

CITY OF CANYON, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2012

BROWN, GRAHAM & COMPANY, P.C.
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CITY OF CANYON, TEXAS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the City of Canyon, Texas, (the City) as of and for the year ended September 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Canyon, Texas, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June, 13, 2013 on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedule of funding progress for the Texas Municipal Retirement System on pages 3 through 9 and page 43, respectively, 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedule of Expenditures of Federal Awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 other 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Brown, Graham & Company, P. C.

Canyon, Texas
June 13, 2013

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, 2012. 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 \$50,115,961 (net assets) for the fiscal year reported.

Total net assets are comprised of the following:

1. Capital assets, net of related debt, of \$39,507,609 include property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
2. Unrestricted net assets of \$10,372,329 represent the portion available to maintain the City's continuing obligation to citizens and creditors.

The City's governmental activities reported total ending net assets of \$21,182,027 this year. \$2,159,672 of this amount is unrestricted.

For the fiscal year ended September 30, 2012, the City's net assets increased by \$2,693,855. Governmental activities increased by \$728,058, while business-type activities increased by \$1,965,797.

The City has total liabilities of \$18,254,620. Current liabilities were \$1,628,724 and non-current liabilities were \$16,625,896.

The governmental activities received \$2,153,149 in fees for services and \$1,411,444 in contributions, grants and inter-governmental revenue. The governmental fund also received \$4,302,385 of general revenues, net of \$251,878 of transfers out. Property and sales taxes accounted for \$3,706,327 of the general revenue.

The business-type activities of the City generated \$6,807,210 in charges for services and \$2,686 in contributions, grants and intergovernmental revenue. The business-type activities also had \$254,109 in general revenues, including \$251,878 of transfers in.

Total governmental activities expenditures were \$7,138,920. Public safety, streets, and sanitation accounted for \$5,261,251 of the total expenditures.

Overview of the Financial Statements:

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes additional information in the Management 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 with its basis in full accrual accounting.

Management's Discussion and Analysis (continued)

The first of these government-wide statements is the statement of net assets. This City-wide statement of net assets presents information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or of the condition of the City's infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the statement of activities, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and parks and recreation. Business-type activities include water and sewer utilities and the City golf course.

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

Fund Financial Statements:

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's individual funds rather than the City as a whole.

The City has two kinds of funds:

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

They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

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

Management's Discussion and Analysis (continued)

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 and Sewer 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.

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 Assets						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,901,745	\$ 3,186,510	\$ 19,118,805	\$ 8,004,679	\$ 22,020,550	\$ 11,191,189
Capital assets, net of depreciation	<u>18,845,815</u>	<u>17,625,300</u>	<u>27,504,216</u>	<u>26,804,929</u>	<u>46,350,031</u>	<u>44,430,229</u>
Total assets	<u>21,747,560</u>	<u>20,811,810</u>	<u>46,623,021</u>	<u>34,809,608</u>	<u>68,370,581</u>	<u>55,621,418</u>
Current liabilities	267,515	236,793	1,361,209	2,147,285	1,628,724	2,384,078
Long-term liabilities	<u>298,018</u>	<u>-</u>	<u>16,327,878</u>	<u>7,148,765</u>	<u>16,625,896</u>	<u>7,148,765</u>
Total liabilities	<u>565,533</u>	<u>236,793</u>	<u>17,689,087</u>	<u>9,296,050</u>	<u>18,254,620</u>	<u>9,532,843</u>
Invested in Capital Assets, Net of Related Debt	18,786,332	17,626,328	20,721,277	19,371,929	39,507,609	36,998,257
Restricted:						
Fire Protection Services	6,650	-	-	-	6,650	-
	114,943	-	-	-	114,943	-
Education Programs	15,458	-	-	-	15,458	-
Emergency Management	85,360	-	-	-	85,360	-
Police Services	7,042	-	-	-	7,042	-
Library	6,570	-	-	-	6,570	-
Capital outlay	-	-	-	2,257,674	-	2,257,674
Other	-	234,237	-	-	-	234,237
Unrestricted	<u>2,159,672</u>	<u>2,714,452</u>	<u>8,212,657</u>	<u>3,883,955</u>	<u>10,372,329</u>	<u>6,598,407</u>
Total net assets	<u>\$ 21,182,027</u>	<u>\$ 20,575,017</u>	<u>\$ 28,933,934</u>	<u>\$ 25,513,558</u>	<u>\$ 50,115,961</u>	<u>\$ 46,088,575</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Canyon, assets exceeded liabilities by \$50,115,961 at the close of the most recent fiscal year, which is an increase of \$2,693,855 from the prior year.

Management's Discussion and Analysis (continued)

Government-wide total assets increased by \$12,749,163 while the total liabilities increased by \$8,721,777. Investment in capital assets represents approximately 68% of the total assets of the City. These assets are not available for future spending. The City's unrestricted net assets, which are available for future spending, increased by \$3,773,922.

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

CITY OF CANYON, TEXAS Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Charges for services	\$ 2,153,149	\$ 2,000,690	\$ 6,807,210	\$ 6,768,468	\$ 8,960,359	\$ 8,769,158
Capital grants and contributions	1,145,418	-	-	-	1,145,418	-
Operating grants and contributions	266,026	603,355	2,686	216,451	268,712	819,806
Property taxes	2,006,502	1,900,342	-	-	2,006,502	1,900,342
Sales taxes	1,699,825	1,631,223	-	-	1,699,825	1,631,223
Franchise taxes	660,975	605,233	-	-	660,975	605,233
Other taxes	167,332	7,908	-	-	167,332	7,908
Penalty and interest	-	8,450	-	-	-	8,450
Investment earnings	6,965	13,642	30,248	29,999	37,213	43,641
Sale of capital assets	(97,920)	-	(28,017)	-	(125,937)	-
Miscellaneous revenue	110,584	136,332	-	-	110,584	136,332
Operating transfers	(251,878)	223,249	251,878	(223,249)	-	-
Total revenues	7,866,978	7,130,424	7,064,005	6,791,669	14,930,983	13,922,093
General Governmental	595,938	552,703	-	-	595,938	552,703
Public Safety	3,136,781	2,983,296	-	-	3,136,781	2,983,296
Streets	1,275,219	1,321,699	-	-	1,275,219	1,321,699
Sanitation	849,251	1,438,584	-	-	849,251	1,438,584
Culture and Recreation	1,084,155	511,822	-	-	1,084,155	511,822
Conservation and Development	192,689	167,237	-	-	192,689	167,237
Interest on Long Term Debt	4,887	-	-	-	4,887	-
Water and sewer	-	-	3,834,718	3,988,072	3,834,718	3,988,072
Golf Course	-	-	1,263,490	1,234,858	1,263,490	1,234,858
Total expenses	7,138,920	6,975,341	5,098,208	5,222,930	12,237,128	12,198,271
Increase in net assets	\$ 728,058	\$ 155,083	\$ 1,965,797	\$ 1,568,739	\$ 2,693,855	\$ 1,723,822

Government-wide total revenues increased \$1,008,890 from the prior year. Capital grants received during the year totaled \$1,145,418, and were the primary cause of the increase from the prior year. Government wide expenses were only slightly higher than last year.

Overall, the City's net assets increased \$2,693,855 during the year.

Management's Discussion and Analysis (continued)

Governmental activities: Governmental activities increased the City's net assets by \$728,058 for the year. The key elements of this increase included an increase in total revenues of \$1,211,681 (exclusive of operating transfers). Most of this increase was from increases in charges for services and increased grants and contributions. Total expenditures increased \$163,579. Depreciation on capital assets in the governmental activities was \$701,333 for the year.

Business-type activities: Revenue for business-type activities decreased \$202,791 (exclusive of operating transfers). This decrease was primarily due to reduced operating grants and contributions as compared to last year. The City also experienced a decrease in revenue from water sales, versus last year. We were much more aggressive with our Drought Contingency Plan enforcement this year, and thus, water sales were slightly lower. Expenses in the business-type activities decreased \$124,722 with most of that being related to the decrease in water consumption. Depreciation in the business-type activities was \$895,703 for the year.

The City invested in significant capital assets during the year. In the governmental activities \$1,750,784 in capital assets were purchased. The largest portion of this expenditure total was due to the new Aerial the Fire Department purchased, and the US87 Entryway Project. Grant funds of \$650,418, were expended by the state on the City's behalf, and are included in the capital asset additions. Of course, there were other capital expenditures in equipment and infrastructure assets, but these were the largest two. In the business type activities \$2,300,790 in new additions were made. Much of this was additional work on the long range water improvements using the money from bonds issued a few years ago.

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

CITY OF CANYON, TEXAS Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 496,589	\$ 496,589	\$ 3,328,120	\$ 3,328,120	\$ 3,824,709	\$ 3,824,709
Buildings	3,777,708	3,777,708	619,495	619,495	4,397,203	4,397,203
Equipment	5,148,319	4,777,080	3,604,434	3,914,639	8,752,753	8,691,719
Improvements	1,582,769	1,411,592	11,801,649	11,723,792	13,384,418	13,135,384
Infrastructure	28,283,451	28,348,783	19,848,400	22,567,606	48,131,851	50,916,389
Constuction in progress	931,039	-	3,519,401	-	4,450,440	-
Total	40,219,875	38,811,752	42,721,499	42,153,652	82,941,374	80,965,404
Accumulated depreciation	(21,374,060)	(21,186,452)	(15,217,283)	(15,348,723)	(36,591,343)	(36,535,175)
Net Capital Assets	\$ 18,845,815	\$ 17,625,300	\$ 27,504,216	\$ 26,804,929	\$ 46,350,031	\$ 44,430,229

In preparation of the financial statements for the year ended September 30, 2012 several prior period adjustments were necessary in order for the City's financial statements to be presented in accordance with generally accepted accounting principles. These adjustments were primarily the result of a thorough and detail review of the City's capital assets, the decision that inter-fund transfers occurring over the last several years, will not be repaid, and the reclassification of encumbered transactions. A detail explanation of these adjustments can be found in Note K in the notes to the financial statements.

Management's Discussion and Analysis (continued)

Summary and Future Outlook:

The City of Canyon continues to weather the economic storm. We are fortunate to have white collar industry in our City, primarily Educational Institutions. This gives us incomparable stability with our local economy. As other Cities rise and fall on their Sales Tax, and see their property values rise and fall, ours remain as steady as can be expected. Homes haven't risen in value like we'd like to see, but they haven't fallen in value like many cities across the nation have experienced.

We have been able to maintain our level of service to our customers. We continually look for ways to increase our productivity and utilize technology better to get the most of our limited dollars and return the most back to our citizens.

One of the things we've been most proud of, however, could need to be more closely scrutinized. We've always bragged on how we work with fewer employees, and get just as much done as other cities do with a larger employee pool. I'm beginning to think maybe we're hurting ourselves with that philosophy. We're asking more of our people than some of them can handle, and I believe we are going to be forced to start considering adding more employees. Not just one every other year or so, but multiple employees some years. We need more cops, more Public Works employees, more Code Enforcement employees. Even in my office, we need more help. I think as the years come, we are going to need to add a significant number of additional personnel. And to attract those personnel, we need to maintain our high quality benefits package.

Our financial situation is good. We have put money into reserves again this year. We are in a horrible drought. It is good for nothing, except maybe a couple of things if you try to see the positive. One, when in a drought, you sell a lot of water, thereby generating a lot of revenue. That's a two-edged sword. I'd rather have rain and sell less water, but we play the cards we're dealt. The other is, drought is good for golf! The weather is good in a drought. It's not wet, so people play golf. They don't typically mind the wind or the heat, but no one really likes playing in the rain. So we sell lots of water, and we sell lots of golf. Both are good things resulting from a bad thing.

As I've stated in the past, I would sure like to see the General Fund able to more capably support itself than it has over the past few years. But that may not be completely realistic. I hope our EDC can continue to recruit and retain both business and industry to broaden our tax base.

Canyon continues to grow. Canyon East will soon be working toward Phase III if things continue as they are moving now. That's about one phase per year for the past three years. This is a beautiful subdivision, and has been very successful. I've always believed that in Canyon, if you build it, they will come. Canyon East is just the most recent example of that statement being true. If we're lucky, other development will occur as well, and I believe it will.

Over the past year we have accomplished much, and we should be proud. We have taken care of our obligations, both financially and otherwise. We have new developments in town, and new growth. We have long-term projects for our infrastructure and our parks underway. We have maintained our commitment to maintenance and operating costs of our systems, and have committed dollars toward capital improvements. We purchased new equipment, we have obtained grants to for new fire trucks and a beautiful new Entry into Canyon. We have kept our promise to our citizens, to provide them with the finest service in the most beneficial way we can.

In summary, the City of Canyon is stable financially. We continue to successfully defend ourselves against a tough economic storm. We are financially healthy. That is because of good leadership, starting with the City Commission, and good stewardship from our staff. We look forward to 2013 with great eagerness and excitement to see what we can do to make a difference in the lives of our citizens.

Management's Discussion and Analysis (continued)

Contacting the City's Management:

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or desire additional information, contact City Hall, City of Canyon, 301 16th Street, Canyon, Texas 79015.

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

BASIC FINANCIAL STATEMENTS

CITY OF CANYON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 331,638	\$ 7,317,617	\$ 7,649,255	\$ 216,633
Investments	1,806,753	1,190,928	2,997,681	318,166
Receivables (net of allowance for uncollectibles)	475,292	642,551	1,117,843	46,412
Inventories	-	94,209	94,209	-
Prepaid Items	58,689	1,050	59,739	1,000
Restricted Assets:				
Cash and Cash Equivalents	229,373	9,622,450	9,851,823	82,012
Investments	-	250,000	250,000	-
Capital Assets:				
Land	496,589	3,328,120	3,824,709	-
Infrastructure, net	11,701,969	10,076,501	21,778,470	-
Buildings, net	2,255,609	323,510	2,579,119	-
Improvements other than Buildings, net	867,354	9,261,829	10,129,183	-
Equipment, net	2,593,255	994,855	3,588,110	7,982
Construction in Progress	931,039	3,519,401	4,450,440	-
Total Assets	<u>21,747,560</u>	<u>46,623,021</u>	<u>68,370,581</u>	<u>672,205</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	206,849	429,644	636,493	9,859
Accrued Expenses	-	3,444	3,444	-
Accrued Interest Payable	-	71,627	71,627	-
Deferred Revenue	42,045	31,768	73,813	-
Bonds Payable - Current	-	747,000	747,000	-
Capital Leases Payable - Current	18,621	63,217	81,838	-
Compensated Absences - Current	-	14,509	14,509	-
Grants Payable - Current	-	-	-	170,000
Noncurrent Liabilities				
Bonds Payable - Noncurrent	-	15,953,371	15,953,371	-
Capital Leases Payable - Noncurrent	40,862	147,651	188,513	-
Compensated Absences - Noncurrent	178,190	14,508	192,698	-
Grants Payable - Noncurrent	-	-	-	510,000
Customer Deposits	78,966	212,348	291,314	-
Total Liabilities	<u>565,533</u>	<u>17,689,087</u>	<u>18,254,620</u>	<u>689,859</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	18,786,332	20,721,277	39,507,609	7,982
Restricted for Fire Protection Services	6,650	-	6,650	-
Restricted for Civic Activities	114,943	-	114,943	-
Restricted for Education Programs	15,458	-	15,458	-
Restricted for Emergency Management	85,360	-	85,360	-
Restricted for Police Services	7,042	-	7,042	-
Restricted for Library	6,570	-	6,570	-
Unrestricted Net Assets	2,159,672	8,212,657	10,372,329	(25,636)
Total Net Assets	<u>\$ 21,182,027</u>	<u>\$ 28,933,934</u>	<u>\$ 50,115,961</u>	<u>\$ (17,654)</u>

The accompanying notes are an integral part of these statements.

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

	Expenses	Program Revenues		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 595,938	\$ 10,136	\$ -	\$ 134,313
Public Safety	3,136,781	698,375	495,000	72,537
Streets	1,275,219	-	650,418	-
Sanitation	849,251	1,349,830	-	-
Culture and Recreation	1,084,155	94,808	-	59,176
Conservation and Development	192,689	-	-	-
Interest on Long Term Debt	4,887	-	-	-
Total Governmental Activities:	<u>7,138,920</u>	<u>2,153,149</u>	<u>1,145,418</u>	<u>266,026</u>
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer Fund	3,834,718	5,871,782	-	2,686
Palo Duro Creek Golf Course	1,263,490	935,428	-	-
Total Business-Type Activities	<u>5,098,208</u>	<u>6,807,210</u>	<u>-</u>	<u>2,686</u>
TOTAL PRIMARY GOVERNMENT	<u>12,237,128</u>	<u>8,960,359</u>	<u>1,145,418</u>	<u>268,712</u>
COMPONENT UNIT:				
Canyon Economic Development Corporation	577,596	-	-	-
TOTAL COMPONENT UNIT	<u>\$ 577,596</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

- Property Taxes, Levied for General Purposes
- Sales Taxes
- Franchise Taxes
- Other Taxes
- Investment Earnings
- Gain (Loss) on Sale of Capital Assets
- Miscellaneous Revenue

Transfers in (out)

Total General Revenues

Change in Net Assets

Net Assets- Beginning of year, as previously reported

Prior Period Adjustments

Net Assets- Beginning of year, as adjusted

Net Assets- Ending

The accompanying notes are an integral part of these statements.

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

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (451,489)	\$ -	\$ (451,489)	\$ -
(1,870,869)	-	(1,870,869)	-
(624,801)	-	(624,801)	-
500,579	-	500,579	-
(930,171)	-	(930,171)	-
(192,689)	-	(192,689)	-
(4,887)	-	(4,887)	-
<u>(3,574,327)</u>	<u>-</u>	<u>(3,574,327)</u>	<u>-</u>
-	2,039,750	2,039,750	-
<u>-</u>	<u>(328,062)</u>	<u>(328,062)</u>	<u>-</u>
-	1,711,688	1,711,688	-
<u>(3,574,327)</u>	<u>1,711,688</u>	<u>(1,862,639)</u>	<u>-</u>
-	-	-	(577,596)
-	-	-	(577,596)
2,006,502	-	2,006,502	-
1,699,825	-	1,699,825	565,683
660,975	-	660,975	-
167,332	-	167,332	-
6,965	30,248	37,213	1,819
(97,920)	(28,017)	(125,937)	-
110,584	-	110,584	-
(251,878)	251,878	-	-
<u>4,302,385</u>	<u>254,109</u>	<u>4,556,494</u>	<u>567,502</u>
<u>728,058</u>	<u>1,965,797</u>	<u>2,693,855</u>	<u>(10,094)</u>
20,575,017	25,513,557	46,088,574	(7,560)
<u>(121,048)</u>	<u>1,454,580</u>	<u>1,333,532</u>	<u>-</u>
<u>20,453,969</u>	<u>26,968,137</u>	<u>47,422,106</u>	<u>(7,560)</u>
<u>\$ 21,182,027</u>	<u>\$ 28,933,934</u>	<u>\$ 50,115,961</u>	<u>\$ (17,654)</u>

**CITY OF CANYON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General Fund</u>
Assets:	
Cash and Cash Equivalents	\$ 331,638
Investments	1,806,753
Interest Receivable - Investments	108
Taxes Receivable	372,879
Allowance for Uncollectible Taxes	(30,759)
Receivables	133,064
Prepaid Amount to TxDOT	58,689
Temporarily Restricted Cash and Cash Equivalents	<u>229,373</u>
Total Assets	<u>\$ 2,901,745</u>
Liabilities and Fund Balances:	
Liabilities:	
Accounts Payable	\$ 206,349
Claims and Judgments Payable	500
Customer Deposits	78,966
Deferred Revenues	<u>42,045</u>
Total Liabilities	<u>327,860</u>
Fund Balances:	
Restricted Fund Balance:	
Fire Protection Services	6,650
Civic Activities	114,943
Education Programs	15,458
Emergency Management	85,360
Police Services	7,042
Library	6,570
Assigned Fund Balance:	
Police Services	13,639
Fire Protection Services	968
Streets	201,253
Municipal Library	30,000
Community Center	4,000
Code Enforcement	7,497
Civic Complex	16,569
Sanitation Services	14,011
Capital Outlay	22,751
Unassigned Fund Balance	<u>2,027,174</u>
Total Fund Balances	<u>2,573,885</u>
Total Liabilities and Fund Balances	<u>\$ 2,901,745</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds \$ 2,573,885

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$38,811,752 and the accumulated depreciation was \$21,186,452. In addition, long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. At the beginning of the year, the balance of long-term liabilities was \$107,008. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. 17,518,292

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they are reported as increases in capital assets and reductions in long-term debt in the government on the government-wide financial statements. For the year ended September 30, 2012, the amount of capital outlays and debt principal payments were \$1,750,784 and \$17,509 respectively. The net effect of including the 2012 capital outlays and debt principal payments is to increase net assets. 1,768,293

The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (701,333)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions, recording transfers of capital assets from business type funds, and various prior period adjustments as described in Note K in the Notes to the Financial Statements. The net effect of these reclassifications and recognitions is to increase net assets 22,890

Net Assets of Governmental Activities \$ 21,182,027

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General Fund</u>
Revenues:	
Taxes:	
Property Taxes	\$ 2,035,931
General Sales and Use Taxes	1,699,825
Franchise Tax	660,975
Other Taxes	167,331
Penalty and Interest on Taxes	15,187
Licenses and Permits	63,373
Intergovernmental Revenue and Grants	1,654,248
Charges for Services	1,486,546
Fines	337,285
Investment Earnings	6,967
Contributions and Donations	23,139
Other Revenue	122,689
Total Revenues	<u>8,273,496</u>
Expenditures:	
Current:	
General Government	555,248
Public Safety	2,961,000
Streets	941,913
Sanitation	800,807
Culture and Recreation	919,961
Conservation and Development	182,588
Capital Outlay	1,750,784
Debt Service:	
Principal Retirement	17,509
Interest and Fiscal Charges	4,887
Total Expenditures	<u>8,134,697</u>
Excess of Revenues over Expenditures	<u>138,799</u>
Other Financing Sources (Uses):	
Transfers In	250,597
Transfers Out	(551,485)
Total Other Financing Sources (Uses)	<u>(300,888)</u>
Net Change in Fund Balances	<u>(162,089)</u>
Fund balance - October 1 (Beginning), as previously reported	2,904,073
Prior Period Adjustments	(168,099)
Fund balance - October 1 (Beginning), as adjusted	<u>2,735,974</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,573,885</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Net Change in Fund Balances- Governmental Funds \$ (162,089)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they are reported as increases in capital assets and reductions in long-term debt in the government on the government-wide financial statements. For the year ended September 30, 2012, the amount of capital outlays and debt principal payments were \$1,750,784 and \$17,509 respectively. The net effect of including the 2012 capital outlays and debt principal payments is to increase net assets.

1,768,293

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

(701,333)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions, recording transfers of capital assets from business type funds, and various prior period adjustments as described in Note K in the Notes to the Financial Statements. The net effect of these reclassifications and recognitions is to decrease net assets

(176,813)

Change in Net Assets of Governmental Activities

\$ 728,058

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (GAAP Basis)	Positive (Negative)
Revenues:				
Taxes:				
Property Taxes	\$ 1,961,500	\$ 1,961,500	\$ 2,035,931	\$ 74,431
General Sales and Use Taxes	1,550,000	1,550,000	1,699,825	149,825
Franchise Tax	600,000	600,000	660,975	60,975
Other Taxes	9,000	9,000	167,331	158,331
Penalty and Interest on Taxes	7,500	7,500	15,187	7,687
Licenses and Permits	47,750	47,750	63,373	15,623
Intergovernmental Revenue	476,624	476,624	1,654,248	1,177,624
Charges for Services	1,418,500	1,418,500	1,486,546	68,046
Fines	272,000	272,000	337,285	65,285
Investment Earnings	13,000	13,000	6,967	(6,033)
Contributions and Donations	-	-	23,139	23,139
Other Revenue	40,000	40,000	122,689	82,689
Total Revenues	<u>6,395,874</u>	<u>6,395,874</u>	<u>8,273,496</u>	<u>1,794,933</u>
Expenditures:				
Current:				
General Government	366,270	366,270	555,248	(188,978)
Public Safety	2,992,683	2,992,683	2,961,000	31,683
Streets	984,605	984,605	941,913	42,692
Sanitation	841,112	841,112	800,807	40,305
Culture and Recreation	936,663	936,663	919,961	16,702
Conservation and Development	174,397	174,397	182,588	
Capital Outlay	303,600	303,600	1,750,784	(1,447,184)
Debt Service:				
Principal Retirement	22,400	22,400	17,509	4,891
Interest and Fiscal Charges	-	-	4,887	(4,887)
Total Expenditures	<u>6,621,730</u>	<u>6,621,730</u>	<u>8,134,697</u>	<u>(1,512,967)</u>
Excess (Defecit) of Revenues over (under) Expenditures	<u>(225,856)</u>	<u>(225,856)</u>	<u>138,799</u>	<u>364,655</u>
Other Financing Sources (Uses):				
Transfers In	225,755	225,755	250,597	24,842
Transfers Out	-	-	(551,485)	(551,485)
Total Other Financing Sources (Uses)	<u>225,755</u>	<u>225,755</u>	<u>(300,888)</u>	<u>(526,643)</u>
Net Change in Fund Balances	<u>(101)</u>	<u>(101)</u>	<u>(162,089)</u>	<u>(161,988)</u>
Fund balance - October 1 (Beginning), as previously reported	2,904,073	2,904,073	2,904,073	-
Prior Period Adjustments	-	-	(168,099)	(168,099)
Fund balance - October 1 (Beginning), as adjusted	<u>2,904,073</u>	<u>2,904,073</u>	<u>2,735,974</u>	<u>(168,099)</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,903,972</u>	<u>\$ 2,903,972</u>	<u>\$ 2,573,885</u>	<u>\$ (330,087)</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Business-Type Activities		
	Water and Sewer Fund	Golf Course	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 6,483,169	\$ 834,448	\$ 7,317,617
Investments	1,190,928	-	1,190,928
Interest Receivable - Investments	334	-	334
Accounts Receivable	619,916	22,301	642,217
Inventories	45,115	49,094	94,209
Prepaid Items	1,050	-	1,050
Total Current Assets	<u>8,340,512</u>	<u>905,843</u>	<u>9,246,355</u>
Restricted Assets:			
Cash and Cash Equivalents	9,622,450	-	9,622,450
Investments	250,000	-	250,000
Total Restricted Assets	<u>9,872,450</u>	<u>-</u>	<u>9,872,450</u>
Noncurrent Assets:			
Capital Assets:			
Land	2,930,982	397,138	3,328,120
Infrastructure	19,157,970	690,430	19,848,400
Buildings	300,909	318,586	619,495
Improvements other than Buildings	11,303,066	498,583	11,801,649
Equipment	2,727,548	876,886	3,604,434
Construction in Progress	3,519,401	-	3,519,401
Accumulated Depreciation	(14,267,024)	(950,259)	(15,217,283)
Total Noncurrent Assets	<u>25,672,852</u>	<u>1,831,364</u>	<u>27,504,216</u>
Total Assets	<u>43,885,814</u>	<u>2,737,207</u>	<u>46,623,021</u>
Liabilities			
Current Liabilities:			
Accounts Payable	409,300	20,344	429,644
Accrued Expenses	-	3,444	3,444
Accrued Interest Payable	57,126	14,501	71,627
Deferred Revenue	31,768	-	31,768
Bonds Payable- Current	655,000	92,000	747,000
Capital Leases Payable- Current	-	63,217	63,217
Compensated Absences - Current	13,659	850	14,509
Total Current Liabilities	<u>1,166,853</u>	<u>194,356</u>	<u>1,361,209</u>
Noncurrent Liabilities:			
Bonds Payable- Noncurrent Portion	14,169,021	1,784,350	15,953,371
Capital Leases Payable- Noncurrent	-	147,651	147,651
Compensated Absences - Noncurrent	13,658	850	14,508
Customer Deposits	212,348	-	212,348
Total Noncurrent Liabilities	<u>14,395,027</u>	<u>1,932,851</u>	<u>16,327,878</u>
Total Liabilities	<u>15,561,880</u>	<u>2,127,207</u>	<u>17,689,087</u>
Net Assets			
Capital Assets, Net of Related Debt	20,721,277	-	20,721,277
Unrestricted Net Assets	7,602,657	610,000	8,212,657
Total Net Assets	<u>\$ 28,323,934</u>	<u>\$ 610,000</u>	<u>\$ 28,933,934</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities		
	Water and Sewer Fund	Golf Course	Total
Operating Revenues:			
Charges for Water Services	\$ 4,076,083	\$ -	\$ 4,076,083
Charges for Sewer Services	1,708,224	-	1,708,224
Permits and Licenses	12,290	-	12,290
Lease & Other income	75,184	5,944	81,128
Operating Grant	2,686	-	2,686
Golf Services	-	631,920	631,920
Sales of Goods	-	297,564	297,564
Total Operating Revenues	<u>5,874,467</u>	<u>935,428</u>	<u>6,809,895</u>
Operating Expenses:			
Personnel Costs	1,329,922	500,856	1,830,778
Contractual Services	1,585,745	272,734	1,858,479
Supplies	242,048	156,973	399,021
Depreciation	648,065	247,638	895,703
Total Operating Expenses	<u>3,805,780</u>	<u>1,178,200</u>	<u>4,983,980</u>
Operating Income	<u>2,068,687</u>	<u>(242,772)</u>	<u>1,825,915</u>
Non-operating Revenues / (Expenses):			
Investment Earnings	30,029	219	30,248
Sale of Assets	(28,017)	-	(28,017)
Interest and Fiscal Charges	(28,937)	(85,290)	(114,227)
Total Non-Operating Revenue (Expense)	<u>(26,925)</u>	<u>(85,071)</u>	<u>(111,996)</u>
Income (loss) before Transfers	<u>2,041,762</u>	<u>(327,843)</u>	<u>1,713,919</u>
Other Financing Sources (Uses):			
Transfers In	-	947,930	947,930
Transfers Out	(691,225)	(4,827)	(696,052)
Total Other Financing Sources (Uses)	<u>(691,225)</u>	<u>943,103</u>	<u>251,878</u>
Change in Net Assets	<u>1,350,537</u>	<u>615,260</u>	<u>1,965,797</u>
Total Net Assets- October 1 (Beginning), as previously reported	27,744,524	(2,230,967)	25,513,557
Prior Period Adjustments	(771,127)	2,225,707	1,454,580
Total Net Assets - October 1 (Beginning), as adjusted	<u>26,973,397</u>	<u>(5,260)</u>	<u>26,968,137</u>
Total Net Assets- September 30 (Ending)	<u>\$ 28,323,934</u>	<u>\$ 610,000</u>	<u>\$ 28,933,934</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities		
	Water and Sewer Fund	Golf Course	Total
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 5,850,338	\$ 913,127	\$ 6,763,465
Cash Payments to Employees for Services	(1,338,833)	(499,156)	(1,837,989)
Cash Payments for Suppliers	(1,316,842)	(437,701)	(1,754,543)
Net Cash flows from Operating Activities	<u>3,194,663</u>	<u>(23,729)</u>	<u>3,170,934</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Transfers from Other Funds	-	947,930	947,930
Transfers to Other Funds	(647,042)	-	(647,042)
Net cash flows from Non-Capital Financing Activities	<u>(647,042)</u>	<u>947,930</u>	<u>300,888</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Net Acquisition of Capital Assets	(1,718,152)	(345,203)	(2,063,355)
Issuance of Series 2012 Certificates of Obligation	9,632,556	-	9,632,556
Proceeds from Capital Lease	-	252,867	252,867
Principal Payments on Bond Debt	(285,000)	(88,000)	(373,000)
Interest Paid on Capital Debt	(238,102)	(79,420)	(317,522)
Net Cash flows from Capital Financing Activities	<u>7,391,302</u>	<u>(259,756)</u>	<u>7,131,546</u>
<u>Cash flows from Investing Activities:</u>			
Purchase of Investment	2,966,526	-	2,966,526
Interest on Investments	30,153	219	30,372
Net Cash flows from Investing Activities	<u>2,996,679</u>	<u>219</u>	<u>2,996,898</u>
Net change in Cash and Cash Equivalents	12,935,602	664,664	13,600,266
Cash and Cash Equivalents at Beginning of the Year:	3,170,017	169,784	3,339,801
Cash and Cash Equivalents at the End of the Year:	<u>\$ 16,105,619</u>	<u>\$ 834,448</u>	<u>\$ 16,940,067</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ 2,068,687	\$ (242,772)	\$ 1,825,915
Adjustments to reconcile Operating Income (Loss) to Net Cash flows from Operating Activities:			
Depreciation	648,065	247,638	895,703
Effect of Increases and Decreases in Assets and Liabilities:			
Decrease (increase) in Receivables	(30,728)	(22,301)	(53,029)
Decrease (increase) in Inventories	101,651	(21,217)	80,434
Increase (decrease) in Accounts Payable	409,300	13,223	422,523
Increase (decrease) in Accrued Absences	(8,911)	1,700	(7,211)
Increase (decrease) in Customer Deposits	6,599	-	6,599
Net Cash flows from Operating Activities	<u>\$ 3,194,663</u>	<u>\$ (23,729)</u>	<u>\$ 3,170,934</u>
<u>Non-Cash Transactions</u>			
Transfer of Capital Assets (To) From other Funds	<u>\$ (44,183)</u>	<u>\$ (4,827)</u>	<u>\$ (49,010)</u>

The accompanying notes are an integral part of these statements.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

City of Canyon, Texas (the City) is a municipality operating under the applicable laws and regulations of the State of Texas. It is governed by a five member City Commission (the “Commission”) elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Government Accounting Standards Board; and it complies with the requirements of contracts and grants of agencies from which it receives funds. The City provides the following services: police and fire protection, code enforcement, and general administrative services. In addition, the City maintains a water and sewer system and operates a municipal golf course. The more significant of the City’s accounting policies are described below.

A. REPORTING ENTITY

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. 14, “The Financial Reporting Entity.”

The City has one component unit. A component unit is a separate entity that the City or Commission can exert significant influence over. 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, 2012 may be obtained by contacting the management of the CEDC.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

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

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

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

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

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

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

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

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

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

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

D. FUND ACCOUNTING

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

E. NET ASSETS AND FUND BALANCE

The City’s fund balances for its governmental funds are presented in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which classifies fund balance based on the level of constraints placed on the usage of fund resources. Under GASB 54, fund balances for the governmental funds are reported in the following categories:

- Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.
- Restricted – The restricted fund balance classification includes amounts that are restricted to specific purposes. Fund balance is reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

E. NET ASSETS AND FUND BALANCE (continued)

- Committed – The committed fund balance classification includes amounts that are constrained by the City’s intent to be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority, the City Commission, in the form of a resolution.
- Assigned – The assigned fund balance classification includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Commission has delegated the authority to assign fund balance to the City Manager.
- Unassigned – The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When the City incurs expenditures that can be made from either restricted or unrestricted balances the expenditures are charged first to restricted balances, and then to unrestricted balances as they are needed. When the City incurs expenditures that can be made from either committed, assigned, or unassigned balances the expenditures are charged to committed resources first, then to assigned resources and then to unassigned resources as they are needed.

The City has established a goal to achieve and maintain a minimum unassigned fund balance in the general fund to ensure that there will be adequate liquid resources in the even of unanticipated circumstances and events. The minimum unassigned fund balance target is set at 25% of budgeted revenues for the most recent fiscal year, which would provide for roughly 90 days of estimated expenditures.

F. OTHER ACCOUNTING POLICIES

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

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

F. OTHER ACCOUNTING POLICIES (continued)

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

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

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

5. The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the City purchased insurance through Texas Municipal League (TML) to cover general liabilities. There are no significant changes in coverage in the past fiscal year and there were no settlements in excess of the insurance coverage for any of the past three years.
6. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
7. The Water and Sewer Fund maintains an inventory of fuel and supplies. The Golf Course Fund maintains an inventory of goods for sale at the pro shop. These inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.
8. The amounts on these statements have been rounded individually and therefore some columns may not total because of rounding.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City adopts an “appropriated budget” for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5. None of the City’s funds for business-type activities had material amounts of excess expenses/expenditures over appropriations (exclusive of depreciation) for the year ended September 30, 2012.

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

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

III. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City’s agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

The City’s cash deposits at September 30, 2012 and during the year ended September 30, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the City’s agent bank in the City’s name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas;

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. DEPOSITS AND INVESTMENTS (continued)

(2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

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

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

Investments Held

At September 30, 2012, the carrying amounts of the City's investments are shown below. The City's investments are valued at cost, which approximates market value. The City did not invest in any other types of investments other than certificates of deposit during the year ended September 30, 2012.

	Carrying Amount	Market Value
Certificates of Deposit	\$ 3,247,681	\$ 3,247,681

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City's fiscal year. The tax rate of the 2011 tax roll for the 2011-12 fiscal year was \$.37613 per \$100 of assessed valuation. The resulting levy was \$2,024,023 on an assessed taxable value of approximately 538,117,938 (after exemptions).

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

C. DELINQUENT TAXES RECEIVABLE

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

D. INTER-FUND BALANCES AND TRANSFERS

Outstanding balances between funds result mainly from the time lag between the dates that (1) inter-fund good and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments made between funds are made. As of September 30, 2012, the City did not have any inter-fund balances.

Inter-fund transfers of cash occurred during the year as follows:

	<u>Transfers In</u>		
<u>Transfers Out</u>	<u>General</u>	<u>Golf Course</u>	<u>Total</u>
General	\$ -	\$ 551,485	\$ 551,485
Water & Sewer	250,597	396,445	647,042
	<u>\$ 250,597</u>	<u>\$ 947,930</u>	<u>\$ 1,198,527</u>

Inter-fund transfers were done in order to supplement the operations of the Golf Course; to transfer funds in order to fund debt service payments; and to clear out inter-fund receivables and payables between various funds. In addition to the above cash transfers, capital assets with a net book value of \$44,183 were transferred from the Water and Sewer Fund to the Governmental Activities and capital assets with a net book value of \$4,827 were transferred from the Golf Course Fund to the Governmental Activities.

E. RECEIVABLES

Receivables at September 30, 2012, were as follows:

	<u>General</u>	<u>Water & Sewer</u>	<u>Golf Course</u>
Accrued Interest	\$ 108	\$ 334	\$ -
Property Taxes	72,266	-	-
Sales Taxes	300,613	-	-
Accounts Receivable	133,064	619,916	22,301
Less: Allowance for Doubtful Accounts	<u>(30,759)</u>	<u>-</u>	<u>-</u>
Net Accounts Receivable	<u>\$ 475,292</u>	<u>\$ 620,250</u>	<u>\$ 22,301</u>

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2012, was as follows:

Primary Government:	Beginning Balance <u>October 1, 2011</u>	Prior Period Adjustments	Additions	Sales, Retirements, and Transfers	Ending Balance <u>September 30, 2012</u>
Governmental Activities:					
Capital Assets, not being depreciated					
Land	\$ 496,589	\$ -	\$ -	\$ -	\$ 496,589
Construction in Progress	<u>-</u>	<u>-</u>	<u>930,012</u>	<u>1,027</u>	<u>931,039</u>
Total Capital Assets, not being depreciated	<u>496,589</u>	<u>-</u>	<u>930,012</u>	<u>1,027</u>	<u>1,427,628</u>
Capital Assets, being depreciated					
Buildings	3,777,708	-	-	-	3,777,708
Equipment	4,777,080	358,231	697,048	(684,040)	5,148,319
Improvements	1,411,592	(5)	123,724	47,458	1,582,769
Infrastructure	<u>28,348,783</u>	<u>(65,332)</u>	<u>-</u>	<u>-</u>	<u>28,283,451</u>
Total Capital Assets, being depreciated	<u>38,315,163</u>	<u>292,894</u>	<u>820,772</u>	<u>(636,582)</u>	<u>38,792,247</u>
Less Accumulated Depreciation:					
Buildings	1,434,126	4	87,969	-	1,522,099
Equipment	2,812,827	61,883	265,204	(584,850)	2,555,064
Improvements	640,808	-	65,326	9,281	715,415
Infrastructure	<u>16,298,691</u>	<u>(43)</u>	<u>282,834</u>	<u>-</u>	<u>16,581,482</u>
Total Accumulated Depreciation	<u>21,186,452</u>	<u>61,844</u>	<u>701,333</u>	<u>(575,569)</u>	<u>21,374,060</u>
Total Capital Assets, being depreciated, net	<u>17,128,711</u>	<u>231,050</u>	<u>119,439</u>	<u>(61,013)</u>	<u>17,418,187</u>
Governmental Activities					
Capital Assets, Net	<u>\$ 17,625,300</u>	<u>\$ 231,050</u>	<u>\$ 1,049,451</u>	<u>\$ (59,986)</u>	<u>\$ 18,845,815</u>

Construction in progress in the governmental activities consists of costs incurred related to the construction of the City's Gateway Project which was being completed in conjunction with the Texas Department of Transportation, which were not complete as of September 30, 2012.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

F. CAPITAL ASSET ACTIVITY (continued)

	Beginning Balance October 1, 2011	Prior Period Adjustments	Additions	Sales, Retirements, and Transfers	Ending Balance September 30, 2012
Business-Type Activities:					
Capital Assets, not being depreciated					
Land and Easements	\$ 3,328,120	\$ -	\$ -	\$ -	\$ 3,328,120
Construction in Progress	-	5,748,513	1,660,557	(3,889,669)	3,519,401
Total Capital Assets, not being depreciated	<u>3,328,120</u>	<u>5,748,513</u>	<u>1,660,557</u>	<u>(3,889,669)</u>	<u>6,847,521</u>
Capital Assets, being depreciated					
Buildings	619,495	-	-	-	619,495
Equipment	3,914,639	128,846	535,280	(974,331)	3,604,434
Infrastructure	22,567,606	(2,658,845)	-	(60,361)	19,848,400
Improvements	11,723,792	(3,868,264)	3,994,622	(48,501)	11,801,649
Total Capital Assets, being depreciated	<u>38,825,532</u>	<u>(6,398,263)</u>	<u>4,529,902</u>	<u>(1,083,193)</u>	<u>35,873,978</u>
Less Accumulated Depreciation:					
Buildings	258,109	-	37,876	-	295,985
Equipment	3,174,954	135,044	208,174	(908,593)	2,609,579
Infrastructure	9,504,393	(63,506)	363,354	(32,342)	9,771,899
Improvements	2,411,267	(148,043)	286,299	(9,703)	2,539,820
Total Accumulated Depreciation	<u>15,348,723</u>	<u>(76,505)</u>	<u>895,703</u>	<u>(950,638)</u>	<u>15,217,283</u>
Total Capital Assets, being depreciated, net	<u>23,476,809</u>	<u>(6,321,758)</u>	<u>3,634,199</u>	<u>(132,555)</u>	<u>20,656,695</u>
Business-Type Activities:					
Capital Assets, Net	<u>\$ 26,804,929</u>	<u>\$ (573,245)</u>	<u>\$ 5,294,756</u>	<u>\$ (4,022,224)</u>	<u>\$ 27,504,216</u>

Construction in progress in the business-type activities consists of costs incurred related to construction of water distribution system improvements and water wells to support the City's water and sewer system, and a lift station rehab project which were not complete as of September 30, 2012.

G. CERTIFICATES OF OBLIGATION

Certificates of Obligation are direct obligations and pledged by the full faith and credit of the City. The principal thereof and the interest thereon, are paid from the surplus net revenues derived from the operation and ownership of the City's water and sewer system and golf course activities.

In December of 2004, the City issued \$6,965,000 of Tax and Water and Sewer System Surplus Revenue Certificates of Obligation, Series 2004, (the "2004 Obligations"), that were used for improvements on the City's water and sewer system. These 2004 Obligations are due and payable between February 15, 2006 and February 15, 2025, and carry variable interest rates between 3.00% and 4.75%. During the year ended September 30, 2012, the City repaid \$285,000 on the 2004 Obligations, which have a remaining outstanding balance of \$5,170,000 as of September 30, 2012.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G. CERTIFICATES OF OBLIGATION (continued)

In February of 2007, the City issued \$2,250,000 of Tax and Waterworks and Sewer System Certificates of Obligation, Series 2007, (the “2007 Obligations”), that were used for the purchase of, and improvements to, the Palo Duro Creek Golf Course. The 2007 Obligations are due and payable between February 15, 2008 and February 15, 2027, and carry an interest rate of 4.25%. During the year ended September 30, 2012, the City repaid \$88,000 on the 2007 Obligations, which have a remaining outstanding balance of \$1,890,000.

In August of 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, 2012 the outstanding balance on the 2012 Obligations was \$9,090,000.

Business-Type Activities surplus revenue certificates of obligation outstanding at year end that are currently being serviced with surplus net revenues from the City’s Water and Sewer system are as follows:

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>
2004 certificates of obligation, callable at par beginning February 15, 2014	3.00% - 4.75%	2025	\$ 5,170,000.00
2007 certificates of obligation, callable at par at the option of the City	4.25%	2027	1,890,000.00
2012 certificates of obligation, callable at par beginning February 15, 2023	2.00% - 3.50%	2032	<u>9,090,000.00</u>
			<u>\$ 16,150,000.00</u>

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

G. CERTIFICATES OF OBLIGATION (continued)

Interest is payable semi-annually at various dates for the respective issues. The Business-Type Activities revenue bonds and certificates of obligations currently being serviced by net surplus revenues service requirements to maturity are as follows:

<u>Fiscal year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 747,000	\$ 569,681	\$ 1,316,681
2014	762,000	558,028	1,320,028
2015	786,000	533,120	1,319,120
2016	809,000	506,533	1,315,533
2017	843,000	478,003	1,321,003
2018-2022	4,726,000	1,883,395	6,609,395
2023-2027	4,632,000	898,606	5,530,606
2028-2032	2,845,000	256,112	3,101,112
	<u>\$ 16,150,000</u>	<u>\$ 5,683,478</u>	<u>\$ 21,833,478</u>

Current year interest expense and capitalized bond interest was recorded as follows:

	<u>Accrued Interest Payable October 1, 2011</u>	<u>Interest Paid during the Year</u>	<u>Accrued Interest Payable September 30, 2012</u>	<u>Capitalized Interest</u>	<u>Interest Expense</u>
Water & Sewer	\$ 30,626	\$ 239,872	\$ 57,126	\$ 237,435	\$ 28,937
Golf Course	10,508	81,297	14,501	-	85,290
	<u>\$ 41,134</u>	<u>\$ 321,169</u>	<u>\$ 71,627</u>	<u>\$ 237,435</u>	<u>\$ 114,227</u>

Long-term liability activity for the year ended September 30, 2012 was as follows:

	<u>Balance October 1, 2011</u>	<u>Prior Period Adjustments</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities						
Capital Leases	\$ -	\$ 76,992	\$ -	\$ 17,509	\$ 59,483	\$ 18,621
Compensated Absences	107,008	-	178,190	107,008	178,190	-
Total Governmental Activities Long-Term Liabilities	<u>\$ 107,008</u>	<u>\$ 76,992</u>	<u>\$ 178,190</u>	<u>\$ 124,517</u>	<u>\$ 237,673</u>	<u>\$ 18,621</u>

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G. CERTIFICATES OF OBLIGATION (continued)

Business-Type Activities	Balance October 1, 2011	Prior Period Adjustments	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Bonds Payable						
Surplus Revenue Obligations	\$ 7,433,000	\$ -	\$ 9,090,000	\$ 373,000	\$ 16,150,000	\$ 747,000
Unamortized Bond Premiums	90,143	-	604,274	11,267	683,150	-
Unamortized Bond Issuance Costs	(80,948)	-	(61,718)	(9,887)	(132,779)	-
Capital Leases	-	13,973	252,867	55,972	210,868	63,217
Compensated Absences	<u>36,228</u>	<u>-</u>	<u>29,017</u>	<u>36,228</u>	<u>29,017</u>	<u>14,509</u>
Total Business-Type Activities						
Long-Term Liabilities	<u>\$ 7,478,423</u>	<u>\$ 13,973</u>	<u>\$ 9,914,440</u>	<u>\$ 466,580</u>	<u>\$ 16,940,256</u>	<u>\$ 824,726</u>

During prior years, compensated absences have been typically liquidated by the General Fund for governmental activities and by the Proprietary Fund in which the liability has been incurred for all business 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.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

H. CAPITAL LEASE OBLIGATIONS

The City has leased certain equipment under non-cancellable capital leases. The following summarizes the City's obligations under capital leases:

Year Ending September 30,	Governmental Activities	Golf Course
2013	\$ 22,396	\$ 50,772
2014	22,396	50,772
2015	22,397	50,772
2016	-	50,772
2017	-	38,773
Total	67,189	241,861
Less amounts representing interest	7,706	30,993
Present Value of Lease Payments	\$ 59,483	\$ 210,868

The following summarizes the assets acquired under capital leases:

Equipment	\$ 120,193	\$ 308,395
Accumulated Depreciation	34,341	45,016
Net Leased Equipment	\$ 85,852	\$ 263,380

I. EMPLOYEES' RETIREMENT PLAN

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the TMRS. This report may be obtained by writing TMRS at P.O. Box 149153, Austin, Texas 78714-9153, or by call 1-800-924-8677; in addition, the report is available on TMRS's website at www.TMRS.com.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

I. EMPLOYEES' RETIREMENT PLAN (continued)

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

	<u>Plan Year 2012</u>	<u>Plan Year 2011</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI, Repeating	70% of CPI, Repeating	70% of CPI, Repeating

Contributions

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

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

	<u>Fiscal Year Ending 2012</u>	<u>Fiscal Year Ending 2011</u>	<u>Fiscal Year Ending 2010</u>
Annual pension cost (APC)	\$ 594,520	\$ 581,487	\$ 432,093
Actual contributions made	\$ 594,520	\$ 581,487	\$ 432,093
Percentage of APC contributed	100%	100%	100%
Net pension obligation/(asset)	\$ -	\$ -	\$ -
Annual required contribution rate	16.76%	16.22%	14.97%

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

I. EMPLOYEES' RETIREMENT PLAN (continued)

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

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 equivalent single amortization period	26.5 years - closed period	27.4 years - closed period	28.1 years - closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions:			
Investment rate of return	7.0%	7.0%	7.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

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

Actuarial valuation date	12/31/2011	12/31/2010	12/31/2009
Actuarial value of assets	\$ 16,844,807	\$ 15,661,363	\$ 8,245,929
Actuarial accrued liability (AAL)	\$ 20,322,105	\$ 19,061,694	\$ 12,722,417
Funded ratio	82.9%	82.2%	64.8%
Unfunded AAL (UAAL)	\$ 3,477,298	\$ 3,400,331	\$ 4,476,488
Covered payroll	\$ 3,527,546	\$ 3,305,227	\$ 3,116,277
UAAL as % of covered payroll	98.6%	102.9%	143.6%

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 accrued liabilities and actuarial value of assets.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

I. EMPLOYEES' RETIREMENT PLAN (continued)

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2011, 2010, and 2009 were \$6,864, \$7,580, and \$8,344, respectively, which equaled the required contributions each year.

The City's contribution rates for the last three years were as follows:

Calendar year	2011	2010	2009
Annual required contribution rate (ARC)	0.02 %	0.02 %	0.02 %
Actual contribution rate made	0.02 %	0.02 %	0.02 %
Percentage of ARC contributed	100 %	100 %	100 %

J. CONSTRUCTION COMMITMENTS

The City has an on-going project for the construction of additional water wells and connecting pipeline infrastructure to supplement the public water supply system. The City's management estimates the total costs to complete this project to be \$2,856,056, of which approximately \$2,466,904, had been expended as of September 30, 2012. The project cost also includes approximately \$237,435 of capitalized interest for the year ended September 30, 2012. The City anticipates this project will be completed during fiscal year 2013.

The City is currently constructing a sewer main outfall line, to connect the City's sewer system to the waste water treatment plant. The City estimates the total costs to complete this project to be \$1,306,000, of which approximately \$772,142 had been expended as of September 30, 2012. The City anticipates this project will be completed during fiscal year 2013.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

J. CONSTRUCTION COMMITMENTS (continued)

The City is completing a rehabilitation project on the main lift station at the wastewater treatment plant. The City is completing this project in-house and has not engaged an outside contractor to perform the services. The City estimates the total costs to complete this project to be \$47,000, of which approximately \$42,920 had been expended as of September 30, 2012. The City is unsure if this project will be completed by the end of fiscal year 2013.

During fiscal year 2010, the City received a grant from the Texas Department of Transportation, to perform an enhancement project on Canyon US 87. Under the terms of this grant agreement, \$714,497 of grant funds were awarded, and the City was required to fund the remaining costs of the project. As of September 30, 2012, the project has an estimated total cost of \$1,052,780, of which \$931,039 had been expended. The City's remaining portion of the project expenditures is estimated to be \$58,689, which has already been remitted to the Texas Department of Transportation, by the City. Because the amount had not been expended on the project as of September 30, 2012, the City has reported this amount as a prepaid asset. The remaining \$64,080 of expenditure to complete the project will be paid from the grant funds awarded. The City anticipates this project will be completed during fiscal year 2013.

K. PRIOR PERIOD ADJUSTMENTS

During the conduct of the financial audit for the fiscal year ending September 30, 2012, it was noted that various financial statement amounts from previous years had been incorrectly reported. Specifically the following matters were noted on the fund financial statements:

- Inter-fund transfers accounts (due to / due from) included balances which had accumulated over various years. The City's management does not believe these amounts will be repaid to the lending fund, therefore the decision was made to report these amounts as transfers between funds.
- The accrued compensated absence liability as of September 30, 2011 was reported on the prior year governmental fund balance sheet. The City had no expected retirees, nor any actual retirements of General Fund employees; Consequently, this should have been reported only on the government wide financial statements.
- During the year ended September 30, 2012, the City's management performed a detail review of the capital asset listing, and conducted a detailed physical inventory count of all capital assets. As a result of these procedures various assets were identified by the City as having been disposed of during a prior year, additionally any assets listed on the City's depreciation schedule which were not able to be identified through the detail physical inventory were recorded as disposals.
- During prior years the City has been maintaining the books using a budgetary basis, and recording transactions in encumbrance accounts, in some instance prior to the transaction actually occurring.
- During prior years the City had capitalized and placed in service components of improvements and construction in progress as the costs were being incurred. This resulted in capital assets being depreciated prior to being completed and actually placed in service.
- During a prior year, the City entered into a lease agreement, where the lease tenant makes annual lease payments that are for a different period than the City's fiscal year. When received the City recorded the entire amount of the lease payment as revenue, rather than deferring the portion that would be earned during the subsequent year.
- During a prior year, the City entered into a lease agreement for mowers and grounds keeping equipment at Palo Duro Creek Golf Course, and recorded the transaction as an operating lease. During the current year audit, this transaction was determined to be a capital lease.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

K. PRIOR PERIOD ADJUSTMENTS (continued)

- Because sales taxes are remitted to the State Comptroller's office, who in turn remits to them to various governmental entities, including the City, there is a two month turnaround time between the period for which sales taxes are collected and when they are remitted. Historically, the City has only recorded sales tax revenues received from the State during the year. The City's management has decided that it is more appropriate to reflect the actual sales tax revenues earned during the fiscal year ending September 30th as sales tax revenue rather than when the revenue is received.

A summary of the prior period adjustments on the fund financial statements are as follows:

	Amount Previously Reported as of 9/30/11		Prior Period Adjustment		Amount Restated at 9/30/2011
General Fund:					
Taxes Receivable	\$ 74,954	\$	314,406	\$	
Due From Other Funds	589,513		(589,513)		-
Accrued Sick Time Payable	(107,008)		107,008		-
Fund Balance	\$ (2,904,073)	\$	168,099	\$	(2,735,974)
Water & Sewer Fund:					
Due From Other Funds	\$ 1,605,689	\$	(1,605,689)	\$	-
Equipment	3,350,753		4,309		3,355,062
Improvements other than Buildings	11,262,017		(3,868,264)		7,393,753
Infrastructure	21,877,176		(2,658,845)		19,218,331
Construction in Progress	-		5,748,513		5,748,513
Accumulated Depreciation	(14,666,583)		156,564		(14,510,019)
Accounts Payable	(1,484,053)		1,484,053		-
Deferred Revenue	-		(31,768)		(31,768)
Net Assets	\$ (27,744,525)	\$	771,127	\$	(26,973,398)
Golf Course Fund:					
Due to Other Funds	\$ (2,195,202)	\$	2,195,202	\$	-
Equipment	563,886		124,537		688,423
Accumulated Depreciation	(176,549)		(80,059)		(256,608)
Capital Lease Payable	-		(13,973)		(13,973)
Net Assets	\$ 2,230,967	\$	(2,225,707)	\$	5,260

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

K. PRIOR PERIOD ADJUSTMENTS (continued)

In addition to the prior period adjustments above, the following matters were noted in the government-wide financial statements:

- During a prior year, the City entered into a lease agreement for mowers for use at City parks, and recorded the transaction as an operating lease. During the current year audit, this transaction was determined to be a capital lease.

A summary of the prior period adjustments on the government-wide financial statements are as follows:

	<u>Amount Previously Reported as of 9/30/11</u>	<u>Prior Period Adjustment</u>	<u>Amount Restated at 9/30/2011</u>
Governmental Activities:			
Taxes Receivable	\$ 152,539	\$ 314,406	\$ 466,945
Internal Balances	589,513	(589,513)	-
Equipment, Net	1,964,253	296,349	2,260,602
Infrastructure, Net	12,050,093	(65,289)	11,984,804
Improvements other than Buildings, Net	770,784	(5)	770,779
Buildings, Net	2,343,582	(4)	2,343,578
Capital Lease Payable	-	(76,992)	(76,992)
Net Assets	\$ (20,575,017)	\$ 121,048	\$ (20,453,969)

L. SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through June 13, 2013, which is the date the financial statements were available to be issued. Subsequent to September 30, 2012, the City Commission approved the following capital expenditures and construction projects:

- The City awarded a contract for the construction of a facility at Southeast Park Baseball Complex which will house a press box and a new restroom and concession facility. The City's management estimates the total costs to complete this project to be \$1,021,327. The City anticipates this project will be completed during fiscal year 2013.
- The City Commission approved the purchase of a side load solid waste collection truck with a total cost of approximately \$147,907.
- The City Commission approved a seal-coating project on various city streets, with an estimated cost of \$304,345. The City anticipates this project will be completed during the summer of 2013.
- The City awarded a contract for the construction of additional lines to the City's on-going well field project. The City's management estimates the total costs to complete this project to be \$1,226,900. The City anticipates this project will be completed during fiscal year 2013.

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

L. SUBSEQUENT EVENTS (continued)

In February of 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. Interest on the 2013 Obligations will be from 2.0% to 3.0%, with maturities ranging from 2014 to 2027. Based on these facts the City estimates the following debt service requirements after the 2013 Obligations have been issued:

Debt service requirements for Business-Type Activities:

Fiscal year ending September 30,	Principal	Interest	Total
2013	\$ 747,000	\$ 611,199	\$ 1,358,199
2014	810,000	538,296	1,348,296
2015	830,000	414,975	1,244,975
2016	845,000	398,225	1,243,225
2017	865,000	381,125	1,246,125
2018-2022	4,680,000	1,559,675	6,239,675
2023-2027	4,355,000	816,850	5,171,850
2028-2032	2,845,000	256,113	3,101,113
	<u>\$ 15,977,000</u>	<u>\$ 4,976,458</u>	<u>\$ 20,953,458</u>

M. BUDGET VARIANCES

The City’s General Fund actual expenditures exceeded amounts budgeted in the general government, capital outlay, interest and fiscal charges, and transfers out categories for the year ended September 30, 2012 as shown on Exhibit C-5. In addition, the City’s overall expenditures exceeded the approved budget. Management is aware of these budget variances and is implementing procedures to avoid this from occurring in the future. The general government expenditures exceeded the approved budget because expenditure transactions made from restricted cash accounts are not included in the City’s budget. Capital outlay expenditures exceeded the approved budget primarily as a result of capital grant transactions, which were not budgeted by the City. Historically the City has recorded interfund transfers as due to and due from transactions on the City’s financial statements. During the year ended September 30, 2012, the City’s management determined that these transactions were more properly recorded as interfund transfers, which had not been budgeted by the City. Management will continue to evaluate the City’s budget process to ensure that all expenditures are properly authorized.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

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

Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Annual Covered Payroll (4)/(5)
2012	\$ 16,844,807	\$ 20,322,105	82.9%	\$ 3,477,298	\$ 3,527,546	98.6%
2011	15,661,363	19,061,694	82.2%	3,400,331	3,305,227	102.9%
2010	8,245,929	12,722,417	64.8%	4,476,488	3,116,277	143.6%
2009	8,327,539	12,345,508	67.5%	4,017,969	3,011,369	133.4%
2008	10,606,386	14,027,076	75.6%	3,420,690	2,878,250	118.8%
2007	10,737,426	12,502,924	85.9%	1,765,498	2,752,542	64.1%
2006	9,790,394	11,468,393	85.4%	1,677,999	2,607,233	64.4%
2005	8,921,057	10,555,249	84.5%	1,634,192	2,444,276	66.9%
2004	8,507,161	10,081,607	84.4%	1,574,446	2,359,426	66.7%
2003	7,671,212	8,970,595	85.5%	1,299,383	2,232,706	58.2%

Data above is as of December 31, of the preceding year, which is the date of the actuarial valuation.

A. FUNDED STATUS AND FUNDING PROGRESS

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 actuarial value of assets. The schedule of funding progress, presented in the above table, presents multi-year trending information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**OVERALL COMPLIANCE AND INTERNAL
CONTROL SECTION**



BROWN, GRAHAM & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS

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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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the City of Canyon, Texas (the City) as of and for the year ended September 30, 2012, and have issued our report thereon dated June 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items One, Two, and Three to be material weaknesses.

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

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of the City in a separate letter dated June 13, 2013.

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

Brown, Graham & Company, P. C.

Canyon, Texas
June 13, 2013



BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the compliance of the City of Canyon, Texas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a

basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

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

Brown, Graham & Company, P. C.

Amarillo, Texas
June 13, 2013

CITY OF CANYON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. Summary of the Auditor's Results:

- a. The type of auditor's report issued on the financial statements: Unqualified.
- b. Significant deficiencies in internal control over financial reporting were disclosed in the audit of the financial statements, some of which were identified as material weaknesses.
- c. The audit disclosed no instances of noncompliance which were material to the financial statements.
- d. No significant deficiencies in internal control over major programs were disclosed by the audit.
- e. The type of auditor's report on compliance for major programs: Unqualified
- f. The audit disclosed no findings which are required to be reported under Sec. 510 (a) of OMB Circular A-133.
- g. The programs tested as major programs:
 - 97.044 Assistance to Firefighter's Grant
 - 20.205 Federal Aid Highway Program
- h. The threshold for distinguishing between Type A and Type B programs was \$300,000.
- i. The City did not qualify as a low-risk auditee.

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

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

Item One – Material Adjustments to the City’s Financial Statements:

Criteria: The City’s responsibility for internal control over financial reporting extends to the correct reporting in the annual financial statements. The City’s internal controls over financial reporting should be sufficient to assure that there is less than a remote likelihood that the City’s annual financial statements, before audit, are materially misstated.

Condition: During the audit, a significant number of adjusting entries to the City’s accounting records were necessary in order for the financial statements to be materially correct in accordance with generally accepted accounting principles. In addition, it was noted that the prior year’s financial statements were materially misstated and consequently, prior period adjustments had to be made to the City’s financial statements.

Cause: The City did not have sufficient internal controls in place to ensure the accurate preparation of financial statements in accordance with generally accepted accounting principles, which would include adequate training of the City’s finance personnel.

Effect or potential effect: Material adjustments were required during the audit for the financial statements to be materially correct in accordance with generally accepted accounting principles.

Questioned costs: None

Recommendation: We recommend that the City determine the training necessary for City’s finance personnel to be able to prepare the financial statements in accordance with the most current generally accepted accounting principles and provide that training to the City personnel.

City’s response: The City’s Finance Director will seek additional training in order to make material adjustments prior to the City’s next audit. Training will also be given to the business office staff in order to prepare audit documentation to the outside auditors.

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

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

Item Two – Recording of Transactions:

Criteria: The City’s accounting procedures should ensure that all of the City’s transactions from all of the City’s accounts be captured and recorded in the City’s detail general ledger.

Condition: While performing our testwork, we noted that the City did not record the transactions for several special purpose bank accounts on the general ledger throughout the year; rather, the activity for these accounts was maintained using an Excel based subsidiary ledger, and recorded on the City’s books through the annual financial statement preparation process using schedules summarized from the subsidiary ledgers.

Cause: The City’s accounting procedures did not include processes to cover the recording of transactions in all of the City’s bank accounts.

Effect or potential effect: Because certain cash activity is not maintained on the City’s detail general ledger throughout the year, the City’s internal financial information does not provide a complete presentation of the City’s financial activity throughout the year. Additionally, because this activity is not recorded on the City’s books, the significant account balances and activity were recorded as a part of the annual audit process.

Questioned costs: None

Recommendation: We recommend that the City evaluate the current accounting procedures to ensure that all cash accounts are accounted for on the general ledger, and that all activity for all accounts be subject to the appropriate level of management review and approval.

City’s response: The City will take appropriate steps to record transactions of all cash accounts in INCODE accounting software, instead of recording transactions in a separate subsidiary ledger. The Finance Director will consult with the outside auditors in setting up the accounts in INCODE.

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

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

Item Three – GAAP Basis Financial Reporting:

Criteria: The City’s responsibility for internal control over financial reporting extends to the annual financial statement reporting in accordance with generally accepted accounting principles for governmental entities. The City’s internal controls over financial reporting should be sufficient to assure that financial information is recorded and reported in accordance with generally accepted accounting principles.

Condition: While performing our testwork, we noted that the City’s books were being maintained on a budgetary basis utilizing encumbrance balances which did not release at the end of the accounting period. This resulted in instances where transactions recorded to encumbrance accounts were recorded on the City’s books prior to the occurrence of the transaction.

Cause: The City did not have sufficient internal controls in place to ensure the accurate preparation of financial statements in accordance with generally accepted accounting principles, the City’s usage of a budgetary basis of accounting on the general ledger does not allow for preparation of GAAP basis financial statements.

Effect or potential effect: Adjusting journal entries were required during the audit for the financial statements to be materially correct in accordance with generally accepted accounting principles.

Questioned costs: None

Recommendation: We recommend that the City discontinue the use of the budgetary basis of accounting to ensure that financial information is recorded and reported in accordance with generally accepted accounting principles.

City’s response: The Finance Director will continue to look into best acceptable ways to record encumbrances from year to year. Often, large budgeted projects may take more than one year to complete. The City has historically encumbered money from one year to the next in order to pay for a project, or budgeted a certain percentage of a project for a number of years in order to save up for the project. For example, the City will budget \$150,000 a year until enough funds have been accumulated to repair the east elevated storage tank, estimated to be approximately \$500,000. The Finance Director will work with the outside auditors in order to develop an acceptable approach for these types of planning issues.

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

- III. Findings Relating to the Federal Awards Required to be Reported in Accordance with *OMB Circular A-133*: None**

**CITY OF CANYON, TEXAS
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

**CITY OF CANYON, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item One – Material Adjustments to the City’s Financial Statements:

The City’s Finance Director will seek additional training in order to make material adjustments prior to the City’s next audit. Training will also be given to the business office staff in order to prepare audit documentation to the outside auditors.

Item Two – Recording of Transactions:

The City will take appropriate steps to record transactions of all cash accounts in INCODE accounting software, instead of recording transactions in a separate subsidiary ledger. The Finance Director will consult with the outside auditors in setting up the accounts in INCODE.

Item Three – GAAP Basis Financial Reporting:

The Finance Director will continue to look into best acceptable ways to record encumbrances from year to year. Often, large budgeted projects may take more than one year to complete. The City has historically encumbered money from one year to the next in order to pay for a project, or budgeted a certain percentage of a project for a number of years in order to save up for the project. For example, the City will budget \$150,000 a year until enough funds have been accumulated to repair the east elevated storage tank, estimated to be approximately \$500,000. The Finance Director will work with the outside auditors in order to develop an acceptable approach for these types of planning issues.

**CITY OF CANYON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<u>Project Number</u>	<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures, Indirect Costs, and Refunds</u>	<u>Pass Through Amount to Subrecipients</u>
<u>U.S. Department of Homeland</u>				
<u>Security</u>				
	Passed through the Federal Emergency Management Agency			
EMW-2011 FV-01528	Assistance to Firefighter's Grant	97.044	\$ 495,000	\$ -
<u>U.S. Department of Transportation</u>				
	Passed through the Texas Department of Transportation			
STP 2011 (263) TE	Federal Aid Highway Program - ARRA	20.205	650,418	-
<u>U.S. Department of Housing and</u>				
<u>Community Development</u>				
	Passed through the Texas Department of Agriculture			
729119	Texas Community Development Block Grant	14.228	<u>2,686</u>	<u>-</u>
	Total expenditures of federal awards		\$ <u>1,148,104</u>	\$ <u>-</u>

CITY OF CANYON, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THEY YEAR ENDED SEPTEMBER 30, 2012

Note A – Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note B – Summary of Significant Accounting Policies:

The accounting and financial reporting treatment of grant transactions are applied based on the measurement focus of the fund type.

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

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

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenues until earned.