



CITY OF CANYON, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2014**

CITY OF CANYON, TEXAS

Annual Financial Report

**For the Year Ended
September 30, 2014**



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ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2014**

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INTRODUCTORY SECTION

CITY OF CANYON, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2014

Quinn Alexander	Mayor, Commissioner, Place 1
Jed Welch	Mayor Pro-Tem, Commissioner, Place 2
David Logan	Commissioner, Place 3
Gary Hinders	Commissioner, Place 4
Justin Richardson	Commissioner, Place 5
Randy Criswell	City Manager
Chris Sharp	Assistant City Manager/Director of Finance

FINANCIAL SECTION



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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund with its budgetary comparison schedule, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of the City of Canyon, Texas as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof, and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 17, 2015, on our consideration of the City of Canyon, Texas's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in conjunction with this report in considering the results of our audit.

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC
March 17, 2015

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, 2014. 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 \$52,750,325 (net position) for the fiscal year reported.

Total net position is compromised of the following:

1. Net investment in capital assets of \$43,671,347 includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
2. Restricted net position of \$207,029 represents the portion that is restricted to a specific purpose.
3. Unrestricted net position of \$8,871,949 represents the portion available to maintain the City's continuing obligation to citizens and creditors.

The City's governmental activities reported total ending net position of \$24,257,597 this year. \$2,652,132 of this amount is unrestricted.

For the fiscal year ended September 30, 2014, the City's net position increased by \$1,035,456. Governmental activities increased by \$1,008,846, while business-type activities increased by \$26,610.

The City has total liabilities of \$16,924,346. Current liabilities were \$1,884,177 and non-current liabilities were \$15,040,169.

The governmental activities earned \$1,960,163 in fees for services and received \$604,306 in contributions, grants and inter-governmental revenue. The governmental activities also received \$4,971,452 of general revenues, and \$831,613 of transfers from the City's business-type activities. Property and sales taxes accounted for \$3,956,113 of the general revenues.

The business-type activities of the City generated \$7,166,371 in charges for services. The business-type activities also had \$48,815 in general revenues consisting of unrestricted investment earnings and transfers of \$831,613 to the City's governmental activities.

Total governmental activities expenses were \$7,358,688. Public safety, streets, and sanitation accounted for \$5,191,832 of the total expenditures.

Total business-type activities expenses were \$6,356,963. Waterworks and sewer system operations accounted for \$4,961,116, and municipal golf course operations accounted for \$1,395,847 of the total expenses.

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 additional information in the Management's Discussion and Analysis section to supplement the basic financial statements.

Management's Discussion and Analysis City of Canyon, Texas

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 applying the accrual basis accounting.

The first of these government-wide statements is the statement of net position. This City-wide statement of net position presents information that includes all of the City's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or 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 position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, streets, sanitation, culture and recreation, and conservation and development. 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 three 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.

Management's Discussion and Analysis City of Canyon, Texas

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 balance provide reconciliations 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 two proprietary funds, the Water Works and Sewer System Fund and the Golf Course Fund, which are enterprise funds. 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.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for various units of equipment. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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
City of Canyon, Texas**

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 Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 3,540,384	\$ 3,959,979	\$ 15,615,241	\$ 16,966,318	\$ 19,155,625	\$ 20,926,297
Capital Assets, net of						
Depreciation	21,443,513	19,932,895	28,824,085	28,288,029	50,267,598	48,220,924
Total Assets	24,983,897	23,892,874	44,439,326	45,254,347	69,423,223	69,147,221
Deferred Charge on Refunding	-	-	251,448	258,227	251,448	258,227
Total Deferred Outflows of						
Resources	-	-	251,448	258,227	251,448	258,227
Current liabilities	414,914	383,937	1,469,263	1,424,223	1,884,177	1,808,160
Long-term liabilities	311,386	260,186	14,728,783	15,622,233	15,040,169	15,882,419
Total liabilities	726,300	644,123	16,198,046	17,046,456	16,924,346	17,690,579
Net Investment in						
Capital Assets	21,398,436	19,857,134	22,272,911	21,307,927	43,671,347	41,165,061
Restricted:						
Fire Protection Services	6,650	6,650	-	-	6,650	6,650
Municipal Court Technology						
and Security	25,834	23,744	-	-	25,834	23,744
Police Forfeitures	13,302	15,239	-	-	13,302	15,239
Civic Activities	73,204	91,675	-	-	73,204	91,675
Education Programs	7,092	10,115	-	-	7,092	10,115
Emergency Management	66,889	79,664	-	-	66,889	79,664
Police Services	9,751	7,746	-	-	9,751	7,746
Library	4,307	5,754	-	-	4,307	5,754
Unrestricted	2,652,132	3,151,030	6,219,817	7,158,191	8,871,949	10,309,221
Total Net Position	\$ 24,257,597	\$ 23,248,751	\$ 28,492,728	\$ 28,466,118	\$ 52,750,325	\$ 51,714,869

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Canyon, assets and deferred outflows of resources exceeded liabilities by \$52,750,325 at the close of the most recent fiscal year, which is an increase of \$1,035,456 from the prior year, net of prior period adjustments totaling \$316,638.

Management's Discussion and Analysis
City of Canyon, Texas

Government-wide total assets increased by \$276,002 while the total liabilities decreased by \$766,233. Investment in capital assets represents approximately 83% of the total net position of the City. These assets are not available for future spending. The City's unrestricted net position, which is available for future spending, decreased by \$1,437,272.

An additional portion of the City's net position (less than 1%) represents resources that are subject to external restrictions on how they may be used. These include amounts restricted for the City's fire protection and police services, educational programs, emergency management, and library.

CITY OF CANYON, TEXAS
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Charges for services	\$ 1,960,163	\$ 2,273,641	\$ 7,166,371	\$ 6,980,788	\$ 9,126,534	\$ 9,254,429
Capital Grants and contributions	-	700,411	-	-	-	700,411
Operating grants and contributions	604,306	228,823	-	-	604,306	228,823
Property taxes	2,115,671	2,092,830	-	-	2,115,671	2,092,830
Sales taxes	1,840,442	1,756,432	-	-	1,840,442	1,756,432
Franchise taxes	682,550	625,661	-	-	682,550	625,661
Other taxes	160,801	174,357	-	-	160,801	174,357
Investment earnings	5,023	6,673	48,815	65,579	53,838	72,252
Sales of capital assets	15,113	5,882	-	2,081	15,113	7,963
Miscellaneous revenue	151,852	84,633	-	-	151,852	84,633
Operating transfers	831,613	1,251,277	(831,613)	(1,251,277)	-	-
Total revenues and transfers	8,367,534	9,200,620	6,383,573	5,797,171	14,751,107	14,997,791
General governmental	495,854	376,791	-	-	495,854	376,791
Public safety	3,354,917	3,220,731	-	-	3,354,917	3,220,731
Streets	996,542	1,320,352	-	-	996,542	1,320,352
Sanitation	840,373	857,945	-	-	840,373	857,945
Culture and recreation	1,457,699	1,266,417	-	-	1,457,699	1,266,417
Conservation and development	208,893	403,757	-	-	208,893	403,757
Interest on long-term debt	4,410	3,776	-	-	4,410	3,776
Water and sewer	-	-	4,961,116	4,799,995	4,961,116	4,799,995
Golf course	-	-	1,395,847	1,332,979	1,395,847	1,332,979
Total expenses	7,358,688	7,449,769	6,356,963	6,132,974	13,715,651	13,582,743
Change in net position	\$ 1,008,846	\$ 1,750,851	\$ 26,610	\$ (335,803)	\$ 1,035,456	\$ 1,415,048

Government-wide total revenues decreased \$246,684 from the prior year. Government-wide expenses increased \$132,908.

Overall, the City's net position increased \$1,035,456 during the year.

**Management's Discussion and Analysis
City of Canyon, Texas**

Governmental activities: Governmental activities increased the City's net position by \$1,008,846 for the year. Revenue from governmental activities decreased by \$413,422 (exclusive of operating transfers). Most of this decrease was from decreases in capital grants and contributions. Total expenditures by governmental activities decreased by \$91,081. Depreciation on capital assets in the governmental activities was \$869,850 for the year.

Business-type activities: Revenue for business-type activities increased \$166,738 (exclusive of operating transfers). This increase was primarily due to an increase in water rates. Expenses in the business-type activities increased \$223,989, primarily caused by increased cost to provide water to residents. Depreciation in the business-type activities was \$912,248 for the year.

The City invested in significant capital asset additions during the year. In the governmental activities \$2,386,246 in capital assets were purchased. The most significant purchases were for street improvement projects and the construction of the fire department drill field training facility. Of course, there were other capital expenditures in equipment and infrastructure assets, but these were the largest two. In the business type activities \$1,465,415 in new additions were made. Much of this was continued work on the long range water improvements using the money from bonds issued a few years ago.

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	
	2014	2013	2014	2013	2014	2013
Land and easements	\$ 739,375	\$ 496,589	\$ 3,606,094	\$ 3,328,119	\$ 4,345,469	\$ 3,824,708
Buildings	3,837,231	3,777,708	638,690	631,221	4,475,921	4,408,929
Equipment	6,194,652	5,601,575	3,662,193	3,678,063	9,856,845	9,279,638
Improvements	4,109,694	1,582,769	12,014,015	11,897,489	16,123,709	13,480,258
Infrastructure	29,232,529	28,283,451	25,829,410	21,143,189	55,061,939	49,426,640
Construction in progress	<u>60,382</u>	<u>2,162,979</u>	<u>42,030</u>	<u>3,730,497</u>	<u>102,412</u>	<u>5,893,476</u>
Total	44,173,863	41,905,071	45,792,432	44,408,578	89,966,295	86,313,649
Accumulated depreciation	<u>(22,730,350)</u>	<u>(21,972,176)</u>	<u>(16,968,347)</u>	<u>(16,120,549)</u>	<u>(39,698,697)</u>	<u>(38,092,725)</u>
Net Capital Assets	<u>\$ 21,443,513</u>	<u>\$ 19,932,895</u>	<u>\$ 28,824,085</u>	<u>\$ 28,288,029</u>	<u>\$ 50,267,598</u>	<u>\$ 48,220,924</u>

Summary and Future Outlook:

Based on property values, it appears our local economy has strengthened for about two years in a row now. The total taxable value of all property in Canyon rose about \$21 million dollars, with about \$14 million in new growth. So we saw existing property values increase by about \$7 million. This is an excellent thing to see, because we've not seen that for quite some time. Last year we also saw a slight increase in property values, so I hope this is a trend that we'll begin enjoying every year. As we all know, our Education-related industry in Canyon provides a tremendous stability to our economy. True, we don't enjoy the "highs" that some cities do when their economies boom due to the oil industry, but we don't see the "lows" they must endure when the boom turns to a bust. So we're very fortunate, in my opinion.

Management's Discussion and Analysis City of Canyon, Texas

We continue to provide services to our residents that are the best they can be, and we do it for a very low cost based on personnel. As I've said, we're going to have to keep adding employees as we grow, and we will always strive for increasing productivity through greater efficiencies and technologies.

Our financial situation is good. As stated in this audit, our total net position increased by about \$1 million this year. Our commitment to maintaining a solid level of reserves is prudent. However, as our auditors have pointed out, and as has been stated previously, our General Fund doesn't carry its share of the load, and we don't really have the amount in reserves we'd like to see for that fund. But overall, with all funds considered, we are in good shape.

Canyon continues to grow. Canyon East is expanding. Gagestone Ridge has started construction of what will be another 36 lots. We have Madison Park looming on the horizon as soon as we get some sewer expansion completed, which is roughly another 250 residential lots plus a significant amount of commercial lots. And even more exciting is the Lone Star Milk facility and the possibility of other spin-off businesses coming to Canyon as a result. If Lone Star goes onto the tax rolls at \$80 million, that will generate in the neighborhood of \$300,000 annually in ad valorem taxes. That is a huge addition. I feel like Canyon is booming, with more to come. It is a very exciting time for Canyon.

We'll be facing some decisions in the future. The Aquatic Facility Study will be finished in 2015, as will the City Hall Study. We don't know what those costs will be yet, but they'll be significant. And, of course, we will always be looking to grow our water resources. All of that costs dollars. So in 2015, I anticipate the need to make some important decisions about the future of Canyon, from quality of life to facilities to water. All of those are big issues.

In summary, the City of Canyon is stable and healthy financially. We have weathered the economic storm and come out smelling like a rose, even without the benefit of the oil and gas industry. We have strong leadership, a strong governing body, and a passionate staff. We have a community that likes what is happening, and they support it. As I always say, the future is bright!

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, 1604 4th Ave, Ste 21, Canyon, Texas 79015.

BASIC FINANCIAL STATEMENTS

**CITY OF CANYON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 575,653	\$ 1,172,273	\$ 1,747,926	\$ 271,802
Investments	1,813,417	5,173,792	6,987,209	174,054
Restricted cash - customer deposits	-	217,509	217,509	-
Restricted cash for construction	-	8,251,007	8,251,007	-
Restricted cash - other	-	-	-	39,599
Receivables, net	730,226	761,591	1,491,817	-
Due from other governmental entities (sales tax)	329,653	-	329,653	109,884
Internal balances	80,318	(80,318)	-	-
Due from primary government	-	-	-	1,711
Due from component unit	11,117	-	11,117	-
Inventories	-	119,387	119,387	-
Security deposit	-	-	-	1,007
Capital assets not being depreciated:				
Land	739,375	3,606,094	4,345,469	-
Construction in progress	60,382	42,030	102,412	-
Capital assets, net of accumulated depreciation				
Buildings	2,138,128	264,851	2,402,979	3,481
Improvements other than buildings	3,191,659	8,925,019	12,116,678	-
Equipment	3,235,892	685,562	3,921,454	15,841
Infrastructure	12,078,077	15,300,529	27,378,606	-
Total assets	24,983,897	44,439,326	69,423,223	617,379
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	251,448	251,448	-
Total deferred outflows of resources	-	251,448	251,448	-
LIABILITIES				
Accounts payable	317,735	275,281	593,016	171,770
Accrued liabilities	8,487	14,374	22,861	-
Accrued interest	-	49,454	49,454	-
Intergovernmental payable	30,931	-	30,931	-
Due to primary government	-	-	-	11,117
Due to component unit	1,711	-	1,711	-
Customer deposits	-	217,509	217,509	-
Unearned revenues	-	33,084	33,084	-
Noncurrent liabilities:				
Due within one year	56,050	879,561	935,611	-
Due in more than one year	311,386	14,728,783	15,040,169	-
Total liabilities	726,300	16,198,046	16,924,346	182,887
NET POSITION				
Net investment in capital assets	21,398,436	22,272,911	43,671,347	19,322
Restricted for:				
Special projects	207,029	-	207,029	-
Unrestricted	2,652,132	6,219,817	8,871,949	415,170
Total net position	\$ 24,257,597	\$ 28,492,728	\$ 52,750,325	\$ 434,492

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Economic Development Corporation
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 495,854	\$ 406	\$ 141,865	\$ -	\$ (353,583)	\$ -	\$ (353,583)	\$ -
Public safety	3,354,917	379,770	412,441	-	(2,562,706)	-	(2,562,706)	-
Streets	996,542	-	-	-	(996,542)	-	(996,542)	-
Sanitation	840,373	1,420,480	-	-	580,107	-	580,107	-
Culture and recreation	1,457,699	159,507	50,000	-	(1,248,192)	-	(1,248,192)	-
Conservation and development	208,893	-	-	-	(208,893)	-	(208,893)	-
Interest on long-term debt	4,410	-	-	-	(4,410)	-	(4,410)	-
Total governmental activities	7,358,688	1,960,163	604,306	-	(4,794,219)	-	(4,794,219)	-
Business-Type Activities:								
Water and sewer	4,961,116	6,349,912	-	-	-	1,388,796	1,388,796	-
Golf course	1,395,847	816,459	-	-	-	(579,388)	(579,388)	-
Total business-type activities	6,356,963	7,166,371	-	-	-	809,408	809,408	-
Total primary government	\$ 13,715,651	\$ 9,126,534	\$ 604,306	\$ -	(4,794,219)	809,408	(3,984,811)	-
Component Unit:								
Economic Development	\$ 455,415	\$ -	\$ -	\$ -	-	-	-	(455,415)
General revenues:								
Property taxes					2,115,671	-	2,115,671	-
Sales and use taxes					1,840,442	-	1,840,442	669,953
Franchise taxes					682,550	-	682,550	-
Hotel/Motel taxes					154,662	-	154,662	-
Alcoholic beverage taxes					6,139	-	6,139	-
Unrestricted investment earnings					5,023	48,815	53,838	302
Gain on disposal of assets					15,113	-	15,113	450
Miscellaneous					151,852	-	151,852	15,659
Transfers					831,613	(831,613)	-	-
Total general revenues					5,803,065	(782,798)	5,020,267	686,364
Change in net position					1,008,846	26,610	1,035,456	230,949
Net position - beginning					22,932,878	28,465,353	51,398,231	203,543
Prior period adjustment					315,873	765	316,638	-
Net position - beginning as restated					23,248,751	28,466,118	51,714,869	203,543
Net position, ending					\$ 24,257,597	\$ 28,492,728	\$ 52,750,325	\$ 434,492

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	<u>General</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 167,478	\$ 127,306	\$ 294,784
Investments	1,813,417	-	1,813,417
Receivables, net	696,289	33,937	730,226
Due from other funds	115,164	25,834	140,998
Due from component unit	11,117	-	11,117
Due from other governmental entities (sales tax)	329,653	-	329,653
	<u>3,133,118</u>	<u>187,077</u>	<u>3,320,195</u>
Total assets	<u>\$ 3,133,118</u>	<u>\$ 187,077</u>	<u>\$ 3,320,195</u>
LIABILITIES			
Accounts payable	\$ 317,735	\$ -	\$ 317,735
Due to other funds	37,833	-	37,833
Payable to other governments	30,931	-	30,931
Due to component unit	1,711	-	1,711
Accrued liabilities	8,487	-	8,487
	<u>396,697</u>	<u>-</u>	<u>396,697</u>
Total liabilities	<u>396,697</u>	<u>-</u>	<u>396,697</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	148,419	-	148,419
	<u>148,419</u>	<u>-</u>	<u>148,419</u>
Total deferred inflows of resources	<u>148,419</u>	<u>-</u>	<u>148,419</u>
FUND BALANCES			
Restricted for:			
Special projects	19,952	187,077	207,029
Assigned to:			
Special projects	439,573	-	439,573
Unassigned	2,128,477	-	2,128,477
	<u>2,588,002</u>	<u>187,077</u>	<u>2,775,079</u>
Total fund balances	<u>2,588,002</u>	<u>187,077</u>	<u>2,775,079</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,133,118</u>	<u>\$ 187,077</u>	<u>\$ 3,320,195</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CANYON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$ 2,775,079
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,443,513
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	148,419
Long-term liabilities are not due and payable in the current period, and, therefore are not reported in the funds.	
Capital leases payable	(45,077)
Other post employment benefit obligation	(89,515)
Compensated absences	(232,844)
The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position (netted for capital assets reported above and the portion allocated to business-type activities)	<u>258,022</u>
Net Position of Governmental Activities	<u><u>\$ 24,257,597</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CANYON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>General</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 2,116,019	\$ -	\$ 2,116,019
Sales and use	1,840,442	-	1,840,442
Franchise	682,550	-	682,550
Hotel/Motel	-	154,662	154,662
Alcoholic beverage	6,139	-	6,139
Licenses and permits	61,055	8,907	69,962
Intergovernmental	602,305	2,001	604,306
Charges for services	1,519,245	-	1,519,245
Fines and forfeitures	356,705	-	356,705
Investment earnings	3,578	56	3,634
Miscellaneous	149,294	2,558	151,852
	<u>7,337,332</u>	<u>168,184</u>	<u>7,505,516</u>
EXPENDITURES			
Current:			
General government	454,389	3,027	457,416
Public safety	3,192,726	12,998	3,205,724
Streets	583,482	-	583,482
Sanitation	849,337	-	849,337
Culture and recreation	1,071,456	176,245	1,247,701
Conservation and development	206,696	-	206,696
Capital outlay	1,844,290	7,535	1,851,825
Debt service:			
Principal	30,934	-	30,934
Interest	4,410	-	4,410
	<u>8,237,720</u>	<u>199,805</u>	<u>8,437,525</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(900,388)</u>	<u>(31,621)</u>	<u>(932,009)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	5,463	-	5,463
Transfers in	831,613	-	831,613
Transfers out	(595)	-	(595)
	<u>836,481</u>	<u>-</u>	<u>836,481</u>
NET CHANGE IN FUND BALANCES	(63,907)	(31,621)	(95,528)
FUND BALANCES - BEGINNING	2,481,985	188,580	2,670,565
PRIOR PERIOD ADJUSTMENT	<u>169,924</u>	<u>30,118</u>	<u>200,042</u>
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED	<u>2,651,909</u>	<u>218,698</u>	<u>2,870,607</u>
FUND BALANCES - ENDING	<u>\$ 2,588,002</u>	<u>\$ 187,077</u>	<u>\$ 2,775,079</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

Net change in fund balances - total governmental funds	\$	(95,528)
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount in which capital outlays (\$1,851,825) exceeded depreciation (\$759,426) in the current period.		1,092,399
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		13,903
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.		14,928
Internal service funds are used by management to charge the costs of maintenance to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities. The total change in net position of the internal service fund (\$114,596) less the amount charged to business-type activities (\$55,385) is the amount of the internal service fund charged to governmental activities.		59,211
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. The amount of principal paid on retirement of debt during the year was:		30,934
Accrued compensated absences and other post employment benefit obligations are not reported as an expenditure in the governmental funds. This is the change in the accrual amounts for the year reported in the government-wide statement of activities.		<u>(107,001)</u>
Change in net position of governmental activities	\$	<u><u>1,008,846</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 2,099,256	\$ 2,099,256	\$ 2,116,019	\$ 16,763
Sales and use	1,670,000	1,670,000	1,840,442	170,442
Franchise	600,000	600,000	682,550	82,550
Alcoholic beverage	9,000	9,000	6,139	(2,861)
License and permits	70,500	70,500	61,055	(9,445)
Intergovernmental	612,806	612,806	602,305	(10,501)
Charges for services	1,444,500	1,444,500	1,519,245	74,745
Fines and forfeitures	308,100	308,100	356,705	48,605
Investment earnings	5,000	5,000	3,578	(1,422)
Miscellaneous	40,000	40,000	149,294	109,294
Total revenues	6,859,162	6,859,162	7,337,332	478,170
EXPENDITURES				
Current				
General government	422,960	422,960	454,389	(31,429)
Public safety	3,279,730	3,268,603	3,192,726	75,877
Streets	1,058,870	1,067,282	583,482	483,800
Sanitation	858,067	850,773	849,337	1,436
Culture and recreation	1,269,355	1,295,611	1,071,456	224,155
Conservation and development	206,120	206,120	206,696	(576)
Capital outlay	752,180	772,180	1,844,290	(1,072,110)
Debt service:				
Principal	57,033	57,033	30,934	26,099
Interest	-	-	4,410	(4,410)
Total expenditures	7,904,315	7,940,562	8,237,720	(297,158)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,045,153)	(1,081,400)	(900,388)	181,012
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	5,463	(5,463)
Transfers in	631,543	571,717	831,613	259,896
Transfers out	-	-	(595)	(595)
Total other financing sources (uses)	631,543	571,717	836,481	253,838
NET CHANGE IN FUND BALANCE *	(413,610)	(509,683)	(63,907)	434,850
FUND BALANCE - BEGINNING	2,481,985	2,481,985	2,481,985	-
PRIOR PERIOD ADJUSTMENTS	169,924	169,924	169,924	-
FUND BALANCE AT BEGINNING OF YEAR AS RESTATED	2,651,909	2,651,909	2,651,909	-
FUND BALANCE - ENDING	\$ 2,238,299	\$ 2,142,226	\$ 2,588,002	\$ 434,850

* The net change in fund balances was included in the budget as an appropriation (i.e. spenddown) of fund balance.

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 982,995	\$ 189,278	\$ 1,172,273	\$ 280,869
Investments	5,173,792	-	5,173,792	-
Restricted cash - customer deposits	217,509	-	217,509	-
Restricted cash for construction	8,251,007	-	8,251,007	-
Receivables, net	761,591	-	761,591	-
Due from other funds	85,729	11,999	97,728	32,538
Inventories	13,061	106,326	119,387	-
Total current assets	<u>15,485,684</u>	<u>307,603</u>	<u>15,793,287</u>	<u>313,407</u>
Noncurrent assets:				
Capital assets:				
Land	3,208,956	397,138	3,606,094	-
Construction in progress	42,030	-	42,030	-
Buildings and improvements	308,379	330,311	638,690	-
Improvements other than buildings	11,479,388	534,626	12,014,014	-
Equipment	2,785,306	876,886	3,662,192	1,015,426
Infrastructure	25,131,241	698,170	25,829,411	-
Less accumulated depreciation	<u>(15,494,900)</u>	<u>(1,473,446)</u>	<u>(16,968,346)</u>	<u>(153,440)</u>
Total noncurrent assets	<u>27,460,400</u>	<u>1,363,685</u>	<u>28,824,085</u>	<u>861,986</u>
Total assets	<u>42,946,084</u>	<u>1,671,288</u>	<u>44,617,372</u>	<u>1,175,393</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	<u>181,151</u>	<u>70,297</u>	<u>251,448</u>	<u>-</u>
Total deferred outflows of resources	<u>181,151</u>	<u>70,297</u>	<u>251,448</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	229,736	45,545	275,281	-
Accrued liabilities	-	14,374	14,374	-
Accrued interest	41,695	7,759	49,454	-
Due to other funds	50,919	182,512	233,431	-
Unearned revenues	33,084	-	33,084	-
Compensated absences - current	4,111	978	5,089	-
Capital leases payable - current	-	44,472	44,472	-
Certificates of obligation payable - current	698,603	131,397	830,000	-
Customer deposits	217,509	-	217,509	-
Total current liabilities	<u>1,275,657</u>	<u>427,037</u>	<u>1,702,694</u>	<u>-</u>
Noncurrent liabilities:				
Accrued compensated absences	37,003	8,799	45,802	-
Other post employment benefits obligation	8,642	1,799	10,441	-
Capital leases payable	-	83,555	83,555	-
Certificates of obligation payable	<u>12,921,044</u>	<u>1,667,941</u>	<u>14,588,985</u>	<u>-</u>
Total noncurrent liabilities	<u>12,966,689</u>	<u>1,762,094</u>	<u>14,728,783</u>	<u>-</u>
Total liabilities	<u>14,242,346</u>	<u>2,189,131</u>	<u>16,431,477</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	22,272,911	-	22,272,911	861,986
Unrestricted	<u>6,611,978</u>	<u>(447,546)</u>	<u>6,164,432</u>	<u>313,407</u>
Total net position	28,884,889	(447,546)	28,437,343	<u>\$ 1,175,393</u>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise fund over time				
	<u>30,970</u>	<u>24,415</u>	<u>55,385</u>	
Net Position of business-type activities	<u>\$ 28,915,859</u>	<u>\$ (423,131)</u>	<u>\$ 28,492,728</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
OPERATING REVENUES:				
Charges for Sales and Services:				
Water sales	\$ 4,333,313	\$ -	\$ 4,333,313	\$ -
Sewer charges	1,950,500	-	1,950,500	-
Permits and licenses	15,995	-	15,995	-
Lease and other income	50,104	397	50,501	-
Golf services	-	546,890	546,890	-
Sales of goods	-	269,172	269,172	-
Internal service charges	-	-	-	211,455
Total operating revenues	6,349,912	816,459	7,166,371	211,455
OPERATING EXPENSES:				
Personnel costs	1,566,657	530,653	2,097,310	-
Supplies and contractual services	2,365,664	530,338	2,896,002	-
Depreciation	653,652	258,596	912,248	110,424
Intercity charges	64,820	51,100	115,920	-
Total operating expenses	4,650,793	1,370,687	6,021,480	110,424
OPERATING INCOME (LOSS)	1,699,119	(554,228)	1,144,891	101,031
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	48,669	146	48,815	1,389
Interest and fiscal charges	(341,293)	(49,575)	(390,868)	-
Gain on disposition of assets	-	-	-	11,581
Total nonoperating revenues (expenses)	(292,624)	(49,429)	(342,053)	12,970
INCOME (LOSS) BEFORE TRANSFERS	1,406,495	(603,657)	802,838	114,001
TRANSFERS	(831,613)	-	(831,613)	595
CHANGE IN NET POSITION	574,882	(603,657)	(28,775)	114,596
NET POSITION - BEGINNING	28,292,242	173,111	28,465,353	1,060,797
PRIOR PERIOD ADJUSTMENT	17,765	(17,000)	765	-
NET POSITION - BEGINNING, AS RESTATED	28,310,007	156,111	28,466,118	1,060,797
NET POSITION - ENDING	\$ 28,884,889	\$ (447,546)	\$ 28,437,343	\$ 1,175,393
Change in Net Position	\$ 574,882	\$ (603,657)	\$ (28,775)	
Adjustment for the net effect of the current year activity between the internal service fund and the business-type activity - enterprise funds	30,970	24,415	55,385	
Changes in Net Position of business-type activities	\$ 605,852	\$ (579,242)	\$ 26,610	

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 6,409,449	\$ 821,516	\$ 7,230,965	\$ -
Receipts for internal service charges	-	-	-	211,455
Payments to employees for salaries and benefits	(1,553,854)	(518,092)	(2,071,946)	-
Payments to suppliers and service providers	(2,384,360)	(541,317)	(2,925,677)	(16,735)
Payments for interfund services used	(64,820)	(51,100)	(115,920)	-
Net cash provided (used) by operating activities	<u>2,406,415</u>	<u>(288,993)</u>	<u>2,117,422</u>	<u>194,720</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(831,613)	-	(831,613)	595
Changes in interfund receivables/payables	(35,172)	182,512	147,340	(32,538)
Net cash provided (used) by noncapital financing activities	<u>(866,785)</u>	<u>182,512</u>	<u>(684,273)</u>	<u>(31,943)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(769,462)	(82,940)	(852,402)	-
Interest paid on capital debt	(350,963)	(51,083)	(402,046)	-
Acquisition or construction of capital assets	(1,448,304)	-	(1,448,304)	(534,421)
Proceeds from sale of capital assets	-	-	-	32,538
Net cash used for capital and related financing activities	<u>(2,568,729)</u>	<u>(134,023)</u>	<u>(2,702,752)</u>	<u>(501,883)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchased investments	(3,980,206)	-	(3,980,206)	-
Interest on investments	48,669	146	48,815	1,389
Net cash provided (used) by investing activities	<u>(3,931,537)</u>	<u>146</u>	<u>(3,931,391)</u>	<u>1,389</u>
NET DECREASE IN CASH	(4,960,636)	(240,358)	(5,200,994)	(337,717)
CASH AND CASH EQUIVALENTS, BEGINNING (including restricted amounts)	<u>14,412,147</u>	<u>429,636</u>	<u>14,841,783</u>	<u>618,586</u>
CASH AND CASH EQUIVALENTS, ENDING, (including restricted amounts)	<u>\$ 9,451,511</u>	<u>\$ 189,278</u>	<u>\$ 9,640,789</u>	<u>\$ 280,869</u>

Continued

The notes to the financial statements are an integral part of this statement.

**CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
Continuation				
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,699,119	\$ (554,228)	\$ 1,144,891	\$ 101,031
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation and amortization	612,745	257,138	869,883	110,424
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	59,537	5,057	64,594	-
(Increase) decrease in inventories	(8,377)	(17,883)	(26,260)	-
Increase (decrease) in accounts payable	16,482	8,362	24,844	(16,735)
Increase (decrease) in accrued expenses	12,803	12,561	25,364	-
Increase (decrease) in customer deposits	14,106	-	14,106	-
Net cash provided (used) by operating activities	<u>\$ 2,406,415</u>	<u>\$ (288,993)</u>	<u>\$ 2,117,422</u>	<u>\$ 194,720</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES:				
Amortization of debt issuance premiums and refunding charges	<u>\$ 40,907</u>	<u>\$ 1,458</u>	<u>\$ 42,365</u>	<u>\$ -</u>
	<u>\$ 40,907</u>	<u>\$ 1,458</u>	<u>\$ 42,365</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description of Reporting Entity

The 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 Commission (the “Commission”) 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 it complies with the requirements of contracts and grants of agencies from which it receives funds. The City provides the following services: police and fire protection, code enforcement, and general administrative services. In addition, the City maintains a water and sewer system and operates a municipal golf course. The more significant of the City’s accounting policies are described below.

The Commission 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. 61, *“The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34.”*

Discretely Presented Component Unit: The Canyon Economic Development Corporation (CEDC) is a component unit due to the fact that the Commission appoints the CEDC board and also approves the annual budget. The CEDC has issued separately audited financial statements. Copies of the CEDC audit report for the fiscal year ended September 30, 2014 may be obtained by contacting the management of the CEDC at the following address:

Canyon Economic Development Corporation
1604 4th Avenue, Suite 21
Canyon, Texas 79015

B. Basis of Presentation – Government-wide Financial Statements

The statement of net position and the statement of activities include the financial activities of the overall government. The government activities column incorporates data from governmental funds, while business-type activities incorporates data from the government’s enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the government has one discretely presented component unit. While it is not considered to be a major component unit, it is nevertheless shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule would be charges between enterprise funds and the various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. Basis of Presentation – Fund Financial Statements

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The fund financial statements provide information about the City’s funds. Separate statements are presented for each fund category, governmental and proprietary. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

The General Fund is the City’s primary operating fund. It accounts for and reports all financial resources of the City except those required to be accounted for and reported in another fund.

The City reports the following major proprietary funds:

The Water and Sewer Fund is to account for the operations of the water and sewer utilities furnished by the City to its residents.

The Golf Course Fund is to account for all the operations of Palo Duro Creek Golf Course.

In addition, the City reports the following fund types:

Internal Service Funds: These funds are used to account for and report revenues and expenses related to fleet management and supply services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the City’s governmental activities, this fund type is included in the “Governmental Activities” column of the government-wide financial statements.

