' RETIREMENT PLAN (continued)**

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a 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 as of an employees retirement date, not at the time the employee's 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 contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used 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, 2008 valuation is effective for rates beginning January 2010)

CITY OF CANYON, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**I. EMPLOYEES' RETIREMENT PLAN (continued)**

Actuarial Valuation Date	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Actuarial Value of Assets	\$ 8,225,929	\$ 8,245,929	\$ 8,327,539	\$ 10,606,386	\$ 10,737,426
Actuarial Accrued Liability	12,949,035	12,722,417	12,345,508	14,027,076	12,502,924
	63.5%	64.8%	67.5%	75.6%	85.9%
 Unfunded Actuarial Accrued Liability (UAAL)	 4,723,930	 4,476,488	 4,017,969	 3,420,690	 1,765,498
 Annual Covered Payroll	 3,305,227	 3,171,707	 3,011,369	 2,878,250	 2,752,542
 UAAL as % of Covered Payroll	 142.9%	 141.1%	 133.4%	 118.8%	 64.1%
 Net Pension Obligation (NPO) at the Beginning of Period	 -	 -	 -	 -	 -
 Annual Pension Cost	 581,487	 432,093	 425,465	 371,532	 355,237
 Annual Required Contribution	 581,487	 432,093	 425,465	 371,532	 355,237
Contributions Made	581,487	432,093	425,465	371,532	355,237
Increase in NPO	-	-	-	-	-
 NPO at the end of the period	 <u>\$ -</u>				

The City's total payroll in fiscal year 2011 was \$3,753,095 and the City's contributions were based on covered payroll of \$3,612,880. Both the City and the covered employees made the required contributions, amounting to \$581,487 (14.02% of covered payroll for the months in calendar year 2010 and 17.00% of covered payroll for January, 2011 through September, 2011) for the City and \$252,901 (7.00%) for the employees.

**J. DEFERRED REVENUE**

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>
Net Tax Revenue	\$ 44,617
Total Deferred Revenue	\$ 44,617

**K. LITIGATION**

The City is not aware of any pending or threatened litigation as of September 30, 2011 or through the date of this report.

**L. SUBSEQUENT EVENTS**

The City has evaluated subsequent events through February 8, 2012, which is the date on which the financial statements were issued. No events requiring disclosure were noted.

OVERALL COMPLIANCE AND INTERNAL  
CONTROL SECTION



## BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 873 • Canyon, Texas 79015 • 806-655-2159 • Fax 806-655-2509

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

#### INDEPENDENT AUDITOR'S REPORT

The Honorable Quinn Alexander, Mayor  
Members of the City Council  
City of Canyon, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the City of Canyon, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2011. 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 the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in the City'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**

As part of obtaining reasonable assurance about whether the City's 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 that are required to be reported under *Governmental Auditing Standards*.

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

*Brown, Graham & Company, P. C.*

Canyon, Texas  
February 8, 2012

**CITY OF CANYON, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**I. Summary of the Auditor's Results:**

- a. The type of report issued on the financial statements: Unqualified.
- b. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
- c. Noncompliance which is material to the financial statements: None

**II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*:**

The audit disclosed no findings required to be reported.

**CITY OF CANYON, TEXAS  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

There were no control deficiencies, significant deficiencies, material weaknesses, findings, or questioned costs in the prior year. Therefore, there is nothing to report on this schedule.

**CITY OF CANYON, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

There were no control deficiencies, significant deficiencies, material weaknesses, findings, or questioned costs in the current year; therefore, no corrective action plan is required.



## BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 873 • Canyon, Texas 79015 • 806-655-2159 • Fax 806-655-2509

To the Mayor, City Commission,  
and Randy Criswell, City Manager, of the City of Canyon, Texas

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Canyon, Texas (City) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the city commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Brown , Graham & Company, PC*

Canyon, Texas  
February 8, 2012



## BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

P. O. Box 873 • Canyon, Texas 79015 • 806-655-2159 • Fax 806-655-2509

February 8, 2012

To the Mayor and City Commission  
City of Canyon, Texas

We have audited the financial statements 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 Canyon, Texas (City) for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 30, 2011. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the years ended September 30, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting both the City's general fund and proprietary funds were:

Management's estimate of useful lives and depreciation on property, plant and equipment is based on experience and knowledge of the assets. We evaluated the key factors and assumptions used to develop estimated useful lives and depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Again, the disclosure of depreciation and remaining basis in property, plant and equipment as disclosed in Note F is particularly sensitive. It appears that all factors were reasonably considered in making this disclosure.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 8, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the city commission and management of the City of Canyon, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Brown, Graham & Company, P.C.*