



CITY OF CANYON, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2015**

CITY OF CANYON, TEXAS

Annual Financial Report

**For the Year Ended
September 30, 2015**

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ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2015**

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INTRODUCTORY SECTION

CITY OF CANYON, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2015

Quinn Alexander	Mayor, Commissioner, Place 1
Joe Shehan	Commissioner, Place 2
David Logan	Commissioner, Place 3
Gary Hinders	Mayor Pro-Tem, 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, 2015, 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.

Auditors' 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, 2015, 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 3, 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 3, 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, 2015. 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 \$50,299,237 (net position) for the fiscal year reported.

Total net position is comprised of the following:

1. Net investment in capital assets of \$44,848,926 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 \$193,118 represents the portion that is restricted to a specific purpose.
3. Unrestricted net position of \$5,257,193 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 \$22,444,170 this year. This includes an unrestricted deficit of (\$625,712).

For the fiscal year ended September 30, 2015, the City's net position increased by \$472,288 as a result of regular activity. This increase consists of \$447,889 from governmental activities and \$24,399 from business-type activities.

The City has total liabilities of \$19,687,241, which now includes the pension liability in the amount of \$3,450,193. Current liabilities were \$1,834,430 and non-current liabilities were \$17,852,811.

The governmental activities earned \$2,186,369 in fees for services and received \$836,577 in contributions, grants and inter-governmental revenue. The governmental activities also received \$5,138,614 of general revenues, and \$682,155 of transfers from the City's business-type activities. Property and sales taxes accounted for \$4,209,667 of the general revenues.

The business-type activities of the City generated \$6,914,485 in charges for services. The business-type activities also had \$78,270 in capital improvement grants, and \$42,727 in general revenues consisting of unrestricted investment earnings. The City transferred \$682,155 from its business-type activities to the City's governmental activities.

Total governmental activities expenses were \$8,395,826. Public safety, streets, and sanitation accounted for \$5,587,569 of the total expenditures.

Total business-type activities expenses were \$6,328,928. Waterworks and sewer system operations accounted for \$4,916,977, and municipal golf course operations accounted for \$1,411,951 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.

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 – the 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 approve expenditures and projects of the CEDC. Therefore, the City can 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.

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.

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						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,623,181	\$ 3,540,384	\$14,787,267	\$15,615,241	\$17,410,448	\$19,155,625
Capital Assets, net of						
Depreciation	<u>22,889,076</u>	<u>21,443,513</u>	<u>28,766,175</u>	<u>28,824,085</u>	<u>51,655,251</u>	<u>50,267,598</u>
Total Assets	<u>25,512,257</u>	<u>24,983,897</u>	<u>43,553,442</u>	<u>44,439,326</u>	<u>69,065,699</u>	<u>69,423,223</u>
Deferred Charge on Refunding	-	-	232,140	251,448	232,140	251,448
Deferred pension contributions	467,054	-	134,816	-	601,870	-
Deferred pension-deficient earnings	<u>162,350</u>	<u>-</u>	<u>51,156</u>	<u>-</u>	<u>213,506</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>629,404</u>	<u>-</u>	<u>418,112</u>	<u>251,448</u>	<u>1,047,516</u>	<u>251,448</u>
Current liabilities	547,738	414,914	1,286,692	1,469,263	1,834,430	1,884,177
Long-term liabilities	<u>3,046,404</u>	<u>311,386</u>	<u>14,806,407</u>	<u>14,728,783</u>	<u>17,852,811</u>	<u>15,040,169</u>
Total liabilities	<u>3,594,142</u>	<u>726,300</u>	<u>16,093,099</u>	<u>16,198,046</u>	<u>19,687,241</u>	<u>16,924,346</u>
Deferred pension-earnings	29,125	-	-	-	29,125	-
Deferred pension-actuarial gains	<u>74,224</u>	<u>-</u>	<u>23,388</u>	<u>-</u>	<u>97,612</u>	<u>-</u>
Total deferred inflows of resources	<u>103,349</u>	<u>-</u>	<u>23,388</u>	<u>-</u>	<u>126,737</u>	<u>-</u>
Net Investment in Capital Assets	22,876,764	21,398,436	21,972,162	22,272,911	44,848,926	43,671,347
Restricted:						
Municipal Court Technology and Security	21,842	25,834	-	-	21,842	25,834
Civic Activities	84,469	73,204	-	-	84,469	73,204
Education Programs	4,593	7,092	-	-	4,593	7,092
Emergency Management	64,653	66,889	-	-	64,653	66,889
Police Services	11,044	9,751	-	-	11,044	9,751
Library	6,517	4,307	-	-	6,517	4,307
Unrestricted	<u>(625,712)</u>	<u>2,672,084</u>	<u>5,882,905</u>	<u>6,219,817</u>	<u>5,257,193</u>	<u>8,891,901</u>
Total Net Position	<u>\$22,444,170</u>	<u>\$24,257,597</u>	<u>\$27,855,067</u>	<u>\$28,492,728</u>	<u>\$50,299,237</u>	<u>\$52,750,325</u>

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 and deferred inflows of resources by \$50,299,237 at the close of the most recent fiscal year, which is an increase of \$472,290 from the prior year, net of prior period adjustments totaling (\$2,923,378).

Government-wide total assets decreased by \$357,524 while the total liabilities increased by \$2,762,895, which includes the effect of reporting a pension liability for the first time in 2015 (\$3,450,193). Investment in capital assets represents approximately 89% 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 \$3,634,708, which includes the effect of the prior period adjustment of \$2,923,378 to record the pension liability.

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

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Charges for services	\$ 2,186,369	\$ 1,960,163	\$ 6,914,485	\$ 7,166,371	\$ 9,100,854	\$ 9,126,534
Capital Grants and contributions	-	-	78,270	-	78,270	-
Operating grants and contributions	836,577	604,306	-	-	836,577	604,306
Property taxes	2,260,506	2,115,671	-	-	2,260,506	2,115,671
Sales taxes	1,948,745	1,840,442	-	-	1,948,745	1,840,442
Franchise taxes	678,725	682,550	-	-	678,725	682,550
Other taxes	214,656	160,801	-	-	214,656	160,801
Investment earnings	3,880	5,023	42,727	48,815	46,607	53,838
Sales of capital assets	7,694	15,113	-	-	7,694	15,113
Miscellaneous revenue	24,408	151,852	-	-	24,408	151,852
Operating transfers	682,155	831,613	(682,155)	(831,613)	-	-
Total revenues and transfers	8,843,715	8,367,534	6,353,327	6,383,573	15,197,042	14,751,107
General governmental	958,544	495,854	-	-	958,544	495,854
Public safety	3,609,010	3,354,917	-	-	3,609,010	3,354,917
Streets	1,001,771	996,542	-	-	1,001,771	996,542
Sanitation	976,788	840,373	-	-	976,788	840,373
Culture and recreation	1,628,317	1,457,699	-	-	1,628,317	1,457,699
Conservation and development	218,818	208,893	-	-	218,818	208,893
Interest on long-term debt	2,578	4,410	-	-	2,578	4,410
Water and sewer	-	-	4,916,977	4,961,116	4,916,977	4,961,116
Golf course	-	-	1,411,951	1,395,847	1,411,951	1,395,847
Total expenses	8,395,826	7,358,688	6,328,928	6,356,963	14,724,754	13,715,651
Change in net position	\$ 447,889	\$ 1,008,846	\$ 24,399	\$ 26,610	\$ 472,288	\$ 1,035,456

Government-wide total revenues increased \$445,935 from the prior year. Government-wide expenses increased \$1,009,103.

Overall, the City's net position increased \$472,288 during the year.

Governmental activities: Governmental activities increased the City's net position by \$447,889 for the year. Revenue from governmental activities increased by \$625,639 (exclusive of operating transfers). Most of this increase was from capital grants. Total expenditures by governmental activities increased by \$1,037,138. Depreciation on capital assets in the governmental activities was \$1,032,167 for the year.

Business-type activities: Revenue for business-type activities decreased \$179,704 (exclusive of operating transfers). This decrease was primarily due to a decrease in water usage as a result of increased rainfall. Expenses in the business-type activities decreased slightly, \$28,035. Depreciation in the business-type activities was \$957,112 for the year.

The City invested in significant capital asset additions during the year. In the governmental activities \$2,477,730 in capital assets were purchased. The most significant purchases were for street improvement projects and the purchase and construction of a parking lot near the downtown square. Additionally, there were other capital expenditures in equipment and infrastructure assets as well. In the business type activities \$932,700 in new additions were made. Much of this was continued work on the long range water improvements, including the purchase of land and water rights, 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						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2014	2015	2014	2015	2014
Land and easements	\$ 739,375	\$ 739,375	\$ 4,131,011	\$ 3,606,094	\$ 4,870,386	\$ 4,345,469
Buildings	3,850,331	3,837,231	664,404	638,690	4,514,735	4,475,921
Equipment	6,590,213	6,194,652	3,489,183	3,662,193	10,079,396	9,856,845
Improvements	4,119,814	4,109,694	12,021,314	12,014,015	16,141,128	16,123,709
Infrastructure	30,132,081	29,232,529	25,872,139	25,829,410	56,004,220	55,061,939
Construction in progress	1,164,270	60,382	295,847	42,030	1,460,117	102,412
Total	46,596,084	44,173,863	46,473,898	45,792,432	93,069,982	89,966,295
Accumulated depreciation	<u>(23,707,008)</u>	<u>(22,730,350)</u>	<u>(17,707,723)</u>	<u>(16,968,347)</u>	<u>(41,414,731)</u>	<u>(39,698,697)</u>
Net Capital Assets	<u>\$22,889,076</u>	<u>\$21,443,513</u>	<u>\$28,766,175</u>	<u>\$28,824,085</u>	<u>\$51,655,251</u>	<u>\$50,267,598</u>

Summary and Future Outlook:

Canyon's economy continues to strengthen and grow. The City's financial condition is solid and secure. We continue to enjoy the economic stability that results from our major industry being Education-based. WTAMU and CISD are both very large employers, and are our major economic drivers. The future for Canyon will always be bright because of that. Property values have risen again this year, which is another indicator of a strengthening economy. Our sister cities in West Texas live and die by the oil industry. When it's good, it's good. When it's bad, it's bad. I'd love to have the "good", but I wouldn't trade what we have in Canyon for the risk of the "bad". Canyon is strong and stable. As shown in the Audit, our net position increased by about \$472,000 in 2015. For a year when we had 40 inches of moisture, resulting in a measurable reduction in water sales, this was an excellent outcome.

We look forward to the completion and opening of new industry and business in Canyon in the coming years. The Lone Star Dairy Products plant is currently under construction, and this is a very exciting thing for Canyon. Completion is expected in late 2016 or early 2017. I believe this plant could ultimately result in an overall economic impact rivaling that of the successful recruitment of WT, a hundred years ago. Clean, well-paying industry is something we've never had, and the Lone Star project will bring it, with more likely to follow.

There are also several other exciting things in the future for Canyon. We are seeing residential growth at a rate higher than ever. The Canyon East development is exploding with growth. We are looking forward to the start of the Madison Park Subdivision, and Canyon Crestview Estates, both on the

forward to the start of the Madison Park Subdivision, and Canyon Crestview Estates, both on the north/northwest boundaries of Canyon. The Gagestone Ridge Subdivision is also still selling lots. Several hundred lots will ultimately be developed with all of these subdivisions.

The Canyon Economic Development Corporation continues to fund projects that benefit our community by bringing in new jobs, new retail, and quality of life projects. We have several new businesses looking at Canyon, and some of them will come.

A community interactive Strategic Planning Session informational meeting was conducted in February 2016, and will ultimately result in a short term Strategic Plan at the very least, and possibly even more long-term as well.

In 2016, work will begin on the design and construction of the Family Aquatic Center that voters approved for \$6 million. Those bonds will be issued in 2016. It's truly an exciting time in Canyon.

We continue to provide services to our residents that are the best they can be, and we do it at a fair cost, with a limited number of employees. As we grow, we'll look for ways to work smarter and more efficiently, but we have to expect that with the growth, a need for additional employees will follow.

Overall, our financial status is excellent. Our commitment to maintaining a solid level of reserves is prudent. However, again this year, our General Fund doesn't carry its share of the load, and as unpopular as it might be, our Ad Valorem taxes need to increase. Increase the tax base helps, but increasing the rate is important to be able to maintain our commitments to our system.

Future challenges include maintaining our aging infrastructure, balancing fees and taxes with a strong level of service, continued efforts to increase water supply and to look at alternatives, even up to and including adoption of Ordinances that will force conservation and keeping up with our growth. These are just a few of the challenges we see as a vibrant, growing City. Two exceptionally large challenges ahead are what to do with our City Hall facilities, and our failing brick streets.

In summary, the City of Canyon is stable and healthy financially. We have adequate reserves, we have growth of all types, we have strong leadership, and we have the best staff of any employer, anywhere. I believe we have citizens that like 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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 529,682	\$ 4,016,883	\$ 4,546,565	\$ 256,794
Investments	1,816,362	1,198,049	3,014,411	302,678
Restricted cash - customer deposits	-	226,913	226,913	-
Restricted cash for construction	-	7,586,676	7,586,676	-
Receivables, net	602,246	811,867	1,414,113	-
Internal balances	(750,215)	750,215	-	-
Due from component unit	11,117	-	11,117	-
Intergovernmental receivables	413,989	63,078	477,067	123,959
Inventories	-	133,586	133,586	-
Security deposit	-	-	-	1,007
Capital assets not being depreciated:				
Land	739,375	4,131,011	4,870,386	-
Construction in progress	1,164,270	295,847	1,460,117	-
Capital assets, net of accumulated depreciation			-	
Buildings	2,059,595	251,121	2,310,716	2,693
Improvements other than buildings	3,043,925	8,654,484	11,698,409	-
Equipment	3,269,503	568,412	3,837,915	28,139
Infrastructure	12,612,408	14,865,300	27,477,708	-
Total assets	25,512,257	43,553,442	69,065,699	715,270
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	232,140	232,140	-
Deferred pension contributions	467,054	134,816	601,870	-
Deferred pension-deficient earnings	162,350	51,156	213,506	-
Total deferred outflows of resources	629,404	418,112	1,047,516	-
LIABILITIES				
Accounts payable	469,317	290,626	759,943	10,000
Accrued liabilities	9,959	17,345	27,304	-
Accrued interest	-	45,809	45,809	-
Intergovernmental payable	24,035	-	24,035	-
Due to primary government	-	-	-	11,117
Customer deposits	-	226,913	226,913	-
Unearned revenues	-	33,084	33,084	-
Pension liability	2,660,448	789,745	3,450,193	-
Noncurrent liabilities:				
Due within one year	44,427	899,828	944,255	15,777
Due in more than one year	385,956	13,789,749	14,175,705	126,216
Total liabilities	3,594,142	16,093,099	19,687,241	163,110
DEFERRED INFLOWS OF RESOURCES				
Deferred pension-earnings	29,125	-	29,125	-
Deferred pension-actuarial gains	74,224	23,388	97,612	-
Total deferred inflows of resources	103,349	23,388	126,737	-
NET POSITION				
Net investment in capital assets	22,876,764	21,972,162	44,848,926	30,832
Restricted for:			-	
Enabling legislation	186,601	-	186,601	-
Special projects	6,517	-	6,517	-
Unrestricted	(625,712)	5,882,905	5,257,193	521,328
Total net position	\$ 22,444,170	\$ 27,855,067	\$ 50,299,237	\$ 552,160

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, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	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	\$ 958,544	\$ 1,007	\$ 133,409	\$ -	\$ (824,128)	\$ -	\$ (824,128)	\$ -
Public safety	3,609,010	355,010	637,391	-	(2,616,609)	-	(2,616,609)	-
Streets	1,001,771	-	-	-	(1,001,771)	-	(1,001,771)	-
Sanitation	976,788	1,642,851	-	-	666,063	-	666,063	-
Culture and recreation	1,628,317	187,501	65,777	-	(1,375,039)	-	(1,375,039)	-
Conservation and development	218,818	-	-	-	(218,818)	-	(218,818)	-
Interest on long-term debt	2,578	-	-	-	(2,578)	-	(2,578)	-
Total governmental activities	8,395,826	2,186,369	836,577	-	(5,372,880)	-	(5,372,880)	-
Business-Type Activities:								
Water and sewer	4,916,977	6,068,683	-	78,270	-	1,229,976	1,229,976	-
Golf course	1,411,951	845,802	-	-	-	(566,149)	(566,149)	-
Total business-type activities	6,328,928	6,914,485	-	78,270	-	663,827	663,827	-
Total primary government	\$ 14,724,754	\$ 9,100,854	\$ 836,577	\$ 78,270	\$ (5,372,880)	\$ 663,827	\$ (4,709,053)	\$ -
Component Unit:								
Economic Development	\$ 541,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (541,590)
General revenues:								
Property taxes					2,260,506		2,260,506	
Sales and use taxes					1,948,745		1,948,745	649,582
Franchise taxes					678,725		678,725	
Hotel/Motel taxes					204,306		204,306	
Alcoholic beverage taxes					10,350		10,350	
Unrestricted investment earnings					3,880	42,727	46,607	153
Gain on disposal of assets					7,694	-	7,694	
Miscellaneous					24,408	-	24,408	9,523
Transfers					682,155	(682,155)	-	
Total general revenues					5,820,769	(639,428)	5,181,341	659,258
Change in net position					447,889	24,399	472,288	117,668
Net position - beginning					24,257,599	28,492,728	52,750,327	434,492
Prior period adjustment					(2,261,318)	(662,060)	(2,923,378)	-
Net position - beginning as restated					21,996,281	27,830,668	49,826,949	434,492
Net position, ending					\$ 22,444,170	\$ 27,855,067	\$ 50,299,237	\$ 552,160

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

**CITY OF CANYON
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

	<u>General</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 179,766	\$ 135,024	\$ 314,790
Investments	1,816,362	-	1,816,362
Receivables, net	565,994	36,252	602,246
Due from other funds	661,764	21,842	683,606
Due from component unit	11,117	-	11,117
Intergovernmental receivables	413,989	-	413,989
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,648,992</u>	<u>\$ 193,118</u>	<u>\$ 3,842,110</u>
LIABILITIES			
Accounts payable	\$ 469,317	\$ -	\$ 469,317
Due to other funds	1,360,815	-	1,360,815
Intergovernmental payables	24,035	-	24,035
Accrued liabilities	9,959	-	9,959
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,864,126</u>	<u>-</u>	<u>1,864,126</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	205,701	-	205,701
	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>205,701</u>	<u>-</u>	<u>205,701</u>
FUND BALANCES			
Restricted for:			
Enabling legislation	13,302	186,601	199,903
Special projects	-	6,517	6,517
Assigned to:			
Special projects	544,653	-	544,653
Unassigned	1,021,210	-	1,021,210
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,579,165</u>	<u>193,118</u>	<u>1,772,283</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,648,992</u>	<u>\$ 193,118</u>	<u>\$ 3,842,110</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, 2015

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

Total fund balance - governmental funds	\$ 1,772,283
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	22,889,076
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the governmental funds.	205,701
Long-term liabilities are not due and payable in the current period, and, therefore are not reported in the governmental funds:	
Net pension liability	(2,660,448)
Other post employment benefit obligation	(96,916)
Compensated absences	(321,156)
Capital leases payable	(12,311)
Deferred outflows and inflows related to the pension plans are not included in the governmental funds due to the noncurrent nature of the amounts:	
Deferred Outflows of Resources:	
Pension contributions	467,054
Pension deficient earnings	162,350
Deferred Inflows of Resources	
Pension actuarial gains	(74,224)
Pension earnings	(29,125)
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)	141,886
Net Position of Governmental Activities	\$ 22,444,170

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, 2015

	<u>General</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 2,260,922	\$ -	\$ 2,260,922
Sales and use	1,948,745	-	1,948,745
Franchise	678,725	-	678,725
Hotel/Motel	-	204,306	204,306
Mixed beverage	10,350	-	10,350
Licenses and permits	102,879	12,227	115,106
Intergovernmental	834,592	1,985	836,577
Charges for services	1,738,021	-	1,738,021
Fines and forfeitures	275,455	-	275,455
Investment earnings	3,060	24	3,084
Miscellaneous	18,866	5,633	24,499
	<u>7,871,615</u>	<u>224,175</u>	<u>8,095,790</u>
EXPENDITURES			
Current:			
General government	925,293	2,500	927,793
Public safety	3,519,318	19,650	3,538,968
Streets	534,286	-	534,286
Sanitation	984,033	-	984,033
Culture and recreation	1,212,007	195,984	1,407,991
Conservation and development	218,519	-	218,519
Debt service:			
Principal	32,767	-	32,767
Interest	2,578	-	2,578
Capital outlay	2,108,002	-	2,108,002
	<u>9,536,803</u>	<u>218,134</u>	<u>9,754,937</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,665,188)</u>	<u>6,041</u>	<u>(1,659,147)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	7,694	-	7,694
Transfers in	648,657	-	648,657
	<u>656,351</u>	<u>-</u>	<u>656,351</u>
NET CHANGE IN FUND BALANCES	(1,008,837)	6,041	(1,002,796)
FUND BALANCES - BEGINNING	<u>2,588,002</u>	<u>187,077</u>	<u>2,775,079</u>
FUND BALANCES - ENDING	<u>\$ 1,579,165</u>	<u>\$ 193,118</u>	<u>\$ 1,772,283</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, 2015**

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

Net change in fund balances - total governmental funds	\$ (1,002,796)
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 (\$2,108,002) exceeded depreciation (\$847,300) in the current period.	1,260,702
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. The current change in deferred revenues are:	
Ad valorem taxes	(416)
Municipal court fees	57,698
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 (\$116,370) less the amount charged to business-type activities (\$47,645) is the amount of the internal service fund charged to governmental activities.	68,725
Payment of principal on capital lease obligations 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 related to capital leases during the year was:	32,766
Changes in pension related outflows and inflows reported in the government-wide Statement of Activities are not reported in the governmental funds as revenues or expenditures.	126,924
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.	(95,714)
Change in net position of governmental activities	\$ <u>447,889</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, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 2,241,463	\$ 2,241,463	\$ 2,260,922	\$ 19,459
Sales and use	1,670,000	1,670,000	1,948,745	278,745
Franchise	600,000	600,000	678,725	78,725
Alcoholic beverage	9,000	9,000	10,350	1,350
License and permits	70,500	70,500	102,879	32,379
Intergovernmental	517,948	517,948	834,592	316,644
Charges for services	1,613,900	1,613,900	1,738,021	124,121
Fines and forfeitures	308,100	308,100	275,455	(32,645)
Investment earnings	3,500	3,500	3,060	(440)
Miscellaneous	40,000	40,000	18,866	(21,134)
Total revenues	<u>7,074,411</u>	<u>7,074,411</u>	<u>7,871,615</u>	<u>797,204</u>
EXPENDITURES				
Current				
General government	986,372	986,573	925,293	61,280
Public safety	3,409,297	3,409,096	3,519,318	(110,222)
Streets	1,030,094	1,030,094	534,286	495,808
Sanitation	1,018,877	1,018,877	984,033	34,844
Culture and recreation	1,258,547	1,293,547	1,212,007	81,540
Conservation and development	214,638	214,638	218,519	(3,881)
Debt service:				
Principal	57,033	57,033	32,767	24,266
Interest	-	-	2,578	(2,578)
Capital outlay	423,983	1,034,595	2,108,002	(1,073,407)
Total expenditures	<u>8,398,841</u>	<u>9,044,453</u>	<u>9,536,803</u>	<u>(492,350)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,324,430)</u>	<u>(1,970,042)</u>	<u>(1,665,188)</u>	<u>304,854</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	7,694	7,694
Transfers in	1,324,430	1,324,430	648,657	(675,773)
Total other financing sources (uses)	<u>1,324,430</u>	<u>1,324,430</u>	<u>656,351</u>	<u>(668,079)</u>
NET CHANGE IN FUND BALANCE *	-	(645,612)	(1,008,837)	(363,225)
FUND BALANCE - BEGINNING	<u>2,588,002</u>	<u>2,588,002</u>	<u>2,588,002</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,588,002</u>	<u>\$ 1,942,390</u>	<u>\$ 1,579,165</u>	<u>\$ (363,225)</u>

* 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, 2015

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,665,964	\$ 350,919	\$ 4,016,883	\$ 214,892
Investments	1,198,049	-	1,198,049	-
Restricted cash - customer deposits	226,913	-	226,913	-
Restricted cash for construction	7,586,676	-	7,586,676	-
Receivables, net	807,060	4,807	811,867	-
Intergovernmental receivable	63,078	-	63,078	-
Due from other funds	1,557,900	11,999	1,569,899	30,024
Inventories	18,410	115,176	133,586	-
Total current assets	15,124,050	482,901	15,606,951	244,916
Noncurrent assets:				
Capital assets:				
Land	3,733,873	397,138	4,131,011	-
Construction in progress	295,847	-	295,847	-
Buildings and improvements	308,379	356,025	664,404	-
Improvements other than buildings	11,486,688	534,626	12,021,314	-
Equipment	2,849,996	639,187	3,489,183	1,385,154
Infrastructure	25,173,970	698,169	25,872,139	-
Less accumulated depreciation	(16,237,916)	(1,469,807)	(17,707,723)	(338,307)
Total noncurrent assets	27,610,837	1,155,338	28,766,175	1,046,847
Total assets	42,734,887	1,638,239	44,373,126	1,291,763
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	167,241	64,899	232,140	-
Deferred pension contributions	114,391	20,425	134,816	-
Deferred pension deficient earnings	43,406	7,750	51,156	-
Total deferred outflows of resources	325,038	93,074	418,112	-
LIABILITIES				
Current liabilities:				
Accounts payable	210,056	80,570	290,626	-
Accrued liabilities	1,708	15,637	17,345	-
Accrued interest	39,402	6,407	45,809	-
Due to other funds	-	922,714	922,714	-
Unearned revenues	33,084	-	33,084	-
Pension liability	670,096	119,649	789,745	-
Customer deposits	226,913	-	226,913	-
Compensated absences - current	7,059	1,613	8,672	-
Capital leases payable - current	-	46,156	46,156	-
Certificates of obligation payable - current	710,807	134,193	845,000	-
Total current liabilities	1,899,125	1,326,939	3,226,064	-
Noncurrent liabilities:				
Accrued compensated absences	63,531	14,520	78,051	-
Other post employment benefits obligation	(1,988)	2,646	658	-
Capital leases payable	-	37,399	37,399	-
Certificates of obligation payable	12,148,504	1,525,137	13,673,641	-
Total noncurrent liabilities	12,210,047	1,579,702	13,789,749	-
Total liabilities	14,109,172	2,906,641	17,015,813	-
DEFERRED INFLOWS OF RESOURCES				
Deferred pension actuarial gains	19,845	3,543	23,388	-
NET POSITION				
Net investment in capital assets	22,494,810	(522,648)	21,972,162	1,046,847
Unrestricted	6,436,098	(656,223)	5,779,875	244,916
Total net position	28,930,908	(1,178,871)	27,752,037	\$ 1,291,763
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				
	47,192	55,838	103,030	
Net Position of business-type activities	\$ 28,978,100	\$ (1,123,033)	\$ 27,855,067	

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, 2015

	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	\$ 3,995,118	\$ -	\$ 3,995,118	\$ -
Sewer charges	2,007,158	-	2,007,158	-
Permits and licenses	15,080	-	15,080	-
Lease and other income	51,327	22,977	74,304	-
Golf services	-	574,506	574,506	-
Sales of goods	-	248,319	248,319	-
Internal service charges	-	-	-	266,943
Total operating revenues	<u>6,068,683</u>	<u>845,802</u>	<u>6,914,485</u>	<u>266,943</u>
OPERATING EXPENSES:				
Personnel costs	1,258,496	535,277	1,793,773	-
Supplies and contractual services	2,572,170	547,614	3,119,784	-
Depreciation	743,016	214,096	957,112	184,867
Intercity charges	32,760	102,200	134,960	-
Total operating expenses	<u>4,606,442</u>	<u>1,399,187</u>	<u>6,005,629</u>	<u>184,867</u>
OPERATING INCOME (LOSS)	<u>1,462,241</u>	<u>(553,385)</u>	<u>908,856</u>	<u>82,076</u>
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental - block grant	78,270	-	78,270	-
Investment earnings	42,678	49	42,727	796
Interest and fiscal charges	(326,757)	(44,187)	(370,944)	-
Total nonoperating revenues (expenses)	<u>(205,809)</u>	<u>(44,138)</u>	<u>(249,947)</u>	<u>796</u>
INCOME (LOSS) BEFORE TRANSFERS	1,256,432	(597,523)	658,909	82,872
TRANSFERS	<u>(648,657)</u>	<u>(33,498)</u>	<u>(682,155)</u>	<u>33,498</u>
CHANGE IN NET POSITION	<u>607,775</u>	<u>(631,021)</u>	<u>(23,246)</u>	<u>116,370</u>
NET POSITION - BEGINNING	28,884,889	(447,546)	28,437,343	1,175,393
PRIOR PERIOD ADJUSTMENT	<u>(561,756)</u>	<u>(100,304)</u>	<u>(662,060)</u>	<u>-</u>
NET POSITION - BEGINNING, AS RESTATED	<u>28,323,133</u>	<u>(547,850)</u>	<u>27,775,283</u>	<u>1,175,393</u>
NET POSITION - ENDING	<u>\$ 28,930,908</u>	<u>\$ (1,178,871)</u>	<u>\$ 27,752,037</u>	<u>\$ 1,291,763</u>
Change in Net Position	\$ 607,775	\$ (631,021)	\$ (23,246)	
Adjustment for the net effect of the current year activity between the internal service fund and the business-type activity - enterprise funds	<u>16,222</u>	<u>31,423</u>	<u>47,645</u>	
Changes in Net Position of business-type activities	<u>\$ 623,997</u>	<u>\$ (599,598)</u>	<u>\$ 24,399</u>	

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, 2015**

	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	\$ 6,032,618	\$ 840,995	\$ 6,873,613	\$ -
Receipts for internal service charges	-	-	-	266,943
Payments to employees for salaries and benefits	(1,267,554)	(532,098)	(1,799,652)	-
Payments to suppliers and service providers	(2,660,277)	(521,440)	(3,181,717)	-
Payments for interfund services used	(32,760)	(102,200)	(134,960)	-
Net cash provided (used) by operating activities	<u>2,072,027</u>	<u>(314,743)</u>	<u>1,757,284</u>	<u>266,943</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Changes in interfund receivables/payables	(2,171,747)	740,203	(1,431,544)	2,514
Operating grants	78,270	-	78,270	-
Net cash provided (used) by noncapital financing activities	<u>(2,093,477)</u>	<u>740,203</u>	<u>(1,353,274)</u>	<u>2,514</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(698,603)	(175,869)	(874,472)	-
Interest paid on capital debt	(376,873)	(48,752)	(425,625)	-
Acquisition or construction of capital assets	(893,453)	(39,247)	(932,700)	(336,230)
Net cash used for capital and related financing activities	<u>(1,968,929)</u>	<u>(263,868)</u>	<u>(2,232,797)</u>	<u>(336,230)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Matured investments	3,975,743	-	3,975,743	-
Interest on investments	42,678	49	42,727	796
Net cash provided by investing activities	<u>4,018,421</u>	<u>49</u>	<u>4,018,470</u>	<u>796</u>
NET INCREASE (DECREASE) IN CASH	<u>2,028,042</u>	<u>161,641</u>	<u>2,189,683</u>	<u>(65,977)</u>
CASH AND CASH EQUIVALENTS, BEGINNING (including restricted amounts)	<u>9,451,511</u>	<u>189,278</u>	<u>9,640,789</u>	<u>280,869</u>
CASH AND CASH EQUIVALENTS, ENDING, (including restricted amounts)	<u>\$ 11,479,553</u>	<u>\$ 350,919</u>	<u>\$ 11,830,472</u>	<u>\$ 214,892</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, 2015**

	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)	\$ 1,462,241	\$ (553,385)	\$ 908,856	\$ 82,076
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation and amortization	743,016	214,096	957,112	184,867
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(45,469)	(4,807)	(50,276)	-
(Increase) decrease in intergovernmental receivable	(63,078)		(63,078)	-
(Increase) decrease in inventories	(5,349)	(8,850)	(14,199)	-
(Increase) decrease in deferred outflows of pension contributions	(114,391)	(28,175)	(142,566)	-
(Increase) decrease in deferred outflows of pension pension deficient earnings	(43,406)	-	(43,406)	-
Increase (decrease) in accounts payable	(19,680)	35,024	15,344	-
Increase (decrease) in accrued expenses	20,554	8,466	29,020	-
Increase (decrease) in pension liability	108,340	19,345	127,685	-
Increase (decrease) in customer deposits	9,404	-	9,404	-
Increase (decrease) in deferred inflows of pension income	19,845	3,543	23,388	-
Net cash provided (used) by operating activities	<u>\$ 2,072,027</u>	<u>\$ (314,743)</u>	<u>\$ 1,757,284</u>	<u>\$ 266,943</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES:				
Amortization of debt issuance premiums and refunding charges	\$ 40,907	\$ 3,213	\$ 44,120	\$ -
Book value of golf carts transferred to capital fund	-	33,498	33,498	33,498
	<u>\$ 40,907</u>	<u>\$ 36,711</u>	<u>\$ 77,618</u>	<u>\$ 33,498</u>

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

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, streets, sanitation, culture and recreation, conservation and development, 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, 2015 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

While separate government-wide and fund financial statements are presented, they are interrelated. 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, and the internal service fund, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City 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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

B. Basis of Presentation – Government Wide 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.

C. Basis of Presentation - Fund Financial Statements

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.

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

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 fund:

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 Fund: This fund is 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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. Basis of Presentation – Fund Financial Statements – Continuation

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.

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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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.

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 function, 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 public safety (fire), conservation and development, capital outlay (street improvements), and debt service interest functions (budgeted with principal) in the General Fund. These overspendings were covered by utilizing a carryover of prior year fund balance and transfers from other funds.

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

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

Receivables include trade, delinquent taxes, and municipal court fees and fines, all of which are shown net of an allowance for estimated uncollectible amounts.

Payables consist of vendor obligations for goods and services and funds payable to others when the criteria for their release have been met.

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, 2015**

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. Buildings, improvements, 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, 2015

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 deferred charge on refunding is 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 City also reports the applicable amounts as deferred outflows as they relate to the implementation of GASB 68 for contributions paid after the measurement date, and the deficiency of earnings in the plans after the measurement date of the pension plans.

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 an 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 reports 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. Pensions

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Texas Municipal Retirement System Plan and the Texas Emergency Services Retirement System, and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. 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”.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

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.

1. 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)

Includes 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.

Fund balance flow assumptions:

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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

1. Fund Balance – Continuation

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.

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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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.

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.

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, 2015

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 various functional areas in the General Fund	A combination of underspending in other functional categories, excess revenues over budget, and transfers from other funds, as well as the City planning to use fund balance carryovers have covered such overspendings.

I. Implementation of New Standards

The City implemented Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions*. This standard requires government employers to recognize as a liability, for the first time, their long-term obligation for pension benefits. The employer liability is to be measured as the difference between the present value of projected benefit payments to be provided through the pension plan for past periods of service less the amount of the pension plan’s fiduciary net position. The standard also requires more immediate recognition of annual service cost, interest and changes in benefits for pension expense; specifies requirements for discount rates, attribution methods; and changes disclosure requirements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City’s cash and deposit balances as of September 30, 2015:

Cash and deposit balances consist of:

Petty cash funds	\$ 741
Bank deposits	1,920,514
Money market deposits (interest rates at .33%)	<u>10,695,693</u>
 Total	 <u>\$ 12,616,948</u>

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

Government-wide Statement of Net Position:

Unrestricted	\$ 4,546,565
Restricted for customer deposits and construction	7,813,589
Component unit - unrestricted	<u>256,794</u>
 Total	 <u>\$ 12,616,948</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2015 the City's deposits (cash, interest bearing accounts and certificates of deposit) with financial institutions was \$12,865,603, and \$10,945,693 of that amount was insured through the Federal Depository Insurance Corporation (FDIC) and \$1,919,910 was collateralized with securities held by the pledging of institution's agent in the City's name.

Following is a reconciliation of the City's investment balances as of September 30, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Certificates of deposit		
Governmental activities (interest rates at .10 - .25%)	\$ 1,816,362	257
Business-Type activities (interest rates at .10 - .33%)	1,198,049	275
Component Unit (interest rates at .05 - .25%)	174,246	181
	<hr/>	
Total fair value	3,188,657	
Portfolio weighted average maturity		<hr/> <hr/> 260
Amarillo Area Foundation (Component Unit)	36,986	
Real estate (Component Unit)	91,446	
	<hr/>	
	\$ 3,317,089	
	<hr/> <hr/>	

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2015 the carrying amount of the City's investments (certificates of deposit) with financial institutions was \$3,014,412, and \$612,893 was insured by the Federal Depository Insurance Corporation (FDIC) and \$2,401,519 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.

The Component Unit has funds being held by the Amarillo Area Foundation and has invested in real estate which is to be used in economic development projects. The City does not believe that the investments are at any credit risk.

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, 2015, none of the City's investments were considered concentrated.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

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 ninety days 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 investments include certificates of deposit.

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	\$ 739,375	\$ -	\$ -	\$ -	\$ 739,375
Construction in progress	60,382	1,139,851	-	(35,963)	1,164,270
Total capital assets not being depreciated	<u>799,757</u>	<u>1,139,851</u>	<u>-</u>	<u>(35,963)</u>	<u>1,903,645</u>
Capital assets being depreciated:					
Buildings	3,837,231	13,100	-	-	3,850,331
Improvements other than buildings	4,109,694	10,120	-	-	4,119,814
Equipment	6,194,652	451,070	(55,509)	-	6,590,213
Infrastructure	29,232,529	863,589	-	35,963	30,132,081
Total capital assets being depreciated	<u>43,374,106</u>	<u>1,337,879</u>	<u>(55,509)</u>	<u>35,963</u>	<u>44,692,439</u>
Less accumulated depreciating for:					
Buildings	(1,699,103)	(91,633)	-	-	(1,790,736)
Improvements other than buildings	(918,035)	(157,854)	-	-	(1,075,889)
Equipment	(2,958,760)	(417,459)	55,509	-	(3,320,710)
Infrastructure	(17,154,452)	(365,221)	-	-	(17,519,673)
Total accumulated depreciation	<u>(22,730,350)</u>	<u>(1,032,167)</u>	<u>55,509</u>	<u>-</u>	<u>(23,707,008)</u>
Total capital assets being depreciated, net	<u>20,643,756</u>	<u>305,712</u>	<u>-</u>	<u>35,963</u>	<u>20,985,431</u>
Governmental activities capital assets, net	<u>\$ 21,443,513</u>	<u>\$ 1,445,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,889,076</u>

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

Governmental activities:	
General government	\$ 29,931
Public safety	110,388
Streets	481,913
Culture and recreation	225,068
Capital assets held by the government's internal service funds	<u>184,867</u>
Total depreciation expense-governmental activities	<u>\$ 1,032,167</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 – CAPITAL ASSETS – Continuation

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
<u>Business-type activities:</u>					
Capital assets not being depreciated:					
Land	\$ 3,606,094	\$ 524,917	\$ -	\$ -	\$ 4,131,011
Construction in progress	42,030	253,817	-	-	295,847
Total capital assets not being depreciated	<u>3,648,124</u>	<u>778,734</u>	<u>-</u>	<u>-</u>	<u>4,426,858</u>
Capital assets being depreciated:					
Buildings	638,690	25,714	-	-	664,404
Improvements other than buildings	12,014,015	7,299	-	-	12,021,314
Equipment	3,662,193	78,224	(251,234)	-	3,489,183
Infrastructure	25,829,410	42,729	-	-	25,872,139
Total capital assets being depreciated	<u>42,144,308</u>	<u>153,966</u>	<u>(251,234)</u>	<u>-</u>	<u>42,047,040</u>
Less accumulated depreciation for:					
Buildings	(373,839)	(39,444)	-	-	(413,283)
Improvements other than buildings	(3,088,996)	(277,834)	-	-	(3,366,830)
Equipment	(2,976,631)	(161,876)	217,736	-	(2,920,771)
Infrastructure	(10,528,881)	(477,958)	-	-	(11,006,839)
Total accumulated depreciation	<u>(16,968,347)</u>	<u>(957,112)</u>	<u>217,736</u>	<u>-</u>	<u>(17,707,723)</u>
Total capital assets being depreciated, net	<u>25,175,961</u>	<u>(803,146)</u>	<u>(33,498)</u>	<u>-</u>	<u>24,339,317</u>
Business-type activities capital assets, net	<u>\$ 28,824,085</u>	<u>\$ (24,412)</u>	<u>\$ (33,498)</u>	<u>\$ -</u>	<u>\$ 28,766,175</u>

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

<u>Business-type activities:</u>	
Water/sewer	\$ 743,016
Golf course	<u>214,096</u>
Total depreciation expense-business-type activities	<u>\$ 957,112</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 – CAPITAL ASSETS – Continuation

Component Unit:

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
Capital assets being depreciated:					
Buildings (leasehold improvements)	\$ 3,941	\$ -	\$ -	\$ -	\$ 3,941
Equipment	35,646	17,561	-	-	53,207
Total capital assets being depreciated	39,587	17,561	-	-	57,148
Less accumulated depreciation for:					
Buildings	(460)	(788)	-	-	(1,248)
Equipment	(19,805)	(5,263)	-	-	(25,068)
Total accumulated depreciation	(20,265)	(6,051)	-	-	(26,316)
Total capital assets being depreciated, net	19,322	11,510	-	-	30,832
Component unit capital assets, net	<u>\$ 19,322</u>	<u>\$ 11,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,832</u>

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

Construction commitments. The City has active construction projects as of September 30, 2015. The projects included the Canyon East Park expansion, and downtown parking in the Governmental Activities and the Community Development water pipeline and wastewater expansion projects in the Business-Type Activities. At year end the City's estimated remaining commitments were \$369,473 and \$6,905 for governmental activities and business-type activities, respectively.

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 661,764	\$ 1,360,815
Special Revenue Funds:		
Municipal Court Technology	16,098	-
Municipal Court Security	5,744	-
Water/Sewer Fund	1,557,900	-
Golf Course Fund	11,999	922,714
Internal Service Fund	30,024	-
	<u>\$ 2,283,529</u>	<u>\$ 2,283,529</u>

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

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – Continuation

Fund	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ 648,657	\$ -
Water/Sewer Fund	-	648,657
Golf Course Fund	-	33,498
Internal Service Fund	33,498	-
	<u>\$ 682,155</u>	<u>\$ 682,155</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.

NOTE 5 – LONG-TERM DEBT

1. Long-Term Debt Activity

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, 2015 the outstanding balance on the 2012 Obligations was \$8,025,000.

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, 2015 the outstanding balance on the 2013 Obligations was \$5,565,000.

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.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5 – LONG-TERM DEBT – Continuation

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.

Changes in long-term obligations for the year ended September 30, 2015, 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	\$ 45,077	\$ -	\$ (32,766)	\$ 12,311	\$ 12,311
Compensated Absences	232,844	209,439	(121,126)	321,156	32,116
Other Post Employment Benefits Obligation	<u>89,515</u>	<u>70,969</u>	<u>(63,568)</u>	<u>96,916</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$ 367,436</u></u>	<u><u>\$ 280,408</u></u>	<u><u>\$ (217,460)</u></u>	<u><u>\$ 430,383</u></u>	<u><u>\$ 44,427</u></u>
Business-Type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Surplus Revenue Obligation, Series 2012	\$ 8,385,000	\$ -	\$ (360,000)	\$ 8,025,000	\$ 365,000
General Obligation Refunding Bond, Series 2013	6,035,000	-	(470,000)	5,565,000	480,000
Unamortized Bond Premiums	998,985	-	(70,344)	928,641	-
Capital Leases	128,027	-	(44,472)	83,555	46,156
Compensated Absences	50,891	77,797	(41,965)	86,723	8,672
Other Post Employment Benefits Obligations	<u>10,441</u>	<u>24,053</u>	<u>(33,836)</u>	<u>658</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u><u>\$ 15,608,344</u></u>	<u><u>\$ 101,850</u></u>	<u><u>\$ (1,020,617)</u></u>	<u><u>\$ 14,689,577</u></u>	<u><u>\$ 899,828</u></u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5 – LONG-TERM DEBT – Continuation

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.

2. Debt Service Requirements

Debt service requirements at September 30, 2015, are as follows:

Fiscal year ending September 30	Surplus Revenue Obligation, Series 2012		
	Principal	Interest	Total
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	405,000	215,100	620,100
2021-2025	2,240,000	870,675	3,110,675
2026-2030	2,655,000	448,613	3,103,613
2031-2032	1,200,000	42,350	1,242,350
Total	<u>\$ 8,025,000</u>	<u>\$ 2,547,213</u>	<u>\$ 10,572,213</u>

Fiscal year ending September 30	General Obligation Refunding Bond, Series 2013		
	Principal	Interest	Total
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	525,000	99,675	624,675
2021-2025	2,870,000	249,000	3,119,000
2026-2027	190,000	5,700	195,700
Total	<u>\$ 5,565,000</u>	<u>\$ 864,775</u>	<u>\$ 6,429,775</u>

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 5 – LONG-TERM DEBT – Continuation

3. Current year interest expense was recorded as follows:

	Accrued Interest Payable October 1, 2014	Interest Paid during the Year	Amortization of Bond Premium and Deferred Loss on Refunding	Accrued Interest Payable September 30, 2015	Interest Expense
Water and Sewer	\$ 41,695	\$ 376,872	\$ (47,822)	\$ 39,402	\$ 326,757
Golf Course	<u>7,759</u>	<u>48,752</u>	<u>(3,213)</u>	<u>6,407</u>	<u>44,187</u>
Total	<u>\$ 49,454</u>	<u>\$ 425,624</u>	<u>\$ (51,035)</u>	<u>\$ 45,809</u>	<u>\$ 370,944</u>

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:

Year Ending September 30,	Governmental Activities	Golf Course
2016	\$ 12,947	\$ 50,772
2017	<u>-</u>	<u>38,772</u>
Total	12,947	89,544
Less amounts representing interest	<u>636</u>	<u>5,989</u>
	<u>\$ 12,311</u>	<u>\$ 83,555</u>

The following summarized the assets acquired under capital lease:

Equipment	\$ 48,097	\$ 308,395
Accumulated Depreciation	<u>32,065</u>	<u>230,054</u>
Net Leased Equipment	<u>\$ 16,032</u>	<u>\$ 78,341</u>

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 6 – LEASE OBLIGATIONS - Continuation

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:

Year Ending September 30,	Future Minimum Lease Payments
2016	\$ 16,673
2017	14,146
2018	9,509
2019	4,824
2020	1,518
Total	\$ 46,670

Lease expenditures under the City’s operating leases for the year ended September 30, 2015 totaled \$16,206.

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 2015, 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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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.

Benefits Provided:

The plan provisions are adopted by the governing body of the City (employer), within the options available in the Texas state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service (10 years in some cities) or with 20-25 years of service regardless of age (depending on the city's plan chosen). Members are vested after 5 years of service (10 years for some cities).

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the City within the actuarial constraints imposed by TMRS so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TMRS.

Employees Covered by Benefit Terms:

At September 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	34
Active employees	82

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, 2014 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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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, 2014 valuation will determine the contribution rate beginning January 1, 2016).

The City contributed using the actuarially determined rate of 17.85% for the months of the accounting year in 2014 and 17.70% for the months of the accounting year in 2015. The contribution rate payable by the employee members is 7.0% for fiscal year 2015 as adopted by the governing body of the City. The employee contribution rate and the employer contribution rate may be changed by the governing body of the City.

Net Pension Liability:

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.5% to 12.0% including inflation
Investment rate of return	7.00%
Cost-of-living adjustments	None

Mortality rates were based on the RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

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 actuarial assumptions that determined the total pension liability as of December 31, 2014 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Discount Rate:

The discount rate used to measure the total pension liability was 7.00%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under TMRS.

1. TMRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under TMRS, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 7.00%.

Changes in the Net Pension Liability / (Asset):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2013	\$ 24,155,480	\$ 20,862,651	\$ 3,292,829
Changes for the year:			
Service cost	620,244	-	620,244
Interest on total pension liability	1,683,447	-	1,683,447
Difference between expected and actual experience	(122,826)	-	(122,826)
Benefit payments/refunds of employee contributions	(832,709)	(832,709)	-
Administrative expenses	-	(12,460)	12,460
Employee contributions	-	282,946	(282,946)
Net investment income	-	1,193,503	(1,193,503)
Employer contributions	-	714,632	(714,632)
Other	-	(1,024)	1,024
Balances as of December 31, 2014	<u>\$ 25,503,636</u>	<u>\$ 22,207,539</u>	<u>\$ 3,296,097</u>
Plan fiduciary net position as a percentage of the total pension liability:			87.08%
Covered employee payroll:			\$ 4,042,081
Net pension liability as a percentage of covered employee payroll:			81.54%

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**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Sensitivity of the Net Pension Liability / (Asset) to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension liability / (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
\$ 6,916,308	\$ 3,296,097	\$ 323,752

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS financial report.

Pension Expense / (Income):

	January 1, 2014 to December 31, 2014
Service cost	\$ 620,244
Interest on total pension liability	1,683,447
Employee contributions	(282,946)
Expected investment return net of investment expenses	(1,460,386)
Administrative expenses	12,460
Other	1,024
Recognition of deferred inflows/outflows of resources - liabilities	(25,214)
Recognition of deferred inflows/outflows of resources - assets	53,377
	\$ 602,006

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Deferred Inflows / Outflows of Resources:

As of December 31, 2014, the deferred inflows and outflows - current and future expenses are as follows:

	<u>Recognition or Amortization Period in Years</u>	<u>Total (Inflow) or Outflow of Resources</u>	<u>2014 Recognized in Current Pension Expense</u>	<u>Deferred (Inflow)/Outflow in Future Expense</u>
Due to Liabilities:				
Differences in expected and actual experience	4.8714	\$ (122,826)	\$ (25,214)	\$ (97,612)
Differences in assumption changes	4.8714	\$ -	-	-
Due to Assets:				
Difference in projected and actual earnings	5.0000	\$ 266,883	\$ 53,377	<u>\$ 213,506</u>
Net Deferred Outflows (Inflows) of Resources				<u><u>\$ 115,894</u></u>

Deferred outflows and deferred inflows of resources, by year, to be recognized in future pension expense as follows:

Year ended December 31:	
2015	\$ 28,163
2016	28,163
2017	28,163
2018	31,405
2019	-
Thereafter	<u>-</u>
Total	<u><u>\$ 115,894</u></u>

B. COST-SHARING MULTIPLE – EMPLOYER

Plan Description:

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014 there were 198 contributing fire and/or emergency service department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Benefits Provided:

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy:

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed in the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

A small subset of participating departments has a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to the benefit payments paid by the System.

Contributions Required and Contributions Made:

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues and prior service, and interest on financing of prior service) of \$38,400 were paid into TESRS by the City.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System’s administrative expenses.

Net Pension Liability:

The City’s net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014.

Total Pension Liability	\$	931,569
Fiduciary Net Position		<u>777,473</u>
City's Net Pension Liability	\$	<u>154,096</u>
 Fiduciary net position as a percentage of the total pension liability		 83.5 %

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using an inflation rate of 3.50% and an investment rate of return rate of 7.75%, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

The long-term rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return

by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32 %	5.2 %
Small cap domestic	10	5.8
Developed international	21	5.5
Emerging markets	6	5.4
Master limited partnerships	5	7.1
Fixed income		
Domestic	21	1.4
International	5	1.6
Cash	-	-
Total	<u>100 %</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Sensitivity of the Net Pension Liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Net pension liability	\$ 317,544	\$ 154,096	\$ 58,733

Pension Expense / (Income):

	Year Ended August 31, 2014
Service cost	\$ 15,498
Interest	68,275
Projected earnings on investments	(52,441)
Amortization of differences between projected and actual earnings on plan investments	(9,708)
Pension plan administrative expenses	1,405
Pension expense / (income)	\$ 23,029

Deferred Inflows / Outflows of Resources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Net difference between projected and actual earnings	\$ 29,125	\$ -

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended August 31:		
2015	\$	9,708
2016		9,708
2017		9,709
2018		-
2019		-
Thereafter		-
		<hr/>
Total	\$	<u>29,125</u>

All assumptions for the August 31, 2014 pension disclosure are contained in the August 31, 2014 Audited Annual Financial Report, a copy of which may be obtained at www.tesrs.texas.gov.

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, 2015**

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	\$ 99,956	\$ 97,574

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).

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

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.

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, \$50,000 of this commitment has been funded.

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, 2015, the remaining commitment is \$20,000.

During the fiscal year ended 2015, the CEDC committed an amount not to exceed \$9,240 for a \$3,450 lease subsidy for one year only, and the remaining \$5,790 will be available for marketing assistance which is to be used on or before December 31, 2016. As of the end of the year, none of this commitment has been funded.

During the fiscal year ended 2015, the CEDC committed an amount not to exceed \$850,000 for job incentives to be paid in ten annual installments of \$85,000. This funding is based on meeting minimum employment thresholds. No funding has occurred as of the end of the year.

NOTE 11 - SUBSEQUENT EVENTS

The City Commission authorized the issuance of \$6 million in bonds to construct a voter approved aquatic center. Construction on this project should begin in August of 2016.

Construction was started in February 2016 on a \$2.2 million upper plane transmission line which is to be funded by the certificates of obligation issued in 2012.

The City was awarded a \$580,200 EDA grant to construct a new sewer line for the Lone Star project. Construction should begin in the spring of 2016.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

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

	Governmental Activities	Business-Type Activities	
		Water/Sewer Fund	Golf Course Fund
Net pension liability as determined at the 12/31/13 measurement date (TMRS)	\$ (2,503,867)	\$ (669,432)	\$ (119,530)
Deferred outflow of resources for employer contributions paid after the 12/31/13 measurement date and before the 9/30/14 fiscal year end date	402,741	107,676	19,226
Net pension liability as determined at the 8/31/13 measurement date (TESRS)	<u>(160,192)</u>	<u>-</u>	<u>-</u>
Prior period adjustment	<u>\$ (2,261,318)</u>	<u>\$ (561,756)</u>	<u>\$ (100,304)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - TMRS
Last 10 Fiscal Years (will ultimately be displayed as available)

	Year Ended December 31,			
	2014	2015	2016	2017
Total Pension Liability:				
Service cost	\$ 620,244	\$ N/A	\$ N/A	\$ N/A
Interest on total pension liability	1,683,447	N/A	N/A	N/A
Changes of benefit terms	-	N/A	N/A	N/A
Difference between expected and actual experience	(122,826)	N/A	N/A	N/A
Changes of assumptions	-	N/A	N/A	N/A
Benefit payments/refunds of contributions	(832,709)	N/A	N/A	N/A
Net change in total pension liability	1,348,156	N/A	N/A	N/A
Total pension liability, beginning	24,155,480	N/A	N/A	N/A
Total pension liability, ending (a)	<u>\$ 25,503,636</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary Net Position:				
Employer contributions	\$ 714,632	\$ N/A	\$ N/A	\$ N/A
Employee contributions	282,946	N/A	N/A	N/A
Net investment income	1,193,503	N/A	N/A	N/A
Benefit payments/refunds of contributions	(832,709)	N/A	N/A	N/A
Administrative expenses	(12,460)	N/A	N/A	N/A
Other	(1,024)	N/A	N/A	N/A
Net change in fiduciary net position	1,344,888	N/A	N/A	N/A
Fiduciary net position, beginning	20,862,651	N/A	N/A	N/A
Fiduciary net position, ending (b)	<u>\$ 22,207,539</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 3,296,097</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position as a % of total pension liability	87.08%	N/A	N/A	N/A
Pensionable covered payroll	\$ 4,042,081	\$ N/A	\$ N/A	\$ N/A
Net pension liability as a % of covered payroll	81.54%	N/A	N/A	N/A

CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS - TMRS
Last 10 Fiscal Years (will ultimately be displayed as available)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contributions	\$ 754,529	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the actuarially determined contribution	\$ 754,529	\$ N/A	\$ N/A	\$ N/A
Contribution deficiency (excess)	\$ -	\$ N/A	\$ N/A	\$ N/A
Covered employee payroll	\$ 4,042,081	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered employee payroll	18.70%	N/A	N/A	N/A

N/A - not available currently

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary increases	3.50% to 12.00% including inflation
Investment rate of return	7.00%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - TESRS
Last 10 Fiscal Years (will ultimately be displayed as available)

	Year Ended August 31,			
	2014	2015	2016	2017
Total Pension Liability:				
Service cost	\$ 15,498	\$ N/A	\$ N/A	\$ N/A
Interest	68,275	N/A	N/A	N/A
Changes in benefit terms	-	N/A	N/A	N/A
Differences between expected and actual	-	N/A	N/A	N/A
Assumption changes	-	N/A	N/A	N/A
Benefit payments	(35,346)	N/A	N/A	N/A
Net change in total pension liability	48,427	N/A	N/A	N/A
Total pension liability, beginning	883,142	N/A	N/A	N/A
Total pension liability, ending (a)	<u>\$ 931,569</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary Net Position:				
Employer contributions	\$ 35,418	\$ N/A	\$ N/A	\$ N/A
State contributions	12,977	N/A	N/A	N/A
Net investment income	100,983	N/A	N/A	N/A
Benefit payments	(35,346)	N/A	N/A	N/A
Plan administrative expenses	(1,405)	N/A	N/A	N/A
Other	-	N/A	N/A	N/A
Net change in fiduciary net position	112,627	N/A	N/A	N/A
Fiduciary net position, beginning	664,846	N/A	N/A	N/A
Fiduciary net position, ending (b)	<u>\$ 777,473</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 154,096</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position as a % of total pension liability	83.5%	N/A	N/A	N/A
Number of active members	32	N/A	N/A	N/A
Net pension liability per active member	\$ 4,815	\$ N/A	\$ N/A	\$ N/A

CITY OF CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS - TESRS
Last 10 Fiscal Years

<u>Year Ending</u> <u>August 31:</u>	<u>Annual Money-</u> <u>Weighted Net Real</u> <u>Rate of Return</u>
2005	Not Available
2006	Not Available
2007	Not Available
2008	Not Available
2009	Not Available
2010	Not Available
2011	Not Available
2012	Not Available
2013	13.84 %
2014	14.92 %

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

The money-weighted rate of return expresses investment performance, net of investment expenses, reflecting the changing amounts actually invested during the year.

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/motel taxes that are legally restricted to the promotion of tourism for the City.

CITY OF CANYON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2015

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
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ 4,593	\$ 64,653	\$ 11,044	\$ 6,517	\$ 48,217	\$ 135,024
Taxes receivable	-	-	-	-	-	-	36,252	36,252
Due from other funds	16,098	5,744	-	-	-	-	-	21,842
Total assets	\$ 16,098	\$ 5,744	\$ 4,593	\$ 64,653	\$ 11,044	\$ 6,517	\$ 84,469	\$ 193,118

FUND BALANCES

Restricted:								
Enabling legislation	\$ 16,098	\$ 5,744	\$ 4,593	\$ 64,653	\$ 11,044	\$ -	\$ 84,469	\$ 186,601
Special projects	-	-	-	-	-	6,517	-	6,517
Total fund balances	16,098	5,744	4,593	64,653	11,044	6,517	84,469	193,118
Total liabilities, deferred inflows of resources, and fund balances	\$ 16,098	\$ 5,744	\$ 4,593	\$ 64,653	\$ 11,044	\$ 6,517	\$ 84,469	\$ 193,118

CITY OF CANYON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue Funds							Total
	Municipal Court Technology	Municipal Court Security	D-FY-IT Program	Emergency Management	LEOSE	Library Gifts & Memorial	Board of City Development (Hotel/Motel)	
REVENUES								
Hotel/Motel taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,306	\$ 204,306
Licenses and fees	7,344	4,883	-	-	-	-	-	12,227
Intergovernmental	-	-	-	-	1,985	-	-	1,985
Investment earnings	-	-	1	13	2	1	7	24
Miscellaneous	-	-	-	488	-	4,631	514	5,633
Total revenues	7,344	4,883	1	501	1,987	4,632	204,827	224,175
EXPENDITURES								
Current:								
General government	-	-	2,500	-	-	-	-	2,500
Public safety	16,219	-	-	2,737	694	-	-	19,650
Culture and recreation	-	-	-	-	-	2,422	193,562	195,984
Total expenditures	16,219	-	2,500	2,737	694	2,422	193,562	218,134
NET CHANGE IN FUND BALANCES	<u>(8,875)</u>	<u>4,883</u>	<u>(2,499)</u>	<u>(2,236)</u>	<u>1,293</u>	<u>2,210</u>	<u>11,265</u>	<u>6,041</u>
FUND BALANCES - BEGINNING	24,973	861	7,092	66,889	9,751	4,307	73,204	187,077
FUND BALANCES - ENDING	<u>\$ 16,098</u>	<u>\$ 5,744</u>	<u>\$ 4,593</u>	<u>\$ 64,653</u>	<u>\$ 11,044</u>	<u>\$ 6,517</u>	<u>\$ 84,469</u>	<u>\$ 193,118</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, 2015, 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 3, 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 3, 2015