

CITY OF CANYON, TEXAS

Annual Financial Report

**For the Year Ended
September 30, 2018**



**CITY OF CANYON, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2018**

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INTRODUCTORY SECTION

CITY OF CANYON, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2018

Gary Hinders	Mayor, Commissioner, Place 1
Cordell Jones	Commissioner, Place 2
Paul R. Lyons	Commissioner, Place 3
Roger Remlinger	Commissioner, Place 4
Justin Richardson	Mayor Pro-Tem, Commissioner, Place 5
Randy Criswell	City Manager
Jon Behrens	Assistant City Manager
Chris Sharp	Director of Finance

FINANCIAL SECTION



To The Honorable Gary Hinders, Mayor and
Members of the City Commission
City of Canyon, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Canyon, Texas as of September 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 – 9) and required supplemental information (pages 64 – 71), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 combining non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2019, on our consideration of the City of Canyon, Texas's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Canyon, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in conjunction with this report in considering the results of our audit.

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

DOSHIER, PICKENS & FRANCIS, LLC

March 13, 2019

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, 2018. 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 \$57,700,570 (net position) for the fiscal year reported.

Total net position is comprised of the following:

1. Net investment in capital assets of \$52,590,274 includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
2. Restricted net position of \$380,477 represents the portion that is restricted to a specific purpose.
3. Unrestricted net position of \$4,729,819 represents the portion available to maintain the City's continuing obligation to citizens and creditors.

The City's governmental activities reported total ending net position of \$24,083,537 this year. This includes an unrestricted deficit of (\$3,605,663).

For the fiscal year ended September 30, 2018, the City's net position increased by \$1,450,268. Governmental activities decreased by \$21,234, while business-type activities increased by \$1,471,502.

The City has total liabilities of \$24,555,974, which now includes the pension liability in the amount of \$2,459,555 as well as other post-employment benefit liabilities of \$2,117,793. Current liabilities were \$3,063,543 and non-current liabilities were \$21,492,431.

The governmental activities earned \$2,679,465 in fees for services, and received \$665,895 in contributions, grants, and inter-governmental revenue. The governmental activities also received \$7,626,815 of general revenues. Property and sales taxes accounted for \$5,446,606 of the general revenues.

The business-type activities of the City generated \$9,671,596 in charges for services, and received \$55,297 in contributions, grants, and inter-governmental revenue. The business-type activities also had \$193,743 in general revenues consisting of unrestricted investment earnings.

Total governmental activities expenses were \$10,993,409. Public safety, streets, culture and recreation, and sanitation accounted for \$9,048,533 of the total expenditures.

Total business-type activities expenses were \$7,343,299. Waterworks and sewer system operations accounted for \$5,812,663 and municipal golf course operations accounted for \$1,530,636 of the total expenses.

Overview of the Financial Statements:

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

Government-Wide Financial Statements:

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector applying the accrual basis accounting.

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

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

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

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

Fund Financial Statements:

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

The City has three kinds of funds:

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

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

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

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

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

Notes to the Financial Statements:

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

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

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

CITY OF CANYON, TEXAS						
Net Position						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 1,535,244	\$ 2,525,629	\$11,544,845	\$12,988,639	\$13,080,089	\$15,514,268
Capital Assets, net of Depreciation	<u>32,767,331</u>	<u>33,032,763</u>	<u>36,659,705</u>	<u>33,584,677</u>	<u>69,427,036</u>	<u>66,617,440</u>
Total Assets	<u>34,302,575</u>	<u>35,558,392</u>	<u>48,204,550</u>	<u>46,573,316</u>	<u>82,507,125</u>	<u>82,131,708</u>
Deferred Charge on Refunding	-	-	153,559	183,337	153,559	183,337
Deferred pension and OPEB contributions	540,775	499,029	154,113	150,710	694,888	649,739
Deferred pension-actuarial losses	29,376	38,988	9,216	12,890	38,592	51,878
Deferred pension-deficient earnings	23,961	798,647	-	254,086	23,961	1,052,733
Deferred pensionand OPEB-assumption changes	<u>36,045</u>	<u>40,080</u>	<u>11,097</u>	<u>12,276</u>	<u>47,142</u>	<u>52,356</u>
Total Deferred Outflows of Resources	<u>630,157</u>	<u>1,376,744</u>	<u>327,985</u>	<u>613,299</u>	<u>958,142</u>	<u>1,990,043</u>
Current liabilities	630,395	1,267,949	2,433,148	1,768,928	3,063,543	3,036,877
Long-term liabilities	<u>9,299,111</u>	<u>11,227,220</u>	<u>12,193,320</u>	<u>13,160,671</u>	<u>21,492,431</u>	<u>24,387,891</u>
Total liabilities	<u>9,929,506</u>	<u>12,495,169</u>	<u>14,626,468</u>	<u>14,929,599</u>	<u>24,555,974</u>	<u>27,424,768</u>
Deferred pension-earnings	543,342	-	170,758	-	714,100	-
Deferred pension-actuarial gains	<u>376,347</u>	<u>335,196</u>	<u>118,276</u>	<u>111,485</u>	<u>494,623</u>	<u>446,681</u>
Total deferred inflows of resources	<u>919,689</u>	<u>335,196</u>	<u>289,034</u>	<u>111,485</u>	<u>1,208,723</u>	<u>446,681</u>
Net Investment in Capital Assets	27,308,723	27,679,518	25,281,551	25,083,066	52,590,274	52,762,584
Restricted:						
Municipal Court Technology and Security	45,718	34,961	-	-	45,718	34,961
Civic Activities	148,452	168,613	-	-	148,452	168,613
Education Programs	559	703	-	-	559	703
Emergency Management	7,852	35,400	-	-	7,852	35,400
Police and Fire Services	41,301	48,191	-	-	41,301	48,191
Library	3,526	5,408	-	-	3,526	5,408
Debt service	133,069	71,728	-	-	133,069	71,728
Unrestricted	<u>(3,605,663)</u>	<u>(3,939,751)</u>	<u>8,335,482</u>	<u>7,062,465</u>	<u>4,729,819</u>	<u>3,122,714</u>
Total Net Position	<u>\$24,083,537</u>	<u>\$24,104,771</u>	<u>\$33,617,033</u>	<u>\$32,145,531</u>	<u>\$57,700,570</u>	<u>\$56,250,302</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Canyon, assets and deferred outflows of resources exceeded liabilities by \$57,700,570 at the close of the most recent fiscal year, which is an increase of \$1,450,268 from the prior year.

Government-wide total assets increased by \$375,417 while the total liabilities decreased by \$2,868,794. Investment in capital assets represents approximately 91% of the total net position of the City. These assets are not available for future spending. The City's unrestricted net position, which is available for future spending, increased by \$1,607,105

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

CITY OF CANYON, TEXAS

Change in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Charges for services	\$ 2,679,465	\$ 2,434,136	\$ 9,671,596	\$ 8,572,027	\$12,351,061	\$11,006,163
Capital Grants and contributions	48,579	3,830,000	55,297	1,801,885	103,876	5,631,885
Operating grants and contributions	617,316	535,687	-	-	617,316	535,687
Property taxes	3,153,634	2,849,768	-	-	3,153,634	2,849,768
Sales taxes	2,292,972	2,127,359	-	-	2,292,972	2,127,359
Franchise taxes	733,330	700,576	-	-	733,330	700,576
Other taxes	267,246	263,582	-	-	267,246	263,582
Investment earnings	21,848	31,769	114,264	73,190	136,112	104,959
Sales of capital assets	-	-	433	-	433	-
Miscellaneous revenue	51,518	101,712	79,478	44,461	130,996	146,173
Operating transfers	<u>1,106,267</u>	<u>999,589</u>	<u>(1,106,267)</u>	<u>(999,589)</u>	<u>-</u>	<u>-</u>
Total revenues and transfers	<u>10,972,175</u>	<u>13,874,178</u>	<u>8,814,801</u>	<u>9,491,974</u>	<u>19,786,976</u>	<u>23,366,152</u>
General governmental	1,311,387	1,059,008	-	-	1,311,387	1,059,008
Judicial	1,954	3,484	-	-	1,954	3,484
Public safety	3,935,536	4,053,681	-	-	3,935,536	4,053,681
Streets	1,391,694	1,266,286	-	-	1,391,694	1,266,286
Sanitation	1,324,875	1,145,699	-	-	1,324,875	1,145,699
Culture and recreation	2,396,428	1,824,357	-	-	2,396,428	1,824,357
Conservation and development	222,602	233,628	-	-	222,602	233,628
Public services	270,674	231,098	-	-	270,674	231,098
Interest on long-term debt	138,259	144,302	-	-	138,259	144,302
Water and sewer	-	-	5,812,663	5,710,154	5,812,663	5,710,154
Golf course	-	-	<u>1,530,636</u>	<u>1,387,543</u>	<u>1,530,636</u>	<u>1,387,543</u>
Total expenses	<u>10,993,409</u>	<u>9,961,543</u>	<u>7,343,299</u>	<u>7,097,697</u>	<u>18,336,708</u>	<u>17,059,240</u>
Change in net position	<u>\$ (21,234)</u>	<u>\$ 3,912,635</u>	<u>\$ 1,471,502</u>	<u>\$ 2,394,277</u>	<u>\$ 1,450,268</u>	<u>\$ 6,306,912</u>

Government-wide total revenues decreased by \$3,579,176 from the prior year. Government-wide expenses increased \$1,277,468.

Overall, the City's net position increased \$1,450,268 during the year.

Governmental activities: Governmental activities decreased the City's net position by \$21,234 for the year. Revenue from governmental activities decreased by \$3,008,681 (exclusive of operating transfers). Most of this decrease was due to the capital contributions received in the prior year. Total expenditures by governmental activities increased by \$1,031,866. Depreciation on capital assets in the governmental activities was \$1,524,624 for the year.

Business-type activities: Revenue for business-type activities decreased \$570,495 (exclusive of operating transfers). This decrease was primarily due to the capital contributions received in the prior year. Expenses in the business-type activities increased \$245,602, primarily caused by increased cost to provide water to residents. Depreciation in the business-type activities was \$1,056,297 for the year.

The City invested in significant capital asset additions during the year. In the governmental activities \$1,612,396 in capital assets were purchased. The most significant purchases were for equipment and infrastructure assets. In the business type activities \$4,139,511 in new additions were made. Much of this was continued work on the long- range water improvements using the money from bonds issued a few years ago.

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

CITY OF CANYON, TEXAS						
Capital Assets						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
Land and easements	\$ 749,782	\$ 749,782	\$ 3,947,472	\$ 3,947,472	\$ 4,697,254	\$ 4,697,254
Buildings	10,199,343	3,922,598	747,529	747,529	10,946,872	4,670,127
Equipment	8,579,548	7,672,467	4,188,892	3,692,147	12,768,440	11,364,614
Improvements	5,478,316	5,301,859	12,806,035	12,207,520	18,284,351	17,509,379
Infrastructure	35,080,706	34,631,266	31,635,538	31,635,538	66,716,244	66,266,804
Construction in progress	<u>639,333</u>	<u>6,895,725</u>	<u>3,967,946</u>	<u>1,028,011</u>	<u>4,607,279</u>	<u>7,923,736</u>
Total	60,727,028	59,173,697	57,293,412	53,258,217	118,020,440	112,431,914
Accumulated depreciation	<u>(27,959,697)</u>	<u>(26,140,934)</u>	<u>(20,633,707)</u>	<u>(19,673,540)</u>	<u>(48,593,404)</u>	<u>(45,814,474)</u>
Net Capital Assets	<u>\$32,767,331</u>	<u>\$33,032,763</u>	<u>\$36,659,705</u>	<u>\$33,584,677</u>	<u>\$69,427,036</u>	<u>\$66,617,440</u>

Summary and Future Outlook:

The audit reflects a positive change in Net Position for Canyon again this year. Overall, revenues exceeded expenditures by about \$1.5 million. Our Fund Balance is \$4.7 million, ALL of which is in the Utility Fund. In fact, the General Fund is actually technically carrying a \$3.6 million cumulative deficit with regard to Net Position. The General Fund doesn't generate sufficient revenue to meet its own obligations; it survives with a significant subsidy from the Utility Fund. This has been a point of discussion and a debatable issue. It's not uncommon to have inter-fund transfers, the question simply remains, what is an appropriate amount? A couple of years ago, we calculated that about \$600,000-\$700,000 would be reasonable. This year, that number was \$1.1 million, easily 50% above what is reasonably justifiable. Canyon's tax rate is too low. For us to cut this subsidy down to even \$700,000, our M&O tax rate would need to be increased by about 6 cents (15%). That would put our needed tax rate (at the very least) at roughly 46 cents for M&O, yet today it stands at 39 cents.

(As a side note, looking to the future, my belief that our tax rate is too low may not matter. As we go into the 2019 legislative session, I fully expect revenue cap laws will pass again. How or if they will affect cities our size is unknown, but the legislators in Austin don't appear to be inclined to stop their attacks on local control. When they succeed, we will never be able to catch up on our tax rate because we won't be able to increase it without voter approval, and voters rarely approve tax increases for Maintenance and Operations)

The positive net change in position was the result of good fiscal management by our staff. All of our Department heads and Supervisors manage their budgets extremely well. We also had some revenues that exceeded our expectations. Those most notable were:

- Sales Taxes exceeded the budget prediction by about \$166,000
- Residential Solid Waste had a \$55,000 surplus
- Prior Ad Valorem Tax collections saw \$35,000 surplus
- Interest Income was \$48,000 above budget

Water and sewer revenues were more than \$1million higher than budgeted

One other thing important to point out is that our Unfunded Actuarial Liability in TMRS has decreased about \$2 million due to market conditions. It's only a number on paper, but it's a positive change with regard to the way that number appears today.

Canyon continues to grow. In the next year we'll see the startup of the Spring Canyon Subdivision, a proposed rural development of 500 homes or so. WTAMU is undertaking the construction of a new football stadium, a state veterinary lab, and a veterinary education facility. At some point, we'll take over Russell Long Boulevard to allow WTAMU the ability to make some changes that otherwise wouldn't be permitted.

In the upcoming year we'll complete the North Sewer Expansion Project, one that will open the possibility for hundreds of new homes and development to the northwest.

We will recommend adoption of the Comprehensive Plan and move ahead with implementation of the things we can, one of which will be the revision/redevelopment of our Zoning and Subdivision Ordinances. The ultimate goal is to have a Development Policy Manual that will be a true "one-stop" document detailing how to develop property in Canyon.

We have decisions to make about brick streets, city facilities, and the ever-increasing need for more dedicated dollars to infrastructure replacement/rehabilitation. We'll continue to work toward the ongoing assurance of Canyon's water supply.

Canyon is a wonderful community, with a healthy, vibrant, and stable economy.

Contacting the City's Management:

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

A copy of the separately issued financial statements for the Canyon Economic Development Corporation, a component unit, may be obtained by contacting the CEDC, 1604 4th Ave, Ste 21, Canyon, Texas 79015.

BASIC FINANCIAL STATEMENTS

**CITY OF CANYON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 1,808,579	\$ 3,608,128	\$ 5,416,707	\$ 469,432
Investments	1,844,713	-	1,844,713	437,004
Restricted cash - customer deposits	-	255,037	255,037	-
Restricted cash for construction	-	3,238,384	3,238,384	-
Receivables, net	634,461	1,027,247	1,661,708	-
Internal balances	(3,186,784)	3,186,784	-	-
Due from primary government	-	-	-	133,321
Due from component unit	11,548	-	11,548	-
Intergovernmental receivables	422,727	37,931	460,658	-
Inventories	-	140,831	140,831	-
Security deposit	-	-	-	1,007
Prepaid items	-	50,503	50,503	5,166
Capital assets not being depreciated:				
Land	749,782	3,947,472	4,697,254	-
Construction in progress	639,333	3,967,946	4,607,279	-
Capital assets, net of accumulated depreciation				
Buildings	7,876,440	243,790	8,120,230	264,243
Improvements other than buildings	3,839,727	8,597,174	12,436,901	329
Equipment	3,719,805	937,949	4,657,754	7,071
Infrastructure	15,942,244	18,965,374	34,907,618	-
Total assets	<u>34,302,575</u>	<u>48,204,550</u>	<u>82,507,125</u>	<u>1,317,573</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	153,559	153,559	-
Pension contributions	539,876	153,831	693,707	-
Pension economic/demographic losses	29,376	9,216	38,592	-
Pension deficient earnings	23,961	-	23,961	-
Pension assumption changes	24,646	7,515	32,161	-
OPEB contributions	899	282	1,181	-
OPEB assumption changes	11,399	3,582	14,981	-
Total deferred outflows of resources	<u>630,157</u>	<u>327,985</u>	<u>958,142</u>	<u>-</u>
LIABILITIES				
Accounts payable	264,530	1,093,385	1,357,915	-
Accrued liabilities	8,740	11,317	20,057	-
Accrued interest	19,707	46,884	66,591	-
Intergovernmental payable	37,782	-	37,782	-
Due to primary government	-	-	-	11,548
Customer deposits	-	255,037	255,037	-
Unearned revenues	-	13,502	13,502	-
Noncurrent liabilities:				
Due within one year	299,636	1,013,023	1,312,659	15,777
Due in more than one year	5,764,432	11,150,651	16,915,083	78,885
Other post employment benefits obligation	1,611,378	506,415	2,117,793	-
Net pension liability	1,923,301	536,254	2,459,555	-
Total liabilities	<u>9,929,506</u>	<u>14,626,468</u>	<u>24,555,974</u>	<u>106,210</u>
DEFERRED INFLOWS OF RESOURCES				
Pension excess earnings	543,342	170,758	714,100	-
Pension economic/demographic gains	376,347	118,276	494,623	-
Total deferred inflows of resources	<u>919,689</u>	<u>289,034</u>	<u>1,208,723</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	27,308,723	25,281,551	52,590,274	271,643
Restricted:				
By enabling legislation for special projects	243,323	-	243,323	-
Special projects	4,085	-	4,085	-
Debt service	133,069	-	133,069	-
Unrestricted (deficit)	(3,605,663)	8,335,482	4,729,819	939,720
Total net position	<u>\$ 24,083,537</u>	<u>\$ 33,617,033</u>	<u>\$ 57,700,570</u>	<u>\$ 1,211,363</u>

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

**CITY OF CANYON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
Primary Government:								
Governmental activities:								
General government	\$ 1,311,387	\$ 2,448	\$ 148,101	\$ -	\$ (1,160,838)	\$ -	\$ (1,160,838)	\$ -
Judicial	1,954	155,499	-	-	153,545	-	153,545	-
Public safety	3,935,536	18,947	383,438	-	(3,533,151)	-	(3,533,151)	-
Highways and streets	1,391,694	-	-	-	(1,391,694)	-	(1,391,694)	-
Culture and recreation	2,396,428	592,751	85,777	48,579	(1,669,321)	-	(1,669,321)	-
Conservation and development	222,602	-	-	-	(222,602)	-	(222,602)	-
Sanitation	1,324,875	1,909,820	-	-	584,945	-	584,945	-
Public services	270,674	-	-	-	(270,674)	-	(270,674)	-
Interest on long-term debt	138,259	-	-	-	(138,259)	-	(138,259)	-
Total governmental activities	10,993,409	2,679,465	617,316	48,579	(7,648,049)	-	(7,648,049)	-
Business-Type Activities:								
Water and sewer	5,812,663	8,682,042	-	55,297	-	2,924,676	2,924,676	-
Golf course	1,530,636	989,554	-	-	-	(541,082)	(541,082)	-
Total business-type activities	7,343,299	9,671,596	-	55,297	-	2,383,594	2,383,594	-
Total primary government	<u>\$ 18,336,708</u>	<u>\$ 12,351,061</u>	<u>\$ 617,316</u>	<u>\$ 103,876</u>	<u>(7,648,049)</u>	<u>2,383,594</u>	<u>(5,264,455)</u>	<u>-</u>
Component Unit:								
Economic Development	<u>\$ 530,911</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(526,911)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					2,710,716	-	2,710,716	-
Property taxes, levied for debt service					442,918	-	442,918	-
Sales and use taxes					2,292,972	-	2,292,972	764,324
Franchise taxes					733,330	-	733,330	-
Hotel/Motel taxes					245,419	-	245,419	-
Alcoholic beverage taxes					21,827	-	21,827	-
Unrestricted investment earnings					21,848	114,264	136,112	2,147
Gain on disposal of assets					-	433	433	-
Miscellaneous					51,518	79,478	130,996	5,230
Transfers					1,106,267	(1,106,267)	-	-
Total general revenues					<u>7,626,815</u>	<u>(912,092)</u>	<u>6,714,723</u>	<u>771,701</u>
Change in net position					(21,234)	1,471,502	1,450,268	244,790
Net position - beginning					25,627,243	32,367,558	57,994,801	966,573
Prior period adjustment					<u>(1,522,472)</u>	<u>(222,027)</u>	<u>(1,744,499)</u>	<u>-</u>
Net position - beginning as restated					<u>24,104,771</u>	<u>32,145,531</u>	<u>56,250,302</u>	<u>966,573</u>
Net position - ending					<u>\$ 24,083,537</u>	<u>\$ 33,617,033</u>	<u>\$ 57,700,570</u>	<u>\$ 1,211,363</u>

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

**CITY OF CANYON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	General	Non-major Governmental	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,061,147	\$ 281,108	\$ 1,342,255
Investments	1,844,713	-	1,844,713
Accounts receivables, net	594,482	-	594,482
Taxes receivable, net	19,345	20,634	39,979
Due from other funds	-	46,060	46,060
Due from other governments	434,275	-	434,275
	\$ 3,953,962	\$ 347,802	\$ 4,301,764
LIABILITIES			
Accounts payable	\$ 264,530	\$ -	\$ 264,530
Due to other funds	2,966,525	-	2,966,525
Payable to other governments	37,782	-	37,782
Accrued expenses	8,740	-	8,740
	3,277,577	-	3,277,577
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	18,134	-	18,134
Unavailable revenue - other receivables	113,236	-	113,236
	131,370	-	131,370
FUND BALANCES			
Restricted:			
By enabling legislation for special projects	32,675	210,648	243,323
Special projects	-	4,085	4,085
Debt service	-	133,069	133,069
Assigned to:			
Special projects	372,109	-	372,109
Unassigned	140,231	-	140,231
	545,015	347,802	892,817
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,953,962	\$ 347,802	\$ 4,301,764

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

CITY OF CANYON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

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

Total fund balance - governmental funds	\$	892,817
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		32,767,331
Certain accounts receivable are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenues in the fund financial statements		131,370
Pension and OPEB losses, deficient earnings, and assumption changes are shown as deferred outflows of resources in the government-wide financial statements.		
Pension economic/demographic losses		29,376
Pension deficient earnings		23,961
Pension assumption changes		24,646
OPEB assumption changes		11,399
Pension and OPEB contributions paid after the measurement date, December 31, 2017, and before September 30, 2018 are expensed in the governmental funds and shown as deferred outflows of resources in the government-wide financial statements.		
Pension contributions		539,876
OPEB contributions		899
Pension gains and excess earnings are shown as deferred inflows of resources in the government-wide financial statements.		
Pension economic/demographic gains		(376,347)
Pension excess earnings		(543,342)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:		
Bonds and capital lease payable		(5,701,206)
Accrued interest payable		(19,707)
Compensated absences		(362,862)
Other post employment benefit obligations		(1,611,378)
Net pension liability		(1,923,301)
The assets and liabilities of internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (netted for capital assets reported above and the portion allocated to business-type activities)		200,005
Net position - governmental activities	\$	24,083,537

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

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General</u>	<u>Non-major Governmental</u>	<u>Total Governmental</u>
REVENUES			
Taxes:			
Property	\$ 2,712,724	\$ 442,918	\$ 3,155,642
Sales	2,292,972	-	2,292,972
Franchise	733,330	-	733,330
Hotel/Motel	-	245,419	245,419
Mixed beverage	21,827	-	21,827
Licenses and fees	136,782	12,711	149,493
Fines and forfeitures	227,071	-	227,071
Intergovernmental	663,936	1,960	665,896
Charges for services	2,363,336	-	2,363,336
Investment earnings	17,412	375	17,787
Miscellaneous	49,510	2,006	51,516
	<u>9,218,900</u>	<u>705,389</u>	<u>9,924,289</u>
Total revenues			
EXPENDITURES			
Current:			
General government	1,212,742	144	1,212,886
Judicial	-	1,954	1,954
Public safety	4,052,088	29,035	4,081,123
Highways and streets	661,976	-	661,976
Culture and recreation	1,857,077	2,509	1,859,586
Conservation and development	227,052	-	227,052
Sanitation	1,288,478	-	1,288,478
Public services	-	270,674	270,674
Debt Service:			
Principal	32,191	225,000	257,191
Interest and other charges	4,830	158,175	163,005
Capital Outlay	1,326,435	3,600	1,330,035
	<u>10,662,869</u>	<u>691,091</u>	<u>11,353,960</u>
Total expenditures			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,443,969)</u>	<u>14,298</u>	<u>(1,429,671)</u>
OTHER FINANCING SOURCES			
Transfers in	1,106,267	8,550	1,114,817
Transfers out	(8,550)	-	(8,550)
	<u>1,097,717</u>	<u>8,550</u>	<u>1,106,267</u>
Total other financing sources			
NET CHANGE IN FUND BALANCES	(346,252)	22,848	(323,404)
FUND BALANCES - BEGINNING	<u>891,267</u>	<u>324,954</u>	<u>1,216,221</u>
FUND BALANCES - ENDING	<u>\$ 545,015</u>	<u>\$ 347,802</u>	<u>\$ 892,817</u>

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

CITY OF CANYON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds: \$ (323,404)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays, \$1,330,035, were exceeded by depreciation, \$1,524,624, in the current period. (194,589)

In the Statement of Activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed of. (59,065)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. This amount represents the change in unavailable revenue. (62,441)

In the Statement of Net Position, incurring debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayments of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Position.

Principal repayments:

Capital lease	32,191
Bonds payable	225,000
Accrued interest payable, net change	1,630
Amortization of bond premium	23,116

Changes in pension and OPEB related liabilities, outflows, and inflows reported in the government-wide Statement of Activities are not reported in the governmental funds as revenues or expenditures. 308,943

Accrued compensated absences and other post employment benefit obligations are not reported as an expenditure in the governmental funds. This is the change in the accrual amounts for the year reported in the government-wide Statement of Activities. 1,835

Internal service funds are used by management to charge the costs of maintenance to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities. The total change in net position of the internal service fund (\$32,621) less the amount charged to business-type activities (\$7,071) is the amount of the internal service fund charged to governmental activities. 25,550

Change in net position - governmental activities \$ (21,234)

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

CITY OF CANYON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,386,210	\$ 221,918	\$ 3,608,128	\$ 466,324
Restricted cash - customer deposits	255,037	-	255,037	-
Restricted cash for construction	3,238,384	-	3,238,384	-
Receivables, net	1,027,247	-	1,027,247	-
Intergovernmental receivable	37,931	-	37,931	-
Due from other funds	5,250,262	11,999	5,262,261	-
Inventories	20,868	119,963	140,831	-
Prepaid expenses	50,503	-	50,503	-
	<u>13,266,442</u>	<u>353,880</u>	<u>13,620,322</u>	<u>466,324</u>
Noncurrent assets:				
Capital assets:				
Land	3,550,334	397,138	3,947,472	-
Construction in progress	3,967,946	-	3,967,946	-
Buildings and improvements	326,379	421,150	747,529	-
Improvements other than buildings	12,200,683	605,352	12,806,035	-
Equipment	3,113,908	1,074,984	4,188,892	2,295,762
Infrastructure	30,937,368	698,170	31,635,538	-
Less accumulated depreciation	(18,778,853)	(1,854,854)	(20,633,707)	(1,141,694)
	<u>35,317,765</u>	<u>1,341,940</u>	<u>36,659,705</u>	<u>1,154,068</u>
Total noncurrent assets	<u>35,317,765</u>	<u>1,341,940</u>	<u>36,659,705</u>	<u>1,154,068</u>
Total assets	<u>48,584,207</u>	<u>1,695,820</u>	<u>50,280,027</u>	<u>1,620,392</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	110,629	42,930	153,559	-
Pension contributions	121,096	32,735	153,831	-
Pension economic/demographic losses	7,255	1,961	9,216	-
Pension assumption changes	5,916	1,599	7,515	-
OPEB contributions	222	60	282	-
OPEB assumption changes	2,820	762	3,582	-
	<u>247,938</u>	<u>80,047</u>	<u>327,985</u>	<u>-</u>
Total deferred outflows of resources	<u>247,938</u>	<u>80,047</u>	<u>327,985</u>	<u>-</u>

Continued

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

CITY OF CANYON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
Continuation				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 937,536	\$ 155,849	\$ 1,093,385	\$ -
Accrued liabilities	889	10,428	11,317	-
Accrued interest	32,173	14,711	46,884	-
Due to other funds	-	2,303,240	2,303,240	38,556
Unearned revenues	13,502	-	13,502	-
Customer deposits	255,037	-	255,037	-
Compensated absences - current	8,600	3,100	11,700	-
Note payable - current	-	91,323	91,323	-
Certificates of obligation payable - current	767,420	142,580	910,000	-
Total current liabilities	<u>2,015,157</u>	<u>2,721,231</u>	<u>4,736,388</u>	<u>38,556</u>
Noncurrent liabilities:				
Accrued compensated absences	77,565	28,107	105,672	-
Net pension liability	422,140	114,114	536,254	-
Other post employment benefits obligations	398,650	107,764	506,414	-
Note payable	-	291,830	291,830	-
Certificates of obligation payable	9,682,410	1,070,739	10,753,149	-
Total noncurrent liabilities	<u>10,580,765</u>	<u>1,612,554</u>	<u>12,193,319</u>	<u>-</u>
Total liabilities	<u>12,595,922</u>	<u>4,333,785</u>	<u>16,929,707</u>	<u>38,556</u>
DEFERRED INFLOWS OF RESOURCES				
Pension economic/demographic gains	93,107	25,169	118,276	-
Pension excess earnings	134,421	36,337	170,758	-
Total deferred inflows of resources	<u>227,528</u>	<u>61,506</u>	<u>289,034</u>	<u>-</u>
NET POSITION				
Net investment in capital assets (deficit)	25,467,596	(186,045)	25,281,551	1,154,068
Unrestricted (deficit)	10,541,099	(2,433,379)	8,107,720	427,768
Total net position	<u>36,008,695</u>	<u>(2,619,424)</u>	<u>33,389,271</u>	<u>\$ 1,581,836</u>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise fund over time	<u>137,793</u>	<u>89,970</u>	<u>227,763</u>	
Net Position (deficit) of business-type activities	<u>\$ 36,146,488</u>	<u>\$ (2,529,454)</u>	<u>\$ 33,617,034</u>	

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

CITY OF CANYON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
OPERATING REVENUES:				
Charges for Sales and Services:				
Water sales	\$ 5,510,232	\$ -	\$ 5,510,232	\$ -
Sewer charges	3,153,821	-	3,153,821	-
Permits and licenses	17,990	-	17,990	-
Lease and other income	79,478	384	79,862	-
Golf services	-	654,516	654,516	-
Sales of goods	-	334,654	334,654	-
Internal service charges	-	-	-	322,700
Total operating revenues	<u>8,761,521</u>	<u>989,554</u>	<u>9,751,075</u>	<u>322,700</u>
OPERATING EXPENSES:				
Personnel costs	1,547,484	715,432	2,262,916	-
Supplies and contractual services	3,015,802	628,744	3,644,546	-
Depreciation	910,029	146,268	1,056,297	294,139
Intercity charges	79,900	-	79,900	-
Total operating expenses	<u>5,553,215</u>	<u>1,490,444</u>	<u>7,043,659</u>	<u>294,139</u>
OPERATING INCOME (LOSS)	<u>3,208,306</u>	<u>(500,890)</u>	<u>2,707,416</u>	<u>28,561</u>
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	55,297	-	55,297	-
Investment earnings	114,081	183	114,264	4,060
Interest and fiscal charges	(266,519)	(40,192)	(306,711)	-
Gain on disposition of assets	-	433	433	-
Total nonoperating revenues (expenses)	<u>(97,141)</u>	<u>(39,576)</u>	<u>(136,717)</u>	<u>4,060</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>3,111,165</u>	<u>(540,466)</u>	<u>2,570,699</u>	<u>32,621</u>
TRANSFERS	<u>(1,106,267)</u>	<u>-</u>	<u>(1,106,267)</u>	<u>-</u>
CHANGE IN NET POSTION	<u>2,004,898</u>	<u>(540,466)</u>	<u>1,464,432</u>	<u>32,621</u>
NET POSITION - BEGINNING (DEFICIT)	<u>34,154,822</u>	<u>(2,007,956)</u>	<u>32,146,866</u>	<u>1,549,215</u>
PRIOR PERIOD ADJUSTMENT	<u>(151,025)</u>	<u>(71,002)</u>	<u>(222,027)</u>	<u>-</u>
NET POSITION - BEGINNING, AS RESTATED (DEFICIT)	<u>34,003,797</u>	<u>(2,078,958)</u>	<u>31,924,839</u>	<u>1,549,215</u>
NET POSITION - ENDING (DEFICIT)	<u>\$ 36,008,695</u>	<u>\$ (2,619,424)</u>	<u>\$ 33,389,271</u>	<u>\$ 1,581,836</u>
Change in Net Position	\$ 2,004,898	\$ (540,466)	\$ 1,464,432	
Adjustment for the net effect of the current year activity between the internal service fund and the business-type activity - enterprise funds	<u>7,071</u>	<u>-</u>	<u>7,071</u>	
Changes in Net Position of business-type activities	<u>\$ 2,011,969</u>	<u>\$ (540,466)</u>	<u>\$ 1,471,503</u>	

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

**CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 8,624,908	\$ 989,554	\$ 9,614,462	\$ -
Receipts for internal service charges	-	-	-	322,700
Payments to employees for salaries and benefits	(1,428,627)	(659,015)	(2,087,642)	-
Payments to suppliers and service providers	(2,623,815)	(545,227)	(3,169,042)	-
Payments for interfund services used	(79,900)	-	(79,900)	-
Net cash provided (used) by operating activities	<u>4,492,566</u>	<u>(214,688)</u>	<u>4,277,878</u>	<u>322,700</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(1,106,267)	-	(1,106,267)	-
Changes in interfund receivables/payables	(1,454,122)	376,950	(1,077,172)	21,762
Operating grants	55,297	-	55,297	-
Net cash provided (used) by noncapital financing activities	<u>(2,505,092)</u>	<u>376,950</u>	<u>(2,128,142)</u>	<u>21,762</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(745,216)	(255,784)	(1,001,000)	-
Interest paid on capital debt	(328,723)	(34,316)	(363,039)	-
Proceeds from capital debt	-	499,153	499,153	-
Acquisition or construction of capital assets	(3,616,690)	(522,821)	(4,139,511)	-
Proceeds from sale of capital assets	-	8,619	8,619	(282,361)
Net cash used for capital and related financing activities	<u>(4,690,629)</u>	<u>(305,149)</u>	<u>(4,995,778)</u>	<u>(282,361)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Matured investments	599,735	-	599,735	-
Interest on investments	114,081	183	114,264	4,060
Net cash provided by investing activities	<u>713,816</u>	<u>183</u>	<u>713,999</u>	<u>4,060</u>
NET INCREASE (DECREASE) IN CASH	<u>(1,989,339)</u>	<u>(142,704)</u>	<u>(2,132,043)</u>	<u>66,161</u>
CASH AND CASH EQUIVALENTS, BEGINNING (including restricted amounts)	<u>8,868,970</u>	<u>364,622</u>	<u>9,233,592</u>	<u>400,163</u>
CASH AND CASH EQUIVALENTS, ENDING, (including restricted amounts)	<u>\$ 6,879,631</u>	<u>\$ 221,918</u>	<u>\$ 7,101,549</u>	<u>\$ 466,324</u>

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

**CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities
	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Total Enterprise Funds</u>	<u>Internal Service</u>
Continuation				
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING				
ACTIVITIES				
Operating income (loss)	\$ 3,208,306	\$ (500,890)	\$ 2,707,416	\$ 28,561
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation and amortization	910,029	146,268	1,056,297	294,139
Change in allowance for doubtful accounts	57,818	-	57,818	-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(207,441)	-	(207,441)	-
(Increase) decrease in intergovernmental receivable	(37,931)	-	(37,931)	-
(Increase) decrease in prepaids	(50,503)	-	(50,503)	-
(Increase) decrease in inventories	1,525	32,791	34,316	-
(Increase) decrease in deferred outflows of pension and OPEB	231,807	23,990	255,797	-
Increase (decrease) in accounts payable	479,067	50,726	529,793	-
Increase (decrease) in accrued expenses	7,096	(4,629)	2,467	-
Increase (decrease) in pension and OPEB liabilities	(251,919)	(8,620)	(260,539)	-
Increase (decrease) in unearned revenues	(171)	-	(171)	-
Increase (decrease) in customer deposits	13,010	-	13,010	-
Increase (decrease) in deferred inflows of pension and OPEB	131,873	45,676	177,549	-
Net cash provided (used) by operating activities	<u>\$ 4,492,566</u>	<u>\$ (214,688)</u>	<u>\$ 4,277,878</u>	<u>\$ 322,700</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES:				
Amortization of debt issuance premiums and refunding charges	<u>\$ 59,731</u>	<u>\$ 4,955</u>	<u>\$ 64,686</u>	<u>\$ -</u>
	<u>\$ 59,731</u>	<u>\$ 4,955</u>	<u>\$ 64,686</u>	<u>\$ -</u>

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

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description of Reporting Entity

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

The Commission is elected by the public and it has the authority to make decisions, appoint administrators and management, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 61, *“The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34.”*

Discretely Presented Component Unit: The Canyon Economic Development Corporation (CEDC) is a component unit due to the fact that the Commission appoints the CEDC board and also approves the annual budget. The CEDC has issued separately audited financial statements. Copies of the CEDC audit report for the fiscal year ended September 30, 2018 may be obtained by contacting the management of the CEDC at the following address:

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

B. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The statement of net position and the statement of activities include the financial activities of the overall government. The government activities column incorporates data from governmental funds and the internal service fund, while business-type activities incorporate data from the City’s enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

B. Basis of Presentation – Government Wide Financial Statements – Continuation

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

C. Basis of Presentation - Fund Financial Statements

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

In addition, the City reports the following fund types:

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. Basis of Presentation – Fund Financial Statements – Continuation

Capital Projects Fund: The Canyon Aquatic Park fund accounts for the resources to be used for the construction of the Canyon Aquatic Park.

Debt Service Fund: This fund accounts for the accumulation and disbursement of resources associated with the City's debt obligations. Property taxes and interest income provide the resources necessary to pay the annual principal and interest payments.

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

D. Measurement Focus and Basis of Accounting – Continuation

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

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

E. Budgetary Information

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

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

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

For the fiscal year, expenditures exceeded appropriations for general government, culture and recreation, sanitation, capital outlay, and debt service interest functions (budgeted with principal) in the General Fund. These overspendings were covered by utilizing expenditures lower than budget in every other functional area of the City as well using prior year fund balance reserves.

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

a. Cash and Cash Equivalents

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

b. Investments

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

c. Receivable and Payable Balances

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

d. Inventories

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

e. Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

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

f. Inter-fund Activity

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

g. Use of Estimates

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

h. Long-term Obligations

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs withheld from the actual debt proceeds received are reported as debt service expenditures.

i. Deferred Outflows/Inflows of Resources

The statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred charge on refunding is reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City also reports the applicable amounts as deferred outflows as they relate to the implementation of GASB 68 and 75 for contributions paid after the measurement date, deficiency of earnings, economic losses, and assumption changes in the plans after the measurement date of the pension and OPEB plans.

The statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. One item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The City reports unavailable revenues from property taxes and municipal court receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are related to the City's pension and other postemployment benefit plans reported in the government-wide statement of net position.

j. Pensions and Other Post-Employment Benefits

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

j. Pensions and Other Post-Employment Benefits – Continuation

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

k. Net Position

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

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

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

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

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

l. Fund Balance

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

Non-spendable fund balance – (inherently not spendable)

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

Restricted fund balance – (externally enforceable limitations on use)

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

1. Fund Balance – Continuation

Committed fund balance – (self-imposed limitations)

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

Assigned fund balance – (self-imposed limitations)

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

Unassigned fund balance – (residual net resources)

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

Fund balance flow assumptions:

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

Minimum Unassigned Fund Balance:

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

Designated Circumstances:

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

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

Replenishment of Minimum Unassigned Fund Balance:

1. When designated circumstances have reduced the unassigned fund balance below the targeted minimum level, the replenishment is to occur within 12 months.
2. Depending on the severity of the reduction of the minimum unassigned fund balance the following measures will be taken to replenish the minimum unassigned fund balance:
 - a) Should calculations reveal that the minimum unassigned fund balance will be replenished through normal activity within the next 12 months no action is necessary
 - b) Reduction of expenditures

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

1. Fund Balance – Continuation

- c) Delay of capital purchases
- d) Increase in fees and/or taxes
- e) Salary freeze
- f) Hiring freeze

Fund Balance Policies:

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

G. Revenues and Expenditures/Expenses

a. Program Revenues

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

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

c. Compensated Absences

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

G. Revenues and Expenditures/Expenses – Continuation

d. Proprietary Funds Operating and Non-operating Revenues and Expenses

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

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

H. Compliance and Accountability

a. Finance-Related Legal and Contractual Provisions

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

Violation

Expenditures exceeded the budget in various functional areas in the General Fund

Action Taken

A combination of underspending in other functional categories, as well as the City planning to use fund balance carryovers have covered such overspendings.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS

Following is a reconciliation of the City’s cash and deposit balances as of September 30, 2018:

Cash and deposit balances consist of:

Petty cash funds	\$	720
Bank deposits		3,429,044
Money market deposits		5,949,796
		5,949,796
Total	\$	9,379,560

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

Government-wide Statement of Net Position:

Unrestricted	\$	5,416,707
Restricted for customer deposits and construction		3,493,421
Component unit - unrestricted		469,432
		469,432
Total	\$	9,379,560

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2018 the City’s deposits (cash, interest bearing accounts and certificates of deposit) with financial institutions was \$11,460,697, and \$7,081,373 of that amount was insured through the Federal Depository Insurance Corporation (FDIC) and \$4,379,324 was collateralized with securities held by the pledging of institution’s agent in the City’s name. The depository makes no distinction between the City and its component unit when pledging securities.

Following is a reconciliation of the City’s investment balances as of September 30, 2018:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit		
Governmental activities (interest rates at 1.065 - 2.120%)	\$ 1,844,713	259
Component Unit (interest rates at 2.12%)	177,083	182
		182
Total fair value	2,021,796	
Portfolio weighted average maturity		252
		252
Amarillo Area Foundation (Component Unit)	15,989	
Real estate (Component Unit)	243,932	
	243,932	
	\$ 2,281,717	

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2018 the carrying amount of the City’s investments (certificates of deposit) with financial institutions was \$963,136, and was insured by the FDIC and collateralized with securities held by the pledging institution’s agent in the City’s name as described above with the City’s deposits.

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

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

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

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. As of September 30, 2018, none of the City’s investments were considered concentrated.

Investment Accounting Policy

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

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

Primary Government:

<u>Governmental activities:</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers / Reclassifications</u>	<u>Ending Balances</u>
Capital assets not being depreciated:					
Land	\$ 749,782	\$ -	\$ -	\$ -	\$ 749,782
Construction in progress	6,895,725	175,403	(59,065)	(6,372,730)	639,333
Total capital assets not being depreciated	<u>7,645,507</u>	<u>175,403</u>	<u>(59,065)</u>	<u>(6,372,730)</u>	<u>1,389,115</u>
Capital assets being depreciated:					
Buildings	3,922,598	21,216	-	6,255,529	10,199,343
Improvements other than buildings	5,301,859	91,725	-	84,732	5,478,316
Equipment	7,672,467	874,612	-	32,469	8,579,548
Infrastructure	34,631,266	449,440	-	-	35,080,706
Total capital assets being depreciated	<u>51,528,190</u>	<u>1,436,993</u>	<u>-</u>	<u>6,372,730</u>	<u>59,337,913</u>
Less accumulated depreciation for:					
Buildings	(1,975,441)	(347,461)	-	-	(2,322,902)
Improvements other than buildings	(1,441,526)	(217,694)	-	-	(1,659,220)
Equipment	(4,207,070)	(632,043)	-	-	(4,839,113)
Infrastructure	(18,516,897)	(621,565)	-	-	(19,138,462)
Total accumulated depreciation	<u>(26,140,934)</u>	<u>(1,818,763)</u>	<u>-</u>	<u>-</u>	<u>(27,959,697)</u>
Total capital assets being depreciated, net	<u>25,387,256</u>	<u>(381,770)</u>	<u>-</u>	<u>6,372,730</u>	<u>31,378,216</u>
Governmental activities capital assets, net	<u>\$ 33,032,763</u>	<u>\$ (206,367)</u>	<u>\$ (59,065)</u>	<u>\$ -</u>	<u>\$ 32,767,331</u>

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

Governmental activities:	
General government	\$ 45,796
Public safety	118,798
Highways and streets	740,712
Sanitation	55,564
Culture and recreation	563,754
Capital assets held by the government's internal service funds	<u>294,139</u>
Total depreciation expense-governmental activities	<u>\$ 1,818,763</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 – CAPITAL ASSETS – Continuation

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
<u>Business-type activities:</u>					
Capital assets not being depreciated:					
Land	\$ 3,947,472	\$ -	\$ -	\$ -	\$ 3,947,472
Construction in progress	1,028,011	2,939,935	-	-	3,967,946
Total capital assets not being depreciated	<u>4,975,483</u>	<u>2,939,935</u>	<u>-</u>	<u>-</u>	<u>7,915,418</u>
Capital assets being depreciated:					
Buildings	747,529	-	-	-	747,529
Improvements other than buildings	12,207,520	598,515	-	-	12,806,035
Equipment	3,692,147	601,061	(104,316)	-	4,188,892
Infrastructure	31,635,538	-	-	-	31,635,538
Total capital assets being depreciated	<u>48,282,734</u>	<u>1,199,576</u>	<u>(104,316)</u>	<u>-</u>	<u>49,377,994</u>
Less accumulated depreciation for:					
Buildings	(480,938)	(22,801)	-	-	(503,739)
Improvements other than buildings	(3,923,766)	(285,094)	-	-	(4,208,860)
Equipment	(3,189,977)	(157,097)	96,130	-	(3,250,944)
Infrastructure	(12,078,859)	(591,305)	-	-	(12,670,164)
Total accumulated depreciation	<u>(19,673,540)</u>	<u>(1,056,297)</u>	<u>96,130</u>	<u>-</u>	<u>(20,633,707)</u>
Total capital assets being depreciated, net	<u>28,609,194</u>	<u>143,279</u>	<u>(8,186)</u>	<u>-</u>	<u>28,744,287</u>
Business-type activities capital assets, net	<u>\$ 33,584,677</u>	<u>\$ 3,083,214</u>	<u>\$ (8,186)</u>	<u>\$ -</u>	<u>\$ 36,659,705</u>

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

<u>Business-type activities:</u>	
Water/sewer	\$ 910,029
Golf course	<u>146,268</u>
Total depreciation expense-business-type activities	<u>\$ 1,056,297</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 – CAPITAL ASSETS – Continuation

Component Unit:

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
Capital assets being depreciated:					
Buildings	\$ 198,245	\$ 78,312	\$ -	\$ -	\$ 276,557
Building improvements	3,941	-	-	-	3,941
Equipment	53,207	-	-	-	53,207
Total capital assets being depreciated	<u>255,393</u>	<u>78,312</u>	<u>-</u>	<u>-</u>	<u>333,705</u>
Less accumulated depreciation for:					
Buildings	(5,725)	(6,589)	-	-	(12,314)
Building improvements	(2,824)	(788)	-	-	(3,612)
Equipment	(42,515)	(3,621)	-	-	(46,136)
Total accumulated depreciation	<u>(51,064)</u>	<u>(10,998)</u>	<u>-</u>	<u>-</u>	<u>(62,062)</u>
Total capital assets being depreciated, net	<u>204,329</u>	<u>67,314</u>	<u>-</u>	<u>-</u>	<u>271,643</u>
Component unit capital assets, net	<u>\$ 204,329</u>	<u>\$ 67,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,643</u>

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

Construction commitments. The City has active construction projects as of September 30, 2018. The projects included the Canyon East Park expansion, the Madison Park project, and the Trail Grant project in the Governmental Activities. In the Business-type Activities the active projects are the Civic Complex expansion project, water distribution system improvements, well field development projects, and the North Canyon wastewater expansion project.

NOTE 4 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

Fund	Inter-fund Receivables	Inter-fund Payables
General Fund	\$ -	\$ 2,966,525
Special Revenue Funds:		
Municipal Court Technology	25,561	-
Municipal Court Security	20,157	-
Capital Projects Fund	-	-
Debt Service Fund	342	-
Water/Sewer Fund	5,250,262	-
Golf Course Fund	11,999	2,303,240
Internal Service Fund	-	38,556
	<u>\$ 5,308,321</u>	<u>\$ 5,308,321</u>

The primary purpose of inter-fund receivables and payables is for the purpose of meeting current year expenditures.

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – Continuation

Fund	Inter-fund Transfers In	Inter-fund Transfers Out
General Fund	\$ 1,106,267	\$ 8,550
Special Revenue Funds:		
Board of City Development (Hotel/Motel)	5,000	-
Capital Projects Funds:		
Canyon Aquatic Park	3,550	-
Water/Sewer Fund	-	1,106,267
	<u>\$ 1,114,817</u>	<u>\$ 1,114,817</u>

The primary purpose of inter-fund transfers is the supplementing of General Fund and Golf Course operations with excess revenues earned in the Water/Sewer Fund.

NOTE 5 – LONG-TERM DEBT

1. Long-Term Debt Activity

In July 2016, the City issued \$5,785,000 of General Obligation Bonds, Series 2016, (the “2016 Obligations”). Proceeds from the sale of the 2016 Obligations were used to construct the Canyon Aquatic Center. The 2016 Obligations will be repaid through ad valorem taxes, within the limits prescribed by law. The 2016 Obligations are due and payable between February 15, 2017 and February 15, 2036, and carry a fixed interest rate of 3.00%.

In August 2012, the City issued \$9,090,000 of Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2012, (the “2012 Obligations”), that were 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%.

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 – LONG-TERM DEBT – Continuation

Advance Refunding

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

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

During the year end September 30, 2018, the City financed the acquisition of golf course equipment with a note payable. Principal and interest payments are due annually on November 1 with a fixed interest rate of 3.21%.

Changes in long-term obligations for the year ended September 30, 2018, are as follows:

Primary Government:

Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
General Obligation Bonds,					
Series 2016	\$ 5,580,000	\$ -	\$ (225,000)	\$ 5,355,000	\$ 230,000
Unamortized Bond Premiums	265,715	-	(23,116)	242,599	-
Capital Leases	135,798	-	(32,191)	103,607	33,336
Compensated Absences	<u>364,697</u>	<u>295,624</u>	<u>(297,459)</u>	<u>362,862</u>	<u>36,300</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 6,346,210</u>	<u>\$ 295,624</u>	<u>\$ (577,766)</u>	<u>\$ 6,064,068</u>	<u>\$ 299,636</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 – LONG-TERM DEBT – Continuation

Business-Type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Surplus Revenue Obligation, Series 2012	\$ 7,285,000	\$ -	\$ (385,000)	\$ 6,900,000	\$ 400,000
General Obligation Refunding Bond, Series 2013	4,595,000	-	(500,000)	4,095,000	510,000
Unamortized Bond Premiums	762,613	-	(94,464)	668,149	-
Note payable	-	499,153	(116,000)	383,153	91,323
Compensated Absences	111,212	93,445	(87,285)	117,372	11,700
	<u>111,212</u>	<u>93,445</u>	<u>(87,285)</u>	<u>117,372</u>	<u>11,700</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 12,753,825</u>	<u>\$ 592,598</u>	<u>\$ (1,182,749)</u>	<u>\$ 12,163,674</u>	<u>\$ 1,013,023</u>

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

Component Unit:

CEDC	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note Payable - Highway 60	\$ 110,439	\$ -	\$ (15,777)	\$ 94,662	\$ 15,777
Note Payable - 502 15th	50,000	-	(50,000)	-	-
	<u>160,439</u>	<u>-</u>	<u>(65,777)</u>	<u>94,662</u>	<u>15,777</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 – LONG-TERM DEBT – Continuation

2. Debt Service Requirements

Debt service requirements at September 30, 2018, are as follows:

Governmental Activities:

Years Ending September 30	Total	Capital Leases		General Obligation Bonds Series 2016	
		Principal	Interest	Principal	Interest
2019	\$ 418,371	\$ 33,336	\$ 3,685	\$ 230,000	\$ 151,350
2020	421,321	34,521	2,500	240,000	144,300
2021	419,046	35,750	1,271	245,000	137,025
2022	379,600	-	-	250,000	129,600
2023	381,950	-	-	260,000	121,950
2024-2028	1,897,950	-	-	1,405,000	492,950
2029-2033	1,914,875	-	-	1,625,000	289,875
2034-2038	1,150,250	-	-	1,100,000	50,250
Total	\$ 6,983,363	\$ 103,607	\$ 7,456	\$ 5,355,000	\$ 1,517,300

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 – LONG-TERM DEBT – Continuation

Business-Type Activities:

Years Ending September 30	Total	Surplus Revenue Obligation Series 2012		General Obligation Refunding Bond, Series 2013	
		Principal	Interest	Principal	Interest
2019	\$ 1,353,451	\$ 400,000	\$ 227,175	\$ 510,000	\$ 112,650
2020	1,348,401	405,000	215,100	525,000	99,675
2021	1,354,976	425,000	202,650	540,000	83,700
2022	1,350,538	435,000	189,750	555,000	67,275
2023	1,245,763	445,000	175,438	575,000	50,325
2024-2028	4,546,388	2,475,000	627,988	1,390,000	53,400
2029-2033	2,480,813	2,315,000	165,813	-	-
Total	\$ 13,680,330	\$ 6,900,000	\$ 1,803,914	\$ 4,095,000	\$ 467,025

Note Payable

Principal	Interest
\$ 91,323	\$ 12,303
94,255	9,371
97,282	6,344
100,293	3,220
-	-
-	-
-	-
-	-
\$ 383,153	\$ 31,238

Component Unit:

Years Ending September 30	Total	Highway 60 - Note Payable	
		Principal	Interest
2019	\$ 15,777	\$ 15,777	\$ -
2020	15,777	15,777	-
2021	15,777	15,777	-
2022	15,777	15,777	-
2023	15,777	15,777	-
2024-2028	15,777	15,777	-
Total	\$ 94,662	\$ 94,662	\$ -

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6 – LEASE OBLIGATIONS

Capital Leases

The City has leased certain equipment under non-cancellable capital leases for various pieces of equipment. The interest rate is 3.500%, with a maturity date of November 2021. The following summarizes the City’s obligations under capital leases:

Year Ending September 30,	Governmental Activities
2019	\$ 37,021
2020	37,021
2021	37,021
Total	111,063
Less amounts representing interest	7,456
	\$ 103,607

The following summarizes the assets acquired under capital lease:

Equipment	\$ 203,906
Accumulated Depreciation	112,148
Net Leased Equipment	\$ 91,758

Operating Leases

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

Year Ending September 30,	Future Minimum Lease Payments
2019	\$ 90,103
2020	89,072
2021	86,838
2022	10,185
Total	\$ 276,198

Lease expenditures under the City’s operating leases for the year ended September 30, 2018 totaled \$92,580.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year ended 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage described above. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS

A. AGENT MULTIPLE – EMPLOYER PLAN

Plan Description:

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

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

Benefits Provided:

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

Employees Covered by Benefit Terms:

At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	43
Active employees	90

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2014 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2017 valuation will determine the contribution rate beginning January 1, 2019).

The City contributed using the actuarially determined rate of 16.39% for the months of the accounting year in 2017 and 16.34% for the months of the accounting year in 2018. The contribution rate payable by the employee members is 7.0% for fiscal year 2018 as adopted by the governing body of the City. The employee contribution rate and the employer contribution rate may be changed by the governing body of the City.

Net Pension Liability:

The City's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

Actuarial Assumptions:

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Cost-of-living adjustments	None

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

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The actuarial assumptions that determined the total pension liability as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, except where required to be different by GASB 68.

Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

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

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

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

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

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

Changes in the Net Pension Liability / (Asset) and Related Ratios – Current Period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2016	\$ 28,373,291	\$ 24,158,888	\$ 4,214,403
Changes for the year:			
Service cost	875,955	-	875,955
Interest on total pension liability	1,912,704	-	1,912,704
Difference between expected and actual experience	(272,550)	-	(272,550)
Changes of assumptions	-	-	-
Benefit payments/refunds of employee contributions	(949,817)	(949,817)	-
Contributions - employee	-	346,227	(346,227)
Contributions - employer	-	810,657	(810,657)
Net investment income	-	3,349,279	(3,349,279)
Administrative expenses	-	(17,353)	17,353
Other	-	(879)	879
Balances as of December 31, 2017	\$ 29,939,583	\$ 27,697,002	\$ 2,242,581
Plan fiduciary net position as a percentage of the total pension liability:			92.51%
Covered employee payroll:			\$ 4,946,105
Net pension liability as a percentage of covered employee payroll:			45.34%

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability / (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
Net pension liability / (asset)	\$ 6,380,484	\$ 2,242,581	\$ (1,158,481)

Pension plan fiduciary net position:

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

Pension Expense / (Income):

	January 1, 2017 to December 31, 2017
Total service cost	\$ 875,955
Interest on total pension liability	1,912,704
Employee contributions (reduction of expenses)	(346,227)
Projected earnings on plan investments (reduction of expenses)	(1,630,725)
Administrative expenses	17,353
Other changes in fiduciary net position	879
Recognition of current year deferred (inflows)/outflows of resources - liabilities	(55,172)
Recognition of current year deferred (inflows)/outflows of resources - assets	(343,711)
Amortization of prior year deferred (inflows)/outflows of resources - liabilities	(138,571)
Amortization of prior year deferred (inflows)/outflows of resources - assets	357,283
Total pension expense	\$ 649,768

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

A. AGENT MULTIPLE – EMPLOYER PLAN – Continuation

Deferred Inflows / Outflows of Resources:

As of December 31, 2017, the deferred inflows and outflows - current and future expenses are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 494,623	\$ 38,539
Changes of assumptions	-	31,430
Net difference between projected and actual earnings	714,100	-
Contributions made subsequent to measurement date	N/A	643,312

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

	Year ended December 31:
2018	\$ (176,929)
2019	(179,245)
2020	(387,008)
2021	(395,572)
2022	-
Thereafter	-
	-
Total	\$ (1,138,754)

B. COST-SHARING MULTIPLE – EMPLOYER

Plan Description:

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The system issues a stand-alone financial report that is available at www.tesrs.org.

Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2017 there were 199 contributing fire and/or emergency service department members participating in TESRS.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

B. COST SHARING MULTIPLE – EMPLOYER – Continuation

Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

Benefits Provided:

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

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

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

Covered Membership:

On August 31, 2017, the pension system membership consisted of:

Non-participating vested members	16
Active participants	30

Funding Policy:

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

B. COST SHARING MULTIPLE – EMPLOYER – Continuation

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2017, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2018.

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

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

Contributions Required and Contributions Made:

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending September 30, 2017, total contributions (dues and prior service, and interest on financing of prior service) of \$50,395 were paid into TESRS by the City.

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

The actuarial valuation as of August 31, 2017 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$725,000 each year to pay for part of the System's administrative expenses.

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

B. COST SHARING MULTIPLE – EMPLOYER – Continuation

Net Pension Liability:

The City’s net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017.

Total Pension Liability	\$	1,167,258
Fiduciary Net Position		950,283
City's Net Pension Liability	\$	216,975
Fiduciary net position as a percentage of the total pension liability		81.4 %

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was determined using an inflation rate of 3.00% and an investment rate of return rate of 7.75%, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

The long-term rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by “rounding down” and thereby reflects a reduction of 0.22% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

B. COST SHARING MULTIPLE – EMPLOYER – Continuation

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32 %	5.72 %
Small cap domestic	10	5.96
Developed international	21	6.21
Emerging markets	6	7.18
Master limited partnerships	5	7.61
Fixed income		
Domestic	21	1.61
International	5	1.81
Cash	-	-
Total	<u>100 %</u>	
Weighted Average		4.97 %

Discount Rate:

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2017 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan’s fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Net pension liability	<u>\$ 405,184</u>	<u>\$ 216,975</u>	<u>\$ 98,243</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS – Continuation

B. COST SHARING MULTIPLE – EMPLOYER – Continuation

Pension Expense / (Income):

	<u>Year Ended August 31, 2017</u>
Service cost	\$ 14,405
Interest	85,592
Projected earnings on investments	(66,347)
Amortization of differences between projected and actual earnings on plan investments	7,595
Amortization of changes of assumption	2,438
Amortization of differences between expected and actual experience	177
Pension plan administrative expense	1,666
Change in benefit provisions	-
	-
Pension expense / (income)	\$ 45,526

Deferred Inflows / Outflows of Resources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 53
Changes of assumptions	-	731
Net difference between projected and actual earnings	-	23,961

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

Year ended August 31:	
2018	\$ 21,238
2019	3,507
2020	-
	-
Total	\$ 24,745

All assumptions for the August 31, 2017 pension disclosure are contained in the August 31, 2017 Audited Annual Financial Report, a copy of which may be obtained at www.tesrs.texas.gov.

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

A. TMRS – SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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 SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Plan Benefits

The death benefit 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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). The member city contributes 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 pre-fund retiree term life insurance during employees’ entire careers.

Employees Covered by Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	12
Active employees	90

Total OPEB Liability

The City’s total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

All actuarial assumptions that determined the total OPEB liability as of December 31, 2017 were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

A. TMRS – SUPPLEMENTAL DEATH BENEFITS FUND – Continuation

For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Discount Rate

The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such the SDBF is considered to be a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to employer's yearly contributions for retirees. In accordance with paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated AA or higher. As of December 31, 2017, the discount rate used in development of the Total OPEB Liability was 3.31% compared to 3.78% as of December 31, 2016.

Changes in the Total OPEB Liability:

	Changes in Total OPEB Liability
Balances as of December 31, 2016	\$ 188,947
Changes for the year:	
Service cost	9,892
Interest on total OPEB liability	7,301
Changes of benefit terms	-
Effect of economic/demographic experience	-
Effect of assumptions changes or inputs	17,782
Benefit payments	(1,484)
Other	-
	-
Balances as of December 31, 2017	\$ 222,438

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

A. TMRS – SUPPLEMENTAL DEATH BENEFITS FUND – Continuation

Sensitivity of the net pension liability / (asset) to changes in the discount rate

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as the what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease 2.31%	Current Single Rate Assumption 3.31%	1% Increase 4.31%
Total OPEB liability	\$ 268,021	\$ 222,438	\$ 187,054

OPEB Expense / (Income)

	January 1, 2017 to December 31, 2017
Service cost	\$ 9,892
Interest on total OPEB liability	7,301
Effect of plan changes	-
Recognition of deferred inflows/outflows of resources	
Differences between expected and actual experience (1)	-
Changes in assumptions or other inputs (2)	2,800
Recognition of investment gains or losses	-
Other	-
Total OPEB expense	\$ 19,993

(1) In the year of implementation, the beginning of year liability is rolled back from the measurement date, so there will be no experience loss / (gain).

(2) Generally, this will only be the annual change in the municipal bond index rate.

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**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

A. TMRS – SUPPLEMENTAL DEATH BENEFITS FUND – Continuation

Deferred Inflows / Outflows of Resources:

As of December 31, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	14,982
Contributions made subsequent to measurement date	N/A	1,181

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

Year ended December 31:			
2018	\$	2,800	
2019		2,800	
2020		2,800	
2021		2,800	
2022		2,800	
Thereafter		982	

B. TML – HEALTH CARE BENEFITS

Plan Description:

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

Benefits Provided

The City provides medical (including prescription drug) benefits to eligible retirees. The City pays up to \$1,000 of the monthly contribution for retirees meeting certain eligibility requirements. All active employees, hired on or before August 6, 2012, who retire directly from the City and meet the eligibility criteria may participate. Dependent coverage is available with the retiree paying the full premium for that coverage. Dental and vision coverage is available with the retiree paying 100% of the contribution.

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

B. TML – HEALTH CARE BENEFITS – Continuation

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	0
Active employees	53

Total OPEB Liability

The County’s total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial cost method	Individual Entry-Age - Level percentage of Projected Salary
Service Cost	Determined for each employee as the Actuarial Present Value of Benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each participant's service between date of hire and dated of expected termination.
Discount rate	4.06% (1.06% real rate of return plus 3.00% inflation)
Average Per Capita Claim Cost	The pre-65 retiree IEBP premium rates are used for the explicit per capita claims cost. There is no assumed implicit cost since these rates are based on the experience of a pre-65 retiree pool and are not subsidized by active employee experience. Since the \$1,000 monthly subsidy is now less than any of the retiree plan premiums this amount was used as a non-trended cost for valuation purposes.
Healthcare cost trend rates	None

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

B. TML – HEALTH CARE BENEFITS – Continuation

Actuarial Assumptions – Continuation

Effect of ACA	The excess coverage excise tax penalty of the Affordable Care Act has been postponed until the plan year beginning in 2022 and is not included in the projection of benefits in this valuation. This plan has current medical costs well under the limits in current law. Current legislative discussion include both repeal of the excise tax and postponement beyond 2022.
Mortality	RPH-2014 Total Table with Projection MP-2018
Turnover	Rates varying based on gender, age and select and ultimate at 9 years. Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report.
Disability	None assumed
Salary Scale	3.50%

Discount Rate

The GASB statement requires that the discount rate used to determine the plan liabilities for retiree healthcare benefits is based on the earnings rate of the plan assets if the projected assets are sufficient to cover the projected benefit payments. If the projected assets are not sufficient then a municipal bond index rate must be used for discounting benefits not covered by the projected assets. Since there are no plan assets held in trust the Bond Buyer GO Bond 20 Index is used for determining the discount rate of 4.06%.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

B. TML – HEALTH CARE BENEFITS – Continuation

Changes in the Total OPEB Liability

	Changes in Total OPEB Liability
Balances as of October 1, 2017	\$ 1,812,071
Changes for the year:	
Service cost	68,164
Interest on total OPEB liability	75,120
Changes of benefit terms	-
Effect of economic/demographic experience	-
Effect of assumptions changes or inputs	-
Benefit payments	(60,000)
Other	-
	-
Balances as of September 30, 2018	\$ 1,895,355

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the plan's total OPEB liability, calculated using a discounted rate of 4.06%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	1% Decrease 3.06%	Current Single Rate Assumption 4.06%	1% Increase 5.06%
Total OPEB liability	\$ 2,009,897	\$ 1,895,355	\$ 1,788,256

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

B. TML – HEALTH CARE BENEFITS – Continuation

OPEB Expense / (Income)

	October 1, 2017 to September 30, 2018
Service cost	\$ 68,164
Interest on total OPEB liability	75,120
Effect of plan changes	-
Recognition of deferred inflows/outflows of resources	
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Recognition of investment gains or losses	-
Other	-
 Total OPEB expense	 \$ 143,284

Deferred Inflows / Outflows of Resources

As of September 30, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Contributions made subsequent to measurement date	N/A	-

Amounts reported as deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, excluding contributions made subsequent to the measurement date, will be recognized in pension expense in even years subsequent to year the deferral is measured.

NOTE 10 – COMPONENT UNIT TRANSACTIONS

CEDC Commitments:

During the fiscal year ended September 30, 2015 the Canyon Economic Development Corporation committed to Lone Star Milk Producers funding an amount not to exceed \$850,000 for job incentives to be paid in ten annual installments of \$85,000. This funding is based on meeting a minimum employment threshold. As of September 30, 2018, \$85,000 of this commitment has been funded.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – COMPONENT UNIT TRANSACTIONS – Continuation

CEDC Commitments: – Continuation

During the fiscal year ended September 30, 2015 the Canyon Economic Development Corporation committed to Furman Family Partnership, LLP (Depot Project) funding an amount not to exceed \$250,000 for the construction of 7,600 square feet of leasable retail space, to be paid in five annual installments of \$50,000. As of September 30, 2018 none of this commitment has been funded.

During the fiscal year ended September 30, 2016, the Canyon Economic Development Corporation committed an amount not to exceed \$46,000 to Panhandle Taproom, LLC to provide a partial lease reimbursement for three years. Under the agreement the first twelve months will be reimbursed at 50%, or an amount not to exceed \$23,000, year two will be reimbursed at 30%, or an amount not to exceed \$13,800, and year three will be reimbursed at 20%, or an amount not to exceed \$9,200. As of September 30, 2018, the remaining commitment is \$23,000.

During the fiscal year ended September 30, 2017 the Canyon Economic Development Corporation committed an amount not to exceed \$21,600 to Ruthette’s Bridal Shop to provide a partial lease reimbursement for three years. Under the agreement the first twelve months will be reimbursed at 50%, or an amount not to exceed \$10,800, year two will be reimbursed at 30%, or an amount not to exceed \$6,480, and year three will be reimbursed at 20%, or an amount not to exceed \$4,320. As of September 30, 2018, the remaining commitment is \$10,800.

During the fiscal year ended September 30, 2017 the Canyon Economic Development Corporation committed an amount not to exceed \$220,000 to Joe Taco Canyon, LLC to provide cash incentives to assist in the opening of a business. Under the agreement \$50,000 will be remitted upon issuance of construction permits, \$50,000 upon issuance of the certificate of occupancy, \$50,000 on the first anniversary of opening to the public, and \$70,000 on the second anniversary of opening to the public. As of September 30, 2018, the remaining commitment is \$120,000.

During the fiscal year ended September 30, 2018 the Canyon Economic Development Corporation committed an amount not to exceed \$95,000 to Barrel and Pie (Fox & Owl, LLC) to provide a funding and financial incentives for two years. Under the agreement the first payment of \$35,000 for the purchase of equipment will be disbursed on the first day the business is open to the public. The second payment of \$35,000 will be made on the one year anniversary of opening, contingent upon the business reaching the goal of Gross Sales Revenue as projected in the Business Plan. The final payment of \$25,000 will be disbursed upon documentation of the creation of four (4) upper management positions. As of September 30, 2018, the remaining commitment is \$45,000.

During the fiscal year ended September 30, 2018 the Canyon Economic Development Corporation committed an amount not to exceed \$9,690 to Dovie Lou to provide a lease subsidy for three years. Under the agreement the first year will be reimbursed at an amount not to exceed \$5,100, year two will be reimbursed at an amount not to exceed \$3,060, and year three will be reimbursed at an amount not to exceed \$1,530. As of September 30, 2018, the remaining commitment is \$5,865.

During the fiscal year ended September 30, 2018 the Canyon Economic Development Corporation committed an amount not to exceed \$15,500 to Squezy Street Juice Bar, LLC to provide a funding and financial incentives for two years. Under the agreement the first payment of \$7,750 for the purchase of equipment will be disbursed on the first day the business is open to the public. The second payment of \$7,750 will be made on the one year anniversary of opening, contingent upon the business reaching the goal of Gross Sales Revenue as projected in the Business Plan. As of September 30, 2018, the remaining commitment is \$8,000.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 – COMPONENT UNIT TRANSACTIONS – Continuation

CEDC Commitments: – Continuation

During the fiscal year ended September 30, 2018 the Canyon Economic Development Corporation committed an amount not to exceed \$18,666 to U.S. Cleaners to provide a lease subsidy for three years. Under the agreement the first year will be reimbursed at an amount not to exceed \$9,228, year two will be reimbursed at an amount not to exceed \$5,627, and year three will be reimbursed at an amount not to exceed \$3,811. As of September 30, 2018, the remaining commitment is \$16,359.

NOTE 11 – TAX ABATEMENT AGREEMENTS

The City has entered into a tax abatement agreement which is authorized and governed by the Property Redevelopment and Tax Abatement Act, Chapter 312, Texas Tax Code with Lone Star Products, LLC. The Company is to develop a new milk powder processing, specialty drying and milk ingredient facility in the City of Canyon, Texas, costing approximately \$75,000,000. The City will abate 100% of the ad valorem on this development for a period of ten years beginning on January 1 of the year following completion of the development. Starting in the third year of this ten year tax abatement period, the Company will begin to pay the City an amount in lieu of the ad valorem taxes. This amount begins at \$61,200 per year and increases to \$108,800 in year ten. The development has been completed as of March 21, 2018.

NOTE 12 – PROPERTY TAX

The State of Texas Constitutional tax rate limit for both operations and debt service is \$2.50 on each \$100 of assessed valuation. The tax rate on the 2017 tax roll was \$.45484 per \$100, which means that the City has a tax margin of \$.204516 per \$100 and could raise up to \$15,004,432 additional revenue from the 2017 assessed valuation of \$733,655,658 before the limit is reached.

Real and personal property values are assessed for the period January 1 to December 31, as of January 1 at which date property taxes attach as an enforceable lien on property. Taxes are levied by October 1 of the current year and are collected from October 1 to June 30 of the following year. Payments received after February 1 are considered late and are subject to penalty and interest. Taxes become delinquent on July 1 of the following year.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The beginning net position on the Statement of Revenues, Expenses and Changes in Net Position was changed due to the adoption of GASB Statements 74 and 75 and the resulting requirement to report the total OPEB liability and the related deferred outflows and inflows of resources with newly adopted actuarial valuations requirements. These standards are a replacement of the previously followed GASB Statement 45. Net position for the Governmental and Business-Type Activities were decreased by \$1,522,472 and \$222,027, respectively.



REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CANYON, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ 2,741,500	\$ 2,741,500	\$ 2,712,724	\$ (28,776)
Sales	2,300,000	2,300,000	2,292,972	(7,028)
Franchise	790,000	790,000	733,330	(56,670)
Mixed beverage	16,000	16,000	21,827	5,827
Licenses and fees	98,000	98,000	136,782	38,782
Fines and forfeitures	312,100	312,100	227,071	(85,029)
Intergovernmental	581,775	581,775	663,936	82,161
Charges for services	2,353,400	2,353,400	2,363,336	9,936
Interest earnings	8,000	8,000	17,412	9,412
Miscellaneous	52,000	52,000	49,510	(2,490)
	<u>9,252,775</u>	<u>9,252,775</u>	<u>9,218,900</u>	<u>(33,875)</u>
EXPENDITURES				
Current:				
General government:	1,131,432	1,131,432	1,212,742	(81,310)
Public safety	4,152,924	4,152,924	4,052,088	100,836
Highways and streets	1,100,481	1,100,481	661,976	438,505
Culture and recreation	1,832,876	1,832,876	1,857,077	(24,201)
Conservation and development	235,148	235,148	227,052	8,096
Sanitation	1,259,784	1,259,784	1,288,478	(28,694)
Debt Service:				
Principal	50,000	50,000	32,191	17,809
Interest and other charges	-	-	4,830	(4,830)
Capital outlay	476,400	476,400	1,326,435	(850,035)
	<u>10,239,045</u>	<u>10,239,045</u>	<u>10,662,869</u>	<u>(423,824)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(986,270)</u>	<u>(986,270)</u>	<u>(1,443,969)</u>	<u>(457,699)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	926,267	926,267	1,106,267	180,000
Transfers out	-	-	(8,550)	(8,550)
	<u>926,267</u>	<u>926,267</u>	<u>1,097,717</u>	<u>171,450</u>
NET CHANGE IN FUND BALANCE				
	<u>(60,003)</u>	<u>(60,003)</u>	<u>(346,252)</u>	<u>(286,249)</u>
FUND BALANCES - BEGINNING				
	<u>891,267</u>	<u>891,267</u>	<u>891,267</u>	<u>-</u>
FUND BALANCES - ENDING				
	<u>\$ 831,264</u>	<u>\$ 831,264</u>	<u>\$ 545,015</u>	<u>\$ (286,249)</u>

CITY OF CANYON, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended December 31,			
	2017	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 875,955	\$ 811,022	\$ 733,800	\$ 620,244
Interest on total pension liability	1,912,704	1,792,996	1,782,705	1,683,447
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(272,550)	64,757	(687,944)	(122,826)
Changes of assumptions	-	-	84,701	-
Benefit payments/refunds of contributions	(949,817)	(905,748)	(806,634)	(832,709)
Net change in total pension liability	1,566,292	1,763,027	1,106,628	1,348,156
Total pension liability, beginning	28,373,291	26,610,264	25,503,636	24,155,480
Total pension liability, ending (a)	<u>\$ 29,939,583</u>	<u>\$ 28,373,291</u>	<u>\$ 26,610,264</u>	<u>\$ 25,503,636</u>
Fiduciary Net Position:				
Employer contributions	\$ 810,657	\$ 775,373	\$ 754,463	\$ 714,632
Employee contributions	346,227	319,840	301,444	282,946
Net investment income	3,349,279	1,518,859	32,771	1,193,503
Benefit payments/refunds of contributions	(949,817)	(905,748)	(806,634)	(832,709)
Administrative expenses	(17,353)	(17,149)	(19,959)	(12,460)
Other	(879)	(925)	(986)	(1,024)
Net change in fiduciary net position	3,538,114	1,690,250	261,099	1,344,888
Fiduciary net position, beginning	24,158,888	22,468,638	22,207,539	20,862,651
Fiduciary net position, ending (b)	<u>\$ 27,697,002</u>	<u>\$ 24,158,888</u>	<u>\$ 22,468,638</u>	<u>\$ 22,207,539</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 2,242,581</u>	<u>\$ 4,214,403</u>	<u>\$ 4,141,626</u>	<u>\$ 3,296,097</u>
Fiduciary net position as a % of total pension liability	92.51%	85.15%	84.44%	87.08%
Pensionable covered payroll	\$ 4,946,105	\$ 4,569,140	\$ 4,306,341	\$ 4,042,081
Net pension liability as a % of covered payroll	45.34%	92.24%	96.18%	81.54%

CITY OF CANYON, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed as available)

Year Ending September 30:	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 745,367	\$ 745,367	\$ -	\$ 4,253,762	17.5%
2016	767,782	767,782	-	4,487,811	17.1%
2017	802,027	802,027	-	4,850,622	16.5%
2018	857,048	857,048	-	5,241,104	16.4%

NOTES TO SCHEDULE OF CONTRIBUTION

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary increases	3.50% - 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes

There were no benefit changes during the year.

CITY OF CANYON, TEXAS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended August 31,			
	2017	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 14,405	\$ 15,316	\$ 13,774	\$ 15,498
Interest	85,592	80,474	68,867	68,275
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	-	-	-	-
Assumption changes	-	-	-	-
Benefit payments	(45,492)	(37,680)	(36,575)	(35,346)
Change in allocation percentage	-	115,457	(38,449)	-
	<u>54,505</u>	<u>173,567</u>	<u>7,617</u>	<u>48,427</u>
Net change in total pension liability	54,505	173,567	7,617	48,427
Total pension liability, beginning	<u>1,112,753</u>	<u>939,186</u>	<u>931,569</u>	<u>883,142</u>
Total pension liability, ending (a)	<u><u>\$ 1,167,258</u></u>	<u><u>\$ 1,112,753</u></u>	<u><u>\$ 939,186</u></u>	<u><u>\$ 931,569</u></u>
Fiduciary Net Position:				
Employer contributions	\$ 45,310	\$ 31,311	\$ 28,581	\$ 35,418
State contributions	14,318	14,318	13,311	12,977
Net investment income	88,379	44,809	(26,771)	100,983
Benefit payments	(45,492)	(37,680)	(36,575)	(35,346)
Plan administrative expenses	(1,667)	(1,508)	(1,755)	(1,405)
Other	-	-	-	-
Change in allocation percentage	-	76,009	(32,088)	-
	<u>100,848</u>	<u>127,259</u>	<u>(55,297)</u>	<u>112,627</u>
Net change in fiduciary net position	100,848	127,259	(55,297)	112,627
Fiduciary net position, beginning	<u>849,435</u>	<u>722,176</u>	<u>777,473</u>	<u>664,846</u>
Fiduciary net position, ending (b)	<u><u>\$ 950,283</u></u>	<u><u>\$ 849,435</u></u>	<u><u>\$ 722,176</u></u>	<u><u>\$ 777,473</u></u>
Net pension liability / (asset), ending = (a) - (b)	<u><u>\$ 216,975</u></u>	<u><u>\$ 263,318</u></u>	<u><u>\$ 217,010</u></u>	<u><u>\$ 154,096</u></u>
Fiduciary net position as a % of total pension liability	81.4%	76.3%	76.9%	83.5%
Number of active members	30	29	35	32
Net pension liability per active member	\$ 7,233	\$ 9,080	\$ 6,200	\$ 4,815

CITY OF CANYON, TEXAS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed as available)

Year Ending September 30:	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 39,200	\$ 39,200	\$ -	\$ 283,862	13.8%
2016	40,750	40,750	-	292,205	13.9%
2017	45,900	45,900	-	306,073	15.0%
2018	50,395	50,395	-	327,359	15.4%

CITY OF CANYON, TEXAS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
Last 10 Years (will ultimately be displayed as available)

<u>Year Ending</u> <u>August 31:</u>	<u>Annual Money-</u> <u>Weighted Net Real</u> <u>Rate of Return</u>
2013	13.84 %
2014	14.92 %
2015	(3.58) %
2016	5.57 %
2017	10.32 %

Notes to Schedule:

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

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

CITY OF CANYON, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended December 31,			
	2017	2016	2015	2014
Total OPEB Liability:				
Service cost	\$ 9,892	\$ N/A	\$ N/A	\$ N/A
Interest on total OPEB liability	7,301	N/A	N/A	N/A
Effect of plan changes	-	N/A	N/A	N/A
Effect of assumption changes or inputs	17,782	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	-	N/A	N/A	N/A
Benefit payments	(1,484)	N/A	N/A	N/A
Net change in total OPEB liability	33,491	N/A	N/A	N/A
Total OPEB liability, beginning	188,947	N/A	N/A	N/A
Total OPEB liability, ending	<u>\$ 222,438</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Covered employee payroll	\$ 4,946,105	\$ N/A	\$ N/A	\$ N/A
Total OPEB liability as a % of covered employee payroll	4.50%	N/A	N/A	N/A

Notes to Schedule:

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-Line amortization over Expected Working Life
Asset Valuation Method	Does not apply
Inflation	Does not apply
Salary increases	Does not apply
Investment rate of return	3.31% (20 Year Municipal GO AA Index published by the Fidelity Index as of December 31, 2017)

CITY OF CANYON, TEXAS
TEXAS MUNