

CITY OF CANYON, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS 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, 2010, which collectively compromise 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, 2010, 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 3, 2011 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' 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 3, 2011

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, 2010. 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 \$44,364,753 (net assets) for the fiscal year reported.

Total net assets are compromised of the following:

1. Capital assets, net of related debt, of \$33,928,152 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 \$8,038,090 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 \$20,419,934 this year. \$3,383,311 of this amount is unrestricted.

The City's net assets increased by \$1,691,192 during the fiscal year. Governmental activities increased by \$235,955, while business-type activities increased by \$1,455,237.

The City has total liabilities of \$9,581,656. Current liabilities were \$1,688,401 and non-current liabilities were \$7,893,255.

The governmental activities received \$1,899,383 in fees for services and \$534,389 in contributions, grants and inter-governmental revenue. The governmental fund also received \$4,181,053 of general revenues. Property and sales taxes accounted for \$3,481,327 of the general revenue.

The business-type activities of the City generated \$5,516,382 in charges for services and \$71,223 in general revenues.

Total governmental activities expenditures were \$6,378,870. Police, fire, streets, and sanitation accounted for \$4,484,661 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 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 nonfinancial 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.

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

Management's Discussion and Analysis (continued)

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.

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.

Propriety 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.

Summary and Future Outlook:

The City of Canyon continues to face difficulties financially. We continue to deal with ever-increasing costs of goods, services, supplies, equipment, and personnel. To meet those increasing costs, we must raise additional revenue, trim expenditures, or reduce the level or quality of services that we provide to our constituents. This is not just a condition we are faced with recently. This is always the charge of government. However, our local economy still remains fairly stable. Sales tax revenues are steady if not slightly increasing. That being said, our local economy remains somewhat strong. Sales tax revenues have remained fairly constant, even to the point where we budgeted an increase in revenue for the 2011 budget. Property values have not increased, which also creates revenue challenges. And Franchise taxes have dropped over the past couple of years, primarily due to decreases in natural gas prices, which affect both Atmos Energy and Xcel Energy franchise payments. As in previous years, with sales taxes, property taxes, and franchise taxes remaining steady or decreasing, we have had to make sacrifices in budgeting, and watch expenditures very closely.

Management's Discussion and Analysis (continued)

2010 was an exciting year for growth. The Canyon East subdivision is about to begin housing construction, and the Creekside Subdivision nearly filled up with homes. Our ad valorem tax rate has been reduced by just over 6 ½ cents per hundred due to our added dollars from the 4B sales tax, a benefit enjoyed by our citizens and property owners.

Canyon's financial condition continues to be strong. In Fiscal Year 2010, we managed our budget very well, with our total cash in the bank increasing by about \$1,996,000 (This includes encumbered monies totaling around \$730,000, so the number would actually be smaller when encumbrances are taken out. But all in all, it was a very conservative year). So, even in these difficult economic times, we were able to put substantial funds back into 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.

As in the past, we strive to keep user fees comparable to other cities, but we do have an obligation to ensure we are taking care of our infrastructure and our future in the best way possible. Our fees are evaluated each year to determine if they are generating the amount of revenue required to meet our commitments both today and in the future. We believe in investing in our present *and* in our future.

As discussed during budget time for the past couple of years, our commitment to our employees remains steady. We need employees who will be around, employees who are loyal to us like we are to them. We attempt to provide the best benefits we can to our people. This encourages loyalty and stability, and management believes it also allows us to provide a greater level of service to our citizens.

Over the past year we have accomplished much. 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 have ordered 2 new fire trucks to replace old, outdated equipment. These vehicles have recently been delivered, and we were able to pay for those vehicles with reserve funds. We have had to make some sacrifices as a result of rising costs and non-rising revenues, but we have sustained, and we continue to grow.

In summary, Canyon is stable financially, and it is our goal to maintain that stability into the future. We must continue our commitments to providing services for our citizens, taking care of our employees, maintaining our infrastructure, and building for 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 16th 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 14th Street, Suite 100, Canyon, Texas 79015.

BASIC FINANCIAL STATEMENTS

CITY OF CANYON , TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 319,405	\$ 2,472,981	\$ 2,792,386	\$ 378,524
Investments	1,789,531	4,378,873	6,168,404	402,842
Receivables (net of allowance for uncollectibles)	153,665	499,863	653,528	42,108
Internal Balances	1,236,297	(1,236,297)	-	-
Inventories	-	118,920	118,920	-
Prepaid Items	-	1,050	1,050	1,000
Capitalized Debt Issuance Costs	-	92,456	92,456	-
Restricted Assets:				
Cash and Cash Equivalents	221,418	2,177,093	2,398,511	123,004
Capital Assets:				
Land	496,589	3,328,120	3,824,709	-
Infrastructure, net	12,332,927	11,283,504	23,616,431	-
Buildings, net	1,878,624	399,264	2,277,888	-
Improvements other than Buildings, net	504,349	9,277,749	9,782,098	-
Machinery and Equipment, net	1,602,916	537,097	2,140,013	10,883
Construction in Progress	-	80,015	80,015	-
Total Assets	20,535,721	33,410,688	53,946,409	958,361
LIABILITIES				
Current Liabilities				
Accounts Payable	29,958	1,325,703	1,355,661	8,038
Customer Deposits	85,829	203,864	289,693	-
Accrued Interest Payable	-	43,047	43,047	-
Noncurrent Liabilities				
Debt payments due within one year	-	360,000	360,000	170,000
Debt payments due more than one year	-	7,433,000	7,433,000	680,000
Amortizable Bond Premium	-	100,255	100,255	-
Total Liabilities	115,787	9,465,869	9,581,656	858,038
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	16,815,405	17,112,747	33,928,152	10,883
Restricted Assets	221,418	-	221,418	-
Restricted for Capital Outlay	-	2,177,093	2,177,093	-
Unrestricted Net Assets	3,383,111	4,654,979	8,038,090	89,440
Total Net Assets	\$ 20,419,934	\$ 23,944,819	\$ 44,364,753	\$ 100,323

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Legislative	\$ 77,857	\$ -	\$ 82,350
Executive	169,021	-	-
Financial Administration	23,999	-	-
Restricted Revenues	157,376	151,624	34,429
Civic Complex	98,586	-	-
Police	1,776,863	308,892	54,745
Fire Protection	722,886	-	312,865
Code Enforcement	112,270	69,418	-
Vector Control	17,555	31,423	-
Randall County Communications	146,313	-	-
Streets	1,197,881	-	-
Sanitation	787,031	1,176,513	-
Parks	463,813	11,940	-
Libraries	372,450	6,158	50,000
Community Center	37,212	14,232	-
Pool	80,197	41,586	-
Mainstreet Program	137,560	87,597	-
Total Governmental Activities:	<u>6,378,870</u>	<u>1,899,383</u>	<u>534,389</u>
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer Fund	3,088,585	4,943,715	-
Palo Duro Creek Golf Course	1,043,783	572,667	-
Total Business-Type Activities	<u>4,132,368</u>	<u>5,516,382</u>	
TOTAL PRIMARY GOVERNMENT	<u>\$ 10,511,238</u>	<u>\$ 7,415,765</u>	<u>\$ 534,389</u>
COMPONENT UNIT:			
Canyon Economic Development Corporation	\$ 1,412,498	\$ -	\$ -
TOTAL COMPONENT UNIT	<u>\$ 1,412,498</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:			
Property Taxes, Levied for General Purposes			
Sales Taxes			
Franchise Taxes			
Other Taxes			
Penalty and Interest			
Miscellaneous Revenue			
Investment Earnings			
Total General Revenues			
Change in Net Assets			
Net Assets- Beginning			
Net Assets- Ending			