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. Basis of Presentation – Fund Financial Statements – Continuation

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/due from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in government activities are eliminated so that only the net amount is included as transfers in the government activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Property taxes are recognized in the fiscal year for which the taxes are levied. Grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as they are both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they generally are not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

E. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Water and Sewer Fund, and the Golf Course Fund.

The appropriate budget is prepared by fund and department, which is the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

For the fiscal year, expenditures exceeded appropriations for general government, conservation and development, capital outlay, and debt service interest functions in the General Fund by \$31,429, \$576, \$1,072,110, and \$4,410, respectively. These overspendings were covered by a combination of additional revenues received, underspending in other functional categories, as well as transfers in from other funds.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Investments

Investments in certificate of deposit are valued at cost as they are nonparticipating investments in which the value does not vary with market interest rate changes.

c. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

d. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies in the water and sewer fund and goods for sale in the golf course fund. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continuation

e. Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. 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.

Land is not depreciated. The other property, plant, equipment, and infrastructure assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Equipment	3-10 years
Infrastructure	50 years

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of government-wide statement of net position.

g. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h. Bond Premium

The premium received on certificates of obligation is reported as a liability and amortized over the life of the bonds using the effective interest method.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continuation

i. Deferred Outflows/Inflows of Resources

The statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item of this type, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The City funds report unavailable revenues from property taxes and municipal court receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

j. Net Position

In government-wide financial statements, net position is classified and displayed in three categories:

Net Investment in Capital Assets – this amount consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets and adding back unspent proceeds.

Restricted – this amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions.

Unrestricted – this amount includes all amounts that comprise net position that do not meet the definition of “net investment in capital assets” or “restricted”.

At times, the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continuation

k. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable fund balance – (inherently not spendable)

Includes amounts that will never convert to cash or will not convert to cash in the current period, such as inventory, supplies, long-term portion of loans and non-financial assets held for resale or principal of an endowment.

Restricted fund balance – (externally enforceable limitations on use)

Includes amounts that can be spent only for specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants, court receipt restrictions (municipal technology fund) or charter restrictions.

Committed fund balance – (self-imposed limitations)

Includes amounts that can be used for the specific purposes determined by a formal action of the Commission in form of a resolution. Commitments may be changed or lifted only by taking the same formal action that imposed the constraints originally.

Assigned fund balance – (limitation resulting from management's intended use)

Comprises amounts intended to be used for a specific purpose, as expressed by Commission, by a designated official or committee. By adopting this policy the Commission has hereby authorized the City Manager as the official to assign fund balance to a specific purpose. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed, as it is intended to be used for the purpose of that fund.

Unassigned fund balance – (residual net resources)

This is the excess of total fund balance over non-spendable, restricted, committed, and assigned fund balance. Unassigned amounts are technically available for any purpose.

Order of Expenditure of Funds:

When multiple categories of fund balances are available for expenditure (for example, a construction project is funded partly by grant money, funds set aside by the Commission, and unassigned fund balance) the City will start with the most restricted category first until depleted before moving to the next category with available funds. Spendable fund categories in order of most restricted to least restricted are: Restricted, Committed, Assigned, and Unassigned.

Minimum Unassigned Fund Balance:

It is the goal of the City of Canyon to achieve and maintain a minimum unassigned fund balance in the general fund to ensure that there will be adequate liquid resources in the event of unanticipated circumstances and events. The minimum unassigned fund balance is set at 25% of budgeted expenditures for the fiscal year, providing for approximately 90 days of estimated expenditures.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continuation

k. Fund Balance – Continuation

Designated Circumstances:

The minimum unassigned fund balance may be spent under the following extreme circumstances:

1. Natural disasters, including but not limited to tornados, fire or flood.
2. Opportunities for a grant in which the matching portion may require a portion of the minimum unassigned fund balance.
3. Shortfall in the budgeted revenue in excess of 20%
4. Unforeseeable expenditures in excess of 20% over budget.
5. When unforeseen circumstances or emergencies in another fund require a fund transfer from the general fund.

Replenishment of Minimum Unassigned Fund Balance:

1. When designated circumstances have reduced the unassigned fund balance below the targeted minimum level, the replenishment is to occur within 12 months.
2. Depending on the severity of the reduction of the minimum unassigned fund balance the following measures will be taken to replenish the minimum unassigned fund balance:
 - a) Should calculations reveal that the minimum unassigned fund balance will be replenished through normal activity within the next 12 months no action is necessary
 - b) Reduction of expenditures
 - c) Delay of capital purchases
 - d) Increase in fees and/or taxes
 - e) Salary freeze
 - f) Hiring freeze

Fund Balance Policies:

The City's highest level of decision-making authority is the Commission, and the commitment of fund balance would require formal action or order of the Commission. The Commission has not yet delegated the authority to assign fund balance amounts to a specific individual nor does it have a policy to authorize the assignment of fund balance.

G. Revenues and Expenditures/Expenses

a. Program Revenues

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or program. All taxes are reported as general revenues rather than as program revenues.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

G. Revenues and Expenditures/Expenses – Continuation

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 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 1 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 fiscal year.

Allowances for uncollectible tax receivables within the General Fund are based upon 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.

c. Compensated Absences

Employees of the City are entitled to paid vacation, paid sick days and personal days off, depending on full-time status, length of service greater than 6 months, and other factors. After five years of employment, an employee shall be awarded twelve days of vacation, after ten years fifteen days of vacation, and after twenty years twenty days of vacation. A maximum accrual for sick leave of 90 days can be carried over each year. However, employees shall be allowed to receive reimbursement for a portion of any unused sick leave in excess of the 90 days at the beginning of the new year. Employees are eligible for payment of one-third of their accrued sick leave upon termination or retirement only upon completion of eight years of service.

d. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

H. Compliance and Accountability

a. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Expenditures exceeded the budget in four functional areas in the General Fund	A combination of underspending in other functional categories as well as transfers from other funds have covered such overspendings.

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City’s cash and deposit balances as of September 30, 2014:

Cash and deposit balances consist of:	
Petty cash funds	\$ 742
Bank deposits (cash and cash equivalents)	2,276,584
Certificates of deposit (interest rates at .33%)	8,250,517
	<hr/>
Total	\$ 10,527,843
	<hr/> <hr/>

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

Government-wide Statement of Net Position:

Unrestricted	\$ 1,747,926
Restricted	8,468,516
Component unit - unrestricted	271,802
Component unit - restricted	39,599
	<hr/>
Total	\$ 10,527,843
	<hr/> <hr/>

Custodial credit risk – deposits. As of September 30, 2014 the carrying amount of the City’s deposits (cash, interest bearing accounts and certificates of deposit) with financial institutions was \$10,527,101. The total of the accounts bank balance was \$10,576,905. Of the bank balance, \$8,500,517 was insured through the Federal Depository Insurance Corporation (FDIC) and \$2,076,388 was collateralized with securities held by the pledging of institution’s agent in the City’s name.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Following is a reconciliation of the City’s investment balances as of September 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Certificates of deposit		
Governmental activities (interest rates at .10 - .25%)	\$ 1,813,417	257
Business-Type activities (interest rates at .10 - .33%)	5,173,792	275
Component Unit (interest rates at .05 - .25%)	<u>174,054</u>	181
 Total fair value	 <u>\$ 7,161,263</u>	
Portfolio weighted average maturity		<u>268</u>

Custodial credit risk – investments. As of September 30, 2014 the carrying amount of the City’s investments (certificates of deposit) with financial institutions was \$7,161,263. Of the investment balance, \$4,589,206 was invested through the Federal Depository Insurance Corporation (FDIC) and \$2,572,057 was collateralized with securities held by the pledging of institution’s agent in the City’s name.

The depository makes no distinction between the City and its component unit when pledging securities.

Interest rate risk is the risk that adverse changes in interest rates will result in an adverse effect on the fair value of an investment. The City manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to three years or less.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. State law and City policy limit investments in local government pools to those rated to no lower than AAA or an equivalent rating by at least on nationally recognized rating service.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. As of September 30, 2014, none of the City’s investments were considered concentrated.

Investment Accounting Policy

The City’s general policy is to report money market investments and short-term participating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by the other factors, it is reported at fair value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investments value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts. The City’s only investments are certificates of deposit.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

Primary Government:

<u>Governmental activities:</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers / Reclassifications</u>	<u>Ending Balances</u>
Capital assets not being depreciated:					
Land	\$ 496,589	\$ 242,786	\$ -	\$ -	\$ 739,375
Construction in progress	2,162,979	54,058	-	(2,156,655)	60,382
Total capital assets not being depreciated	<u>2,659,568</u>	<u>296,844</u>	<u>-</u>	<u>(2,156,655)</u>	<u>799,757</u>
Capital assets being depreciated:					
Buildings	3,777,708	59,523	-	-	3,837,231
Improvements other than buildings	1,582,769	425,357	-	2,101,568	4,109,694
Equipment	5,601,575	710,532	(199,014)	81,559	6,194,652
Infrastructure	28,283,451	893,990	-	55,088	29,232,529
Total capital assets being depreciated	<u>39,245,503</u>	<u>2,089,402</u>	<u>(199,014)</u>	<u>2,238,215</u>	<u>43,374,106</u>
Less accumulated depreciating for:					
Buildings	(1,610,068)	(89,035)	-	-	(1,699,103)
Improvements other than buildings	(783,862)	(134,173)	-	-	(918,035)
Equipment	(2,713,929)	(356,507)	176,125	(64,449)	(2,958,760)
Infrastructure	(16,864,317)	(290,135)	-	-	(17,154,452)
Total accumulated depreciation	<u>(21,972,176)</u>	<u>(869,850)</u>	<u>176,125</u>	<u>(64,449)</u>	<u>(22,730,350)</u>
Total capital assets being depreciated, net	<u>17,273,327</u>	<u>1,219,552</u>	<u>(22,889)</u>	<u>2,173,766</u>	<u>20,643,756</u>
Governmental activities capital assets, net	<u>\$ 19,932,895</u>	<u>\$ 1,516,396</u>	<u>\$ (22,889)</u>	<u>\$ 17,111</u>	<u>\$ 21,443,513</u>

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

Governmental activities:	
General government	\$ 27,641
Public safety	111,830
Streets	410,225
Culture and recreation	209,730
Capital assets held by the government's internal service funds	<u>110,424</u>
Total depreciation expense-governmental activities	<u>\$ 869,850</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 – CAPITAL ASSETS – Continuation

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 3,328,119	\$ 277,975	\$ -	\$ -	\$ 3,606,094
Construction in progress	3,730,497	923,992	-	(4,612,459)	42,030
Total capital assets not being depreciated	<u>7,058,616</u>	<u>1,201,967</u>	<u>-</u>	<u>(4,612,459)</u>	<u>3,648,124</u>
Capital assets being depreciated:					
Buildings	631,220	7,470	-	-	638,690
Improvements other than buildings	11,897,489	107,322	-	9,204	12,014,015
Equipment	3,678,063	65,688	-	(81,558)	3,662,193
Infrastructure	21,143,189	82,968	-	4,603,253	25,829,410
Total capital assets being depreciated	<u>37,349,961</u>	<u>263,448</u>	<u>-</u>	<u>4,530,899</u>	<u>42,144,308</u>
Less accumulated depreciation for:					
Buildings	(334,643)	(39,196)	-	-	(373,839)
Improvements other than buildings	(2,813,113)	(275,883)	-	-	(3,088,996)
Equipment	(2,830,822)	(210,258)	-	64,449	(2,976,631)
Infrastructure	(10,141,970)	(386,911)	-	-	(10,528,881)
Total accumulated depreciation	<u>(16,120,548)</u>	<u>(912,248)</u>	<u>-</u>	<u>64,449</u>	<u>(16,968,347)</u>
Total capital assets being depreciated, net	<u>21,229,413</u>	<u>(648,800)</u>	<u>-</u>	<u>4,595,348</u>	<u>25,175,961</u>
Business-type activities capital assets, net	<u>\$ 28,288,029</u>	<u>\$ 553,167</u>	<u>\$ -</u>	<u>\$ (17,111)</u>	<u>\$ 28,824,085</u>

Depreciation expense was charged to the functions/programs of the business-type activities of the primary government as follows:

Business-type activities:	
Water/sewer	\$ 653,652
Golf course	258,596
Total depreciation expense-business-type activities	<u>\$ 912,248</u>

Component Unit:

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
Capital assets being depreciated:					
Buildings	-	3,941	-	-	3,941
Equipment	26,754	12,359	(3,467)	-	35,646
Total capital assets being depreciated	<u>26,754</u>	<u>16,300</u>	<u>(3,467)</u>	<u>-</u>	<u>39,587</u>
Less accumulated depreciation for:					
Buildings	-	(460)	-	-	(460)
Equipment	(20,261)	(3,011)	3,467	-	(19,805)
Total accumulated depreciation	<u>(20,261)</u>	<u>(3,471)</u>	<u>3,467</u>	<u>-</u>	<u>(20,265)</u>
Total capital assets being depreciated, net	<u>6,493</u>	<u>12,829</u>	<u>-</u>	<u>-</u>	<u>19,322</u>
Component unit capital assets, net	<u>\$ 6,493</u>	<u>\$ 12,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,322</u>

The only function of the component unit is the economic development and all depreciation was charged to that function.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 – CAPITAL ASSETS – Continuation

Construction commitments. The City has active construction projects as of September 30, 2014. The projects included the Civic Complex expansion and Railroad Quiet Zone projects in the Governmental Activities and water pipeline, wastewater, and City Hall expansion projects in the Business-Type Activities. At year end the City’s estimated remaining commitments were \$105,000 and \$3,145,366 for governmental activities and business-type activities, respectively.

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 115,164	\$ 37,833
Special Revenue Funds:		
Municipal Court Technology	24,973	-
Municipal Court Security	861	-
Water/Sewer Fund	85,729	50,919
Golf Course Fund	11,999	182,512
Internal Service Fund	32,538	-
	<u>\$ 271,264</u>	<u>\$ 271,264</u>

The primary purpose of interfund receivables and payables is for the purpose of meeting current year expenditures.

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ 831,613	\$ 595
Water/Sewer Fund	-	831,613
Internal Service Fund	595	-
	<u>\$ 832,208</u>	<u>\$ 832,208</u>

The primary purpose of interfund transfers is to supplement the resources of the Non-Major funds and to reimburse the General Fund for expenditures on behalf of the Enterprise and Non-Major funds.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 – LONG-TERM DEBT

1. Long-Term Debt Activity

In December 2004, the City issued \$6,965,000 of Tax and Water and Sewer System Surplus Revenue Certificates of Obligation, Series 2004, (the “2004 Obligations”), that were used for improvements on the City’s water and sewer system. The 2004 Obligations are due and payable between February 15, 2006 and February 15, 2025, and carry variable interest rates between 3.00% and 4.75%. During the year ended September 30, 2013, \$4,555,000 of the 2004 Obligations were refunded by the 2013 General Obligation Refunding Bonds as discussed below, and the City repaid \$300,000 on the 2004 Obligations, which have been paid off as of September 30, 2014.

In August 2012, the City issued \$9,090,000 of Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2012, (the “2012 Obligations”), that are to be used for improvements to the City’s water and sewer system. The 2012 Obligations are due and payable between February 15, 2013 and February 15, 2032, and carry variable interest rates between 2.00% and 3.50%. As of September 30, 2014 the outstanding balance on the 2012 Obligations was \$8,385,000.

In February 2013, the City issued \$6,180,000 of General Obligation Refunding Bonds, Series 2013, (the “2013 Obligations”). Proceeds from the sale of the 2013 Obligations will be used to 1) refund a portion of the City’s Series 2004 and Series 2007 Obligations, and 2) pay costs of issuance of the bonds. The 2013 Obligations will be repaid through ad valorem taxes, within the limits prescribed by law. The 2013 Obligations are due and payable between February 15, 2014 and February 15, 2027, and carry variable interest rates between 2.00% and 3.00%. As of September 30, 2014 the outstanding balance on the 2013 Obligations was \$6,035,000.

The General Obligation Refunding Bonds, Series 2013 was used to pay off the debt held in the water and sewer and the golf course funds. The new outstanding debt has been allocated between the two funds based on the amount outstanding at the time of refunding. The debt is shown under business-type activities on the statement of net position.

Advance Refunding

During the year September 30, 2013, the City issued \$6,180,000 of General Obligation Refunding Bonds with an interest rates ranging between 2.00% and 3.00%. The City issued the bonds to advance refund a portion of the outstanding series 2004 and 2007 Surplus Revenue Certificates of Obligation with interest rates ranging between 3.00% and 4.75%. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of the Surplus Revenue Certificates of Obligation, Series 2004 and 2007 are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price was less than the net carrying amount of the old debt by \$173,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. The City advanced refunded the Surplus Revenue Certificates of Obligation, Series 2004 and currently refunded the Surplus Revenue Certificates of Obligation, Series 2007 to reduce its total debt service payments over 14 years by \$1,024,915 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$887,519.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 – LONG-TERM DEBT – Continuation

Changes in long-term obligations for the year ended September 30, 2014, are as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 76,011	\$ -	\$ (30,934)	\$ 45,077	\$ 32,766
Compensated Absences	147,821	251,553	(166,530)	232,844	23,284
Other Post Employment Benefits Obligation	<u>67,537</u>	<u>21,978</u>	<u>-</u>	<u>89,515</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 291,369</u>	<u>\$ 273,531</u>	<u>\$ (197,464)</u>	<u>\$ 367,436</u>	<u>\$ 56,050</u>
Business-Type Activities:					
Bonds Payable					
Surplus Revenue Obligation, Series 2004	\$ 315,000	\$ -	\$ (315,000)	\$ -	\$ -
Surplus Revenue Obligation, Series 2012	8,735,000	-	(350,000)	8,385,000	360,000
General Obligation Refunding Bond, Series 2013	6,180,000	-	(145,000)	6,035,000	470,000
Unamortized Bond Premiums	1,048,130	-	(49,145)	998,985	-
Deferred Charge on Refunding	(258,227)	6,779	-	(251,448)	-
Capital Leases	170,429	-	(42,402)	128,027	44,472
Compensated Absences	54,235	50,056	(53,400)	50,891	5,089
Other Post Employment Benefits Obligations	<u>14,256</u>	<u>-</u>	<u>(3,815)</u>	<u>10,441</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 16,258,823</u>	<u>\$ 56,835</u>	<u>\$ (958,762)</u>	<u>\$ 15,356,896</u>	<u>\$ 879,561</u>

During prior years, compensated absences have been typically liquidated by the General Fund for governmental activities and by the Proprietary Fund in which the liability has been incurred for all business-type activities. The City does not anticipate any changes in the future for liquidation of these types of liabilities from how they have been liquidated in the past.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 – LONG-TERM DEBT – Continuation

2. Debt Service Requirements

a) Debt service requirements at September 30, 2014, are as follows:

Fiscal year ending September 30	Surplus Revenue Obligation, Series 2012		
	Principal	Interest	Total
2015	\$ 360,000	\$ 263,125	\$ 623,125
2016	365,000	255,875	620,875
2017	375,000	248,475	623,475
2018	385,000	238,950	623,950
2019	400,000	227,175	627,175
2020-2024	2,170,000	942,538	3,112,538
2025-2029	2,560,000	539,875	3,099,875
2030-2032	1,770,000	94,325	1,864,325
Total	\$ 8,385,000	\$ 2,810,338	\$ 11,195,338

Fiscal year ending September 30	General Obligation Refunding Bond, Series 2013		
	Principal	Interest	Total
2015	\$ 470,000	\$ 151,850	\$ 621,850
2016	480,000	142,350	622,350
2017	490,000	132,650	622,650
2018	500,000	122,750	622,750
2019	510,000	112,650	622,650
2020-2024	2,785,000	333,825	3,118,825
2025-2029	800,000	20,550	820,550
Total	\$ 6,035,000	\$ 1,016,625	\$ 7,051,625

3. Current year interest expense was recorded as follows:

	Accrued Interest Payable October 1, 2013	Interest Paid during the Year	Amortization of Bond Premium and Deferred Loss on Refunding	Accrued Interest Payable September 30, 2014	Interest Expense
Water and Sewer	\$ 51,365	\$ 391,870	\$ 40,907	\$ 41,695	\$ 341,293
Golf Course	9,267	52,541	1,458	7,759	49,575
Total	\$ 60,632	\$ 444,411	\$ 42,365	\$ 49,454	\$ 390,868

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 – LEASE OBLIGATIONS

Capital Leases

The City has leased certain equipment under non-cancellable capital leases for various pieces of equipment. The interest rates range between 4.309% and 6.170% with maturity dates ranging from November 2015 and May 2017. The following summarizes the City's obligations under capital leases:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Golf Course</u>
2015	\$ 35,344	\$ 50,772
2016	12,947	50,772
2017	-	38,772
Total	48,291	140,316
Less amounts representing interest	3,214	12,289
	<u>\$ 45,077</u>	<u>\$ 128,027</u>

The following summarized the assets acquired under capital lease:

Equipment	\$ 168,289	\$ 308,395
Accumulated Depreciation	88,723	168,375
Net Leased Equipment	<u>\$ 79,566</u>	<u>\$ 140,020</u>

Operating Leases

The City is obligated under certain leases for office equipment which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the assets being leased under the lease agreements are not reflected in the City's capital assets. The future minimum lease payments under non-cancellable operating leases are as follows:

<u>Year Ending September 30,</u>	<u>Future Minimum Lease Payments</u>
2015	\$ 13,671
2016	11,594
2017	10,845
2018	5,818
2019	603
Total	<u>\$ 42,531</u>

Rental expenditures under the City's operating leases for the year ended September 30, 2014 totaled \$11,412.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year ended 2014, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage described above. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded in any of the past three fiscal years.

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS

A. AGENT MULTIPLE – EMPLOYER PLAN

Plan Description:

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

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

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is 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., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

For the fiscal year ended September 30, 2014, the City's pension cost of \$700,843 was equal to the City's required and actual contributions.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost(APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)	Annual Req. Contribution Rate
2012	\$ 594,520	\$ 594,520	100 %	\$ -	16.76 %
2013	632,968	632,968	100	-	17.16
2014	700,843	700,843	100	-	17.68

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information on the latest actuarial valuations, December 31, 2013, also follows:

Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial cost method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period	23.0 years; closed period	25.4 years; closed period	26.5 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:			
Investment rate of return*	7.0%	7.0%	7.0%
Projected salary increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes inflation at	3.00%	3.00%	3.00%
Cost-of-living adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress:

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

The funding status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2013	\$ 19,658,568	\$ 24,155,480	\$ 4,496,912	81.38 %	\$ 3,768,390	119.33 %

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

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

Plan Description:

The City provides health care benefits for retired employees through an agent multiple-employer plan administered by Texas Municipal League Intergovernmental Employee Benefits Pool (“TML”). All retired employees who were employed on or before August 6, 2012 and meet the eligibility guidelines for TMRS, are eligible to receive group health insurance coverage paid by the City for 7 years subsequent to retirement date, until the employee reaches the age of 65 years, or until the employee gains other employment whichever comes first. Retired employees’ spouses are eligible to receive the same health benefits at the employees’ cost for the same terms.

The contribution requirements of the City are established and may be amended by the Commission. Employee plan members are not currently required to contribute.

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS – Continuation

Annual OPEB Cost and Net OPEB Obligation:

The end of the year net OPEB obligation and schedule of employer contributions is determined as follows based on the actuarial valuation performed as October 1, 2012:

Net OPEB Obligation (NOO)

	Fiscal Year Ending 2014***	Fiscal Year Ending 2015***
Annual Required Contribution (ARC)	\$ 93,125	\$ 95,206
Interest on NOO	3,272	3,998
Adjustment to ARC	(3,355)	(4,182)
Annual OPEB Cost	\$ 93,042	\$ 95,022
Employer Contributions **	(74,879)	(97,404)
Increase (Decrease) in NOO	\$ 18,163	\$ (2,382)
NOO Beginning of year	81,793	99,956
NOO end of year	<u>\$ 99,956</u>	<u>\$ 97,574</u>

Schedule of Employer Contributions

	Fiscal Year Ending 2014***	Fiscal Year Ending 2015***
Annual OPEB Cost	\$ 93,042	\$ 95,022
Employer Contributions **	\$ 74,879	\$ 97,404
Percentage Contributed	80.48%	102.51%

**Employer contributions for fiscal year ending 2014 and 2015 (Pay-As-You-Go costs) are estimates and should be determined at fiscal year end and will equal retiree costs less contributions paid by retirees.

***The 10/1/2014 and 10/1/2015 liabilities and fiscal year ending 2015 and 2016 annual costs are based on this 10/1/2013 GASB No. 45 Actuarial Valuation.

Actuarial Methods and Assumptions

The actuarial information was performed based on a 4.00% discount rate, Pay-As-You-Go funding, Projected Unit Credit actuarial cost method, and closed 30-year amortization of the UAAL increasing 3.00% per year (the payroll growth rate).

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funding status and the annual required contributions of the City's retirees are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS – Continuation

Additional Disclosures

GASB 45 requires governmental organizations to recognize an actuarially calculated accrued liability for OPEB even though it may not have a legally enforceable obligation to pay OPEB benefits. Information and amounts presented in this statement relative to OPEB expense, related liabilities (assets), note disclosures, and supplementary information are intended to achieve compliance with the requirements of GAAP and does not constitute or imply that the City has made a commitment or is legally obligated to fund OPEB benefits.

NOTE 10 – COMPONENT UNIT TRANSACTIONS

CEDC Commitments

During the fiscal year ended 2013, the CEDC committed to the Panhandle Plains Historical Museum funding in the amount of \$100,000 for projects at the museum. As of the end of the year, none of this commitment has been funded.

The CEDC has committed funds to the City for parks expansion in the amount of \$850,000 to be funded over a period of 5 years. Four of the five payments have been made to the City as of the year ended September 30, 2014. As of September 30, 2014, the remaining commitment is \$170,000.

During the fiscal year ended 2014, the CEDC committed funding in an amount not to exceed \$52,500 to a company for renovations of a retail location. Reimbursements for supplies and labor costs will occur quarterly over an estimated renovation phase of twelve to eighteen months. As of the end of the year, none of this commitment has been funded.

During the fiscal year ended 2014, the CEDC committed funding in an amount not to exceed \$100,000 to a company for construction improvements of a retail space to be utilized as a food service business. Under the agreement, \$60,000 is to be funded at the beginning of construction with \$20,000 paid six months after opening the location and the remaining \$20,000 paid on the first anniversary. As of September 30, 2014, the remaining commitment is \$40,000.

NOTE 11 – SUBSEQUENT EVENTS

During the fiscal year ended 2013, the CEDC committed to funding not to exceed \$28,329 to a company for the purpose of remodeling retail space and engaging in e-commerce sales to be maintained for a minimum of five years. During the fiscal year ended 2014, \$23,250 was funded. However, subsequent to year end, the business was sold and a repayment plan was drawn up. Under the repayment plan, the prorated value of funding to be repaid by the company is \$17,825 over a term of thirty six months beginning in January 2015.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

The government-wide statement's net position, and the fund financial statement's fund balances were restated as follows:

	<u>Government-Wide Statements</u>		<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>General</u>	<u>Board of City Development</u>	<u>Water/Sewer</u>	<u>Golf Course</u>
Net positions/fund balances as of September 30, 2013, as previously reported	\$ 22,932,878	\$ 28,465,353	\$ 2,481,985	\$ 61,557	\$ 28,292,242	\$ 173,111
Correct prior year franchise tax receivable	169,924	-	169,924	-	-	-
Correct prior year municipal court fees receivable	115,831	-	-	-	-	-
Correct prior year hotel/motel tax receivable	30,118	-	-	30,118	-	-
Correct prior year utility billings receivable	-	95,838	-	-	95,838	-
Correct prior year unamortized bond premium	-	(78,073)	-	-	(78,073)	-
Correct prior year accounts receivable	-	(17,000)	-	-	-	(17,000)
Total net restatement	315,873	765	169,924	30,118	17,765	(17,000)
Restated net positions/fund balances as of October 1, 2013, as restated	<u>\$ 23,248,751</u>	<u>\$ 28,466,118</u>	<u>\$ 2,651,909</u>	<u>\$ 91,675</u>	<u>\$ 28,310,007</u>	<u>\$ 156,111</u>



REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b/c)/c]
12/31/2011	\$ 16,844,807	\$ 20,322,105	\$ 3,477,298	82.89 %	\$ 3,527,546	98.58 %
12/31/2012	18,154,490	21,562,630	3,408,140	84.19	3,591,514	94.89
12/31/2013	19,658,568	24,155,480	4,496,912	81.38	3,768,390	119.33

**CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFIT OBLIGATION
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b/c)/c]
10/1/2012	\$ -	\$ 978,970	\$ 978,970	- %	\$ N/A	- %
10/1/2013 *	-	1,010,924	1,010,924	-	N/A	-
10/1/2014 *	-	1,024,425	1,024,425	-	N/A	-

* The 10/1/2013 and 10/1/2014 liabilities and FYE 2014 and 2015 annual costs are based on this 10/1/2012 GASB No. 45 Actuarial Valuation.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the futures.



COMBINING STATEMENTS AS SUPPLEMENTARY INFORMATION

Non-major Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for and report specific revenues that are legally restricted to expenditures for particular purposes.

Municipal Court Technology – This fund is used to account for the fees paid in the municipal court designed for the purpose of financing the purchase of technological enhancements for the use of the office.

Municipal Court Security – This fund is used to account for the fees paid in the municipal court designed for the purpose of financing and maintaining the security of the office.

D-FY-IT Program – This fund is used to account for the scholarships paid out annually to the benefit of citizens of the City.

Emergency Management – This fund is used to account for the use of emergency funds as needed by the City.

LEOSE – This fund is used to account for the state funds received for the purpose of educating and training the law enforcement officers as designated by the State of Texas.

Library Gifts and Memorials – This fund is used to account for donations to the library and the expenses from those donations used for specific purposes for the library of the City.

Board of City Development (Hotel/Motel) – This fund is used to account for and report hotel/hotel taxes that are legally restricted to promotion for tourism for the City.

**CITY OF CANYON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

Special Revenue Funds

	<u>Municipal Court Technology</u>	<u>Municipal Court Security</u>	<u>D-FY-IT Program</u>	<u>Emergency Management</u>	<u>LEOSE</u>	<u>Library Gifts & Memorial</u>	<u>Board of City Development (Hotel/Motel)</u>	<u>Total</u>
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ 7,092	\$ 66,889	\$ 9,751	\$ 4,307	\$ 39,267	\$ 127,306
Taxes receivable, net	-	-	-	-	-	-	33,937	33,937
Due from other funds	24,973	861	-	-	-	-	-	25,834
Total assets	<u>\$ 24,973</u>	<u>\$ 861</u>	<u>\$ 7,092</u>	<u>\$ 66,889</u>	<u>\$ 9,751</u>	<u>\$ 4,307</u>	<u>\$ 73,204</u>	<u>\$ 187,077</u>
FUND BALANCES								
Restricted:								
Special projects	<u>\$ 24,973</u>	<u>\$ 861</u>	<u>\$ 7,092</u>	<u>\$ 66,889</u>	<u>\$ 9,751</u>	<u>\$ 4,307</u>	<u>\$ 73,204</u>	<u>\$ 187,077</u>
Total fund balances	<u>24,973</u>	<u>861</u>	<u>7,092</u>	<u>66,889</u>	<u>9,751</u>	<u>4,307</u>	<u>73,204</u>	<u>187,077</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 24,973</u>	<u>\$ 861</u>	<u>\$ 7,092</u>	<u>\$ 66,889</u>	<u>\$ 9,751</u>	<u>\$ 4,307</u>	<u>\$ 73,204</u>	<u>\$ 187,077</u>

**CITY OF CANYON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Special Revenue Funds							
	Municipal Court Technology	Municipal Court Security	D-FY-IT Program	Emergency Management	LEOSE	Library Gifts & Memorial	Board of City Development (Hotel/Motel)	Total
REVENUES								
Hotel/Motel taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,662	\$ 154,662
Licenses and fees	8,046	861	-	-	-	-	-	8,907
Intergovernmental	-	-	-	-	2,001	-	-	2,001
Investment earnings	-	-	4	31	4	2	15	56
Miscellaneous	-	-	-	910	-	1,648	-	2,558
Total revenues	<u>8,046</u>	<u>861</u>	<u>4</u>	<u>941</u>	<u>2,005</u>	<u>1,650</u>	<u>154,677</u>	<u>168,184</u>
EXPENDITURES								
Current:								
General government	-	-	3,027	-	-	-	-	3,027
Public safety	6,817	-	-	6,181	-	-	-	12,998
Culture and recreation	-	-	-	-	-	3,097	173,148	176,245
Capital outlay	-	-	-	7,535	-	-	-	7,535
Total expenditures	<u>6,817</u>	<u>-</u>	<u>3,027</u>	<u>13,716</u>	<u>-</u>	<u>3,097</u>	<u>173,148</u>	<u>199,805</u>
NET CHANGE IN FUND BALANCES	<u>1,229</u>	<u>861</u>	<u>(3,023)</u>	<u>(12,775)</u>	<u>2,005</u>	<u>(1,447)</u>	<u>(18,471)</u>	<u>(31,621)</u>
FUND BALANCES - BEGINNING	<u>23,744</u>	<u>-</u>	<u>10,115</u>	<u>79,664</u>	<u>7,746</u>	<u>5,754</u>	<u>61,557</u>	<u>188,580</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,118</u>	<u>30,118</u>
FUND BALANCES, AS RESTATED	<u>23,744</u>	<u>-</u>	<u>10,115</u>	<u>79,664</u>	<u>7,746</u>	<u>5,754</u>	<u>91,675</u>	<u>218,698</u>
FUND BALANCES - ENDING	<u>\$ 24,973</u>	<u>\$ 861</u>	<u>\$ 7,092</u>	<u>\$ 66,889</u>	<u>\$ 9,751</u>	<u>\$ 4,307</u>	<u>\$ 73,204</u>	<u>\$ 187,077</u>

COMPLIANCE AND INTERNAL CONTROL



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

To The Honorable Mayor and City Commission
City of Canyon, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund and their respective budgetary comparisons, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

DOSHIER, PICKENS & FRANCIS, L.L.C.

DOSHIER, PICKENS & FRANCIS, LLC

March 17, 2015