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
\$ 4,493	\$ -	\$ 4,493	\$ -
(169,021)	-	(169,021)	-
(23,999)	-	(23,999)	-
28,677	-	28,677	-
(98,586)	-	(98,586)	-
(1,413,226)	-	(1,413,226)	-
(410,021)	-	(410,021)	-
(42,852)	-	(42,852)	-
13,868	-	13,868	-
(146,313)	-	(146,313)	-
(1,197,881)	-	(1,197,881)	-
389,482	-	389,482	-
(451,873)	-	(451,873)	-
(316,292)	-	(316,292)	-
(22,980)	-	(22,980)	-
(38,611)	-	(38,611)	-
(49,963)	-	(49,963)	-
<u>(3,945,098)</u>	<u>-</u>	<u>(3,945,098)</u>	<u>-</u>
-	1,855,130	1,855,130	-
-	(471,116)	(471,116)	-
-	<u>1,384,014</u>	<u>1,384,014</u>	-
<u>(3,945,098)</u>	<u>1,384,014</u>	<u>(2,561,084)</u>	-
-	-	-	(1,412,498)
-	-	-	<u>(1,412,498)</u>
1,864,475	-	1,864,475	-
1,616,852	-	1,616,852	533,394
601,865	-	601,865	-
6,292	-	6,292	-
8,744	-	8,744	-
61,908	-	61,908	-
20,917	71,223	92,140	5,523
<u>4,181,053</u>	<u>71,223</u>	<u>4,252,276</u>	<u>538,917</u>
235,955	1,455,237	1,691,192	(873,581)
<u>20,183,979</u>	<u>22,489,582</u>	<u>42,673,561</u>	<u>973,904</u>
<u>\$ 20,419,934</u>	<u>\$ 23,944,819</u>	<u>\$ 44,364,753</u>	<u>\$ 100,323</u>

CITY OF CANYON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 319,405
Investments	1,789,531
Interest Receivable - Investments	500
Taxes Receivable	82,713
Allowance for Uncollectible Taxes (credit)	(31,838)
Receivables (net of allowance for uncollectible)	102,290
Due to Other Funds	1,236,297
Temporarily Restricted Cash and Cash Equivalents	<u>221,418</u>
Total Assets	<u>\$ 3,720,316</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 29,958
Claims and Judgments Payable	500
Customer Deposits	85,329
Deferred Revenues	45,435
Total Liabilities	<u>161,222</u>
Fund Balances:	
Reserved for Designated Purpose	221,418
Unreserved and Undesignated:	
Reported in the General Fund	<u>3,337,676</u>
Total Fund Balances	<u>3,559,094</u>
Total Liabilities and Fund Balances	<u>\$ 3,720,316</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, 2010

Total Fund Balances - Governmental Funds	\$ 3,559,094
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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.	17,261,354
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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 2010 capital outlays is to increase net assets.	156,497
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The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(602,448)
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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	45,437
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Net Assets of Governmental Activities	<u>\$ 20,419,934</u>
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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, 2010

	<u>General Fund</u>
REVENUES:	
Taxes:	
Property Taxes	\$ 1,863,442
General Sales and Use Taxes	1,616,852
Franchise Tax	601,865
Other Taxes	6,292
Penalty and Interest on Taxes	8,744
Licenses and Permits	56,940
Intergovernmental Revenue and Grants	534,389
Charges for Services	1,527,392
Fines	315,050
Investment Earnings	20,917
Other Revenue	61,908
Total Revenues	<u>6,613,791</u>
EXPENDITURES:	
General Government:	
Legislative	77,856
Executive	169,020
Financial Administration	23,998
Restricted Funds	157,376
Civic Complex	96,969
Public Safety:	
Police	1,786,887
Fire Protection	648,644
Code Enforcement	108,234
Vector Control	17,555
Randall County Communications Agreement	146,313
Streets	886,341
Sanitation	791,632
Culture and Recreation:	
Parks	411,654
Libraries	352,182
Community Center	30,422
Pool	78,211
Conservation and Development:	
Mainstreet Program	147,560
Total Expenditures	<u>5,930,854</u>
Net Change in Fund Balances	682,937
Fund balance - October 1 (Beginning)	2,876,157
Fund Balance - September 30 (Ending)	<u>\$ 3,559,094</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, 2010

Total Net Change in Fund Balances- Governmental Funds	\$ 682,937
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 2010 capital outlays is to increase net assets.	156,497
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.	(602,448)
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.	<u>(1,031)</u>
Change in Net Assets of Governmental Activities	<u>\$ 235,955</u>

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, 2010

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (GAAP Basis)	Positive (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 1,781,854	\$ 1,781,854	\$ 1,863,442	\$ 81,588
General Sales and Use Taxes	1,435,000	1,435,000	1,616,852	181,852
Franchise Tax	700,000	700,000	601,865	(98,135)
Other Taxes	2,000	2,000	6,292	4,292
Penalty and Interest on Taxes	19,000	19,000	8,744	(10,256)
Licenses and Permits	37,000	37,000	56,940	19,940
Intergovernmental Revenue	455,300	455,300	534,389	79,089
Charges for Services	1,179,000	1,179,000	1,527,392	348,392
Fines	206,000	206,000	315,050	109,050
Investment Earnings	65,000	65,000	20,917	(44,083)
Other Revenue	20,000	20,000	61,908	41,908
Total Revenues	<u>5,900,154</u>	<u>5,900,154</u>	<u>6,613,791</u>	<u>713,637</u>
EXPENDITURES:				
General Government	108,582	108,582	-	108,582
Legislative	64,444	64,444	77,856	(13,412)
Executive	157,213	157,213	169,020	(11,807)
Financial Administration	24,088	24,088	23,998	90
Restricted	-	-	157,376	(157,376)
Civic Complex	79,792	79,792	96,969	(17,177)
Public Safety:				
Police	1,662,262	1,662,262	1,786,887	(124,625)
Fire Protection	637,415	637,415	648,644	(11,229)
Code Enforcement	129,053	129,053	108,234	20,819
Vector Control	30,000	30,000	17,555	12,445
Randall County Communications	121,313	121,313	146,313	(25,000)
Streets	996,642	996,642	886,341	110,301
Sanitation	835,370	835,370	791,632	43,738
Culture and Recreation:				
Recreation	5,000	5,000	-	5,000
Parks	401,168	401,168	411,654	(10,486)
Libraries	376,086	376,086	352,182	23,904
Community Center	49,201	49,201	30,422	18,779
Pool	76,766	76,766	78,211	(1,445)
Conservation and Development:				
Mainstreet Program	145,759	145,759	147,560	(1,801)
Total Expenditures	<u>5,900,154</u>	<u>5,900,154</u>	<u>5,930,854</u>	<u>(30,700)</u>
Net Change	<u>\$ -</u>	<u>\$ -</u>	<u>682,937</u>	<u>\$ 682,937</u>
Fund Balance- October 1 (Beginning)			2,876,157	
Fund Balance- September 30 (Ending)			<u>\$ 3,559,094</u>	

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

ASSETS	Business-Type Activities		
	Water/Sewer	Golf Course	Total
Current Assets:			
Cash and Cash Equivalents	\$ 1,702,370	\$ 770,611	\$ 2,472,981
Investments	4,378,873	-	4,378,873
Interest Receivable - Investments	1,523	-	1,523
Accounts Receivable - Net of Uncollectible Amounts	498,241	99	498,340
Inventories	118,920	-	118,920
Prepaid Items	1,050	-	1,050
Due from Other Funds	966,903	-	966,903
Capitalized Debt Issuance Costs	78,014	14,442	92,456
Restricted Assets- Cash and Cash Equivalents	2,177,093	-	2,177,093
Total Current Assets	9,922,987	785,152	10,708,139
Noncurrent Assets:			
Capital Assets:			
Land	2,930,982	397,138	3,328,120
Infrastructure	19,727,370	658,399	20,385,769
Buildings	300,909	318,586	619,495
Improvements other than Buildings	10,970,501	461,775	11,432,276
Machinery and Equipment	3,262,324	279,475	3,541,799
Accumulated Depreciation	(13,992,754)	(488,971)	(14,481,725)
Construction in Progress	80,015	-	80,015
Total Noncurrent Assets	23,279,347	1,626,402	24,905,749
Total Assets	33,202,334	2,411,554	35,613,888
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,320,348	5,355	1,325,703
Due to Other Funds	-	2,203,200	2,203,200
Accrued Interest Payable	32,087	10,960	43,047
Bonds Payable- Current	275,000	85,000	360,000
Total Current Liabilities	1,627,435	2,304,515	3,931,950
Noncurrent Liabilities:			
Bonds Payable- Noncurrent Portion	5,455,000	1,978,000	7,433,000
Unamortized Premiums on Bonds Payable	100,255	-	100,255
Customer Deposits	203,864	-	203,864
Total Noncurrent Liabilities	5,759,119	1,978,000	7,737,119
Total Liabilities	7,386,554	4,282,515	11,669,069
NET ASSETS			
Capital Assets, Net of Related Debt	17,549,344	(436,597)	17,112,747
Reserved for Capital Outlay	2,177,093	-	2,177,093
Unrestricted Net Assets	6,089,343	(1,434,364)	4,654,979
Total Net Assets	\$ 25,815,780	\$ (1,870,961)	\$ 23,944,819

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, 2010

	Business-Type Activities		
	Water and Sewer Fund	Golf Course	Total
OPERATING REVENUES:			
Charges for Water Services	\$ 3,259,238	\$ -	\$ 3,259,238
Charges for Sewer Services	1,493,693	-	1,493,693
Penalties and Interest	63,965	-	63,965
Plumbing Inspections	10,470	-	10,470
Water Taps, Turn on and Reconnect Fees	57,905	-	57,905
Golf Services	-	424,120	424,120
Sales of Goods	-	146,780	146,780
Other Income	58,444	1,767	60,211
Total Operating Revenues	<u>4,943,715</u>	<u>572,667</u>	<u>5,516,382</u>
OPERATING EXPENSES:			
Personnel Costs	1,281,297	364,924	1,646,221
Contractual Services	944,911	348,806	1,293,717
Supplies	193,956	193,303	387,259
Depreciation	668,421	136,750	805,171
Total Operating Expenses	<u>3,088,585</u>	<u>1,043,783</u>	<u>4,132,368</u>
Operating Income	<u>1,855,130</u>	<u>(471,116)</u>	<u>1,384,014</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	70,850	373	71,223
Total Non-Operating Revenue	<u>70,850</u>	<u>373</u>	<u>71,223</u>
Change in Net Assets	1,925,980	(470,743)	1,455,237
Total Net Assets- October 1 (Beginning)	<u>23,889,800</u>	<u>(1,400,218)</u>	<u>22,489,582</u>
Total Net Assets- September 30 (Ending)	<u>\$ 25,815,780</u>	<u>\$ (1,870,961)</u>	<u>\$ 23,944,819</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, 2010

	<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	\$ 4,952,886	\$ 574,768	\$ 5,527,654
Cash Payments to Employees for Services	(1,281,297)	(364,924)	(1,646,221)
Cash Payments for Suppliers	(800,071)	(537,183)	(1,337,254)
Net Cash provided (used) by Operating Activities	<u>2,871,518</u>	<u>(327,339)</u>	<u>2,544,179</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Decrease (increase) in Due from Other Funds	(471,959)	-	(471,959)
Increase (decrease) in Due to Other Funds	-	908,962	908,962
Net cash (provided) used by Non-Capital Financing Activities	<u>(471,959)</u>	<u>908,962</u>	<u>437,003</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Net Acquisition of Capital Assets	(3,497,485)	(7,754)	(3,505,239)
Principal Payments on Bond Debt	(265,000)	(81,000)	(346,000)
Net Cash used by Capital Financing Activities	<u>(3,762,485)</u>	<u>(88,754)</u>	<u>(3,851,239)</u>
<u>Cash flows from Investing Activities:</u>			
Sale of Investments	1,949,875	-	1,949,875
Interest on Investments	90,712	373	91,085
Net Cash provided by Investing Activities	<u>2,040,587</u>	<u>373</u>	<u>2,040,960</u>
Net Increase (decrease) in Cash and Cash Equivalents	677,661	493,242	1,170,903
Cash and Cash Equivalents at Beginning of the Year:	<u>2,546,689</u>	<u>277,369</u>	<u>2,824,058</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 3,224,350</u>	<u>\$ 770,611</u>	<u>\$ 3,994,961</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ 1,855,130	\$ (471,116)	\$ 1,384,014
Adjustments to reconcile Operating Income to Net Cash provided by Operating Activities:			
Depreciation	668,421	136,750	805,171
Effect of Increases and Decreases in Assets and Liabilities:			
Decrease (increase) in Receivables	27,840	2,100	29,940
Decrease (increase) in Inventories	(76,057)	-	(76,057)
Increase (decrease) in Accounts Payable	390,378	5,356	395,734
Increase (decrease) in Interest Payable	(1,407)	(429)	(1,836)
Increase (decrease) in Customer Deposits	7,213	-	7,213
Net Cash provided (used) by Operating Activities	<u>\$ 2,871,518</u>	<u>\$ (327,339)</u>	<u>\$ 2,544,179</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, 2010

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, 2010

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, 2010

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. The City’s policy is to recognize the costs of compensated absences when actually paid to employees. The potential amount due to employees is not material.
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, 2010

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 2010, 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	1,280,438	1,944,343
Equipment	4,071,292	2,419,426	1,651,866
Improvements	1,080,139	527,345	552,794
Infrastructure	<u>28,348,783</u>	<u>15,733,021</u>	<u>12,615,762</u>
Net Capital Assets at October 1, 2009			<u>\$ 17,261,354</u>

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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:

<u>Current Year Capital Outlay</u>	<u>Amount</u>	<u>Adjustments to Net Assets</u>
Infrastructure	\$ -	\$ -
Buildings	-	-
Equipment	156,497	-
Improvements	-	-
Total Capital Outlay	<u>\$ 156,497</u>	<u>\$ 156,497</u>

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 30th, 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, 2010

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, 2010, 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 \$8,947,996 and the bank balance was \$9,397,306. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010 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 \$2,411,305 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, 2010 was \$10,330,167.
- c. Total amount of FDIC coverage as of September 30, 2010 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, 2010

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, 2010, are shown below:

<u>Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash in Bank	\$ 4,536,092	\$ 4,536,092
Certificates of Deposit	\$ 6,823,517	\$ 6,823,517

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. DELIQUENT 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, 2010

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2010, consisted of the following amounts:

Due From (To):	General Fund	Water & Sewer Fund	Golf Course
General Fund	\$ -	\$ (161,674)	\$ 1,397,971
Golf Course	(1,397,971)	(805,228)	-
Water & Sewer Fund	161,674	-	805,228
Total	<u>\$ (1,236,297)</u>	<u>\$ (966,902)</u>	<u>\$ 2,203,199</u>

E. RECEIVABLES

Receivables at September 30, 2010, were as follows:

	General Fund	Water & Sewer fund	Golf Course
Accrued Interest	\$ 500	\$ 1,523	\$ -
Taxes	82,714	-	-
Accounts Receivable	102,290	498,241	99
Less: Allowance for Doubtful Accounts	(31,838)	-	-
Net Accounts Receivable	<u>\$ 153,665</u>	<u>\$ 499,764</u>	<u>\$ 99</u>

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2010, was as follows:

	Primary Government			Ending Balance September 30, 2010
	Beginning Balance September 30, 2009	Additions	Retirements	
Governmental Activities:				
Land	\$ 496,589	\$ -	\$ -	\$ 496,589
Buildings	3,224,781	-	-	3,224,781
Equipment	4,071,292	156,497	(17,475)	4,210,314
Improvements	1,080,139	-	-	1,080,139
Infrastructure	28,348,783	-	-	28,348,783
Totals at Historic Cost	<u>37,221,584</u>	<u>156,497</u>	<u>(17,475)</u>	<u>37,360,606</u>
Less Accumulated Depreciation for:				
Buildings	(1,280,438)	(65,719)	-	(1,346,157)
Equipment	(2,419,426)	(205,449)	17,475	(2,607,400)
Improvements	(527,345)	(48,445)	-	(575,790)
Infrastructure	(15,733,021)	(282,835)	-	(16,015,856)
Total Accumulated Depreciation	<u>(19,960,230)</u>	<u>(602,448)</u>	<u>17,475</u>	<u>(20,545,203)</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 17,261,354</u></u>	<u><u>\$ (445,951)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,815,403</u></u>
Business-Type Activities:				
Water and Sewer Fund				
Land and Easements	\$ 2,909,589	\$ 21,393	\$ -	\$ 2,930,982
Buildings	300,909	-	-	300,909
Equipment	3,117,334	144,990	-	3,262,324
Infrastructure	19,108,841	618,528	-	19,727,369
Improvements	6,032,032	4,938,467	-	10,970,499
Totals-Water and Sewer	<u>31,468,705</u>	<u>5,723,378</u>	<u>-</u>	<u>37,192,083</u>
Less Accumulated Depreciation				
Buildings	(108,324)	(6,018)	-	(114,342)
Equipment	(2,805,890)	(104,494)	-	(2,910,384)
Infrastructure	(8,587,718)	(340,048)	-	(8,927,766)
Improvements	(1,822,401)	(217,861)	-	(2,040,262)
Total Accum. Depr-Water and Sewer	<u>(13,324,333)</u>	<u>(668,421)</u>	<u>-</u>	<u>(13,992,754)</u>
Net Capital Assets-Water and Sewer	<u><u>18,144,372</u></u>	<u><u>5,054,957</u></u>	<u><u>-</u></u>	<u><u>23,199,329</u></u>

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. CAPITAL ASSET ACTIVITY (continued)

	Primary Government			Ending Balance September 30, 2010
	Beginning Balance September 30, 2009	Additions	Retirements	
Golf Course Fund				
Land	\$ 397,138	\$ -	\$ -	\$ 397,138
Infrastructure	658,399	-	-	658,399
Buildings	318,586	-	-	318,586
Improvements- other	461,775	-	-	461,775
Machinery and Equipment	271,721	7,754	-	279,475
Totals- Golf Course	<u>2,107,619</u>	<u>7,754</u>	<u>-</u>	<u>2,115,373</u>
Less Accumulated Depreciation				
Infrastructure	(130,606)	(43,893)	-	(174,499)
Buildings	(74,031)	(31,859)	-	(105,890)
Improvements- other	(81,212)	(33,051)	-	(114,263)
Machinery and Equipment	(66,371)	(27,948)	-	(94,319)
Totals- Golf Course	<u>(352,220)</u>	<u>(136,751)</u>	<u>-</u>	<u>(488,971)</u>
Net Capital Assets- Golf Course	<u>1,755,399</u>	<u>(128,997)</u>	<u>-</u>	<u>1,626,402</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 19,899,771</u>	<u>\$ 4,925,960</u>	<u>\$ -</u>	<u>\$ 24,825,731</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, 2010

G. CERTIFICATES OF OBLIGATION (continued)

	Outstanding Obligations <u>October 1, 2009</u>	Principal Payments during 2010	Outstanding Obligations <u>September 30, 2010</u>
Water	\$ 5,995,000	\$ 265,000	\$ 5,730,000
Golf Course	<u>2,144,000</u>	<u>81,000</u>	<u>2,063,000</u>
Total	<u>\$ 8,139,000</u>	<u>\$ 346,000</u>	<u>\$ 7,793,000</u>

	Accrued Interest Payable <u>October 1, 2009</u>	Interest due for year	Interest Capitalized for year	Interest expensed for year	Accrued Interest Payable <u>September 30, 2010</u>
Water	\$ 33,494	\$ 260,916	\$ 262,323	\$ -	\$ 32,087
Golf Course	<u>11,390</u>	<u>89,399</u>	<u>-</u>	<u>89,829</u>	<u>10,960</u>
Total	<u>\$ 44,884</u>	<u>\$ 350,315</u>	<u>\$ 262,323</u>	<u>\$ 89,829</u>	<u>\$ 43,047</u>

H. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES

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

Year Ended <u>September 30,</u>	<u>Water and Sewer Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 275,000	\$ 249,388	\$ 524,388
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 - 2020	1,465,000	775,411	2,240,411
2021 - 2025	<u>2,765,000</u>	<u>309,178</u>	<u>3,074,178</u>
Total	<u>\$ 5,730,000</u>	<u>\$ 2,206,233</u>	<u>\$ 7,936,233</u>

CITY OF CANYON, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

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
2011	\$ 85,000	\$ 85,871	\$ 170,871
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 - 2020	570,000	281,605	851,605
2021 - 2025	704,000	146,668	850,668
2026 - 2027	326,000	13,982	339,982
Total	<u>\$ 2,063,000</u>	<u>\$ 833,191</u>	<u>\$ 2,896,191</u>

The City assumed the lease on the golf carts when it purchased the golf course. This lease is an operating lease that terminates in April 2011. The required lease payments are as follows:

Year Ended September 30,	Lease Payments Due
2011	<u>\$ 28,224</u>
Total	<u>\$ 28,224</u>

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

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

I. EMPLOYEES' RETIREMENT PLAN (continued)

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

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, 2010

I. EMPLOYEES' RETIREMENT PLAN (continued)

	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2005</u>
Actuarial Valuation Date					
Actuarial Value of Assets	\$ 8,245,929	\$ 8,327,539	\$ 10,606,386	\$ 10,737,426	\$ 9,790,394
Actuarial Accrued Liability	12,722,417	12,345,508	14,027,076	12,502,924	11,468,393
	64.8%	67.5%	75.6%	85.9%	85.4%
 Unfunded Actuarial Accrued Liability (UAAL)	 4,476,488	 4,017,969	 3,420,690	 1,765,498	 1,677,999
Annual Covered Payroll	3,171,707	3,011,369	2,878,250	2,752,542	2,607,233
UAAL as % of Covered Payroll	141.1%	133.4%	118.8%	64.1%	64.4%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-	-	-
Annual Pension Cost	432,093	425,465	371,532	355,237	355,248
Annual Required Contribution					
Contributions Made	432,093	425,465	371,532	355,237	355,248
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the end of the period	<u>\$ -</u>				

The City's total payroll in fiscal year 2010 was \$3,694,324 and the City's contributions were based on covered payroll of \$3,609,665. Both the City and the covered employees made the required contributions, amounting to \$505,353 (14.02% of covered payroll for the months in calendar year 2009 and 14.00% of covered payroll for January, 2010 through September, 2010) for the City and \$252,677 (7.00%) for the employees.

J. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>
Net Tax Revenue	<u>\$ 45,437</u>
Total Deferred Revenue	<u>\$ 45,437</u>

K. LITIGATION

The City is not aware of any pending or threatened litigation as of September 30, 2010 or through the date of this report.

L. SUBSEQUENT EVENTS

The City has evaluated subsequent events through the date of this report, which is the date on which the financial statements were issued. After year end the city placed an order for 2 new fire trucks. These are to be paid for from reserves.

OVERALL COMPLIANCE AND INTERNAL
CONTROL SECTION



BROWN, GRAHAM & COMPANY

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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 3, 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 3, 2011

**CITY OF CANYON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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, 2010**

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, 2010**

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



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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, 2010, 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 3, 2011



BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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

February 3, 2011

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, 2010. 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 June 8, 2010. 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, 2010. 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 3, 2011.

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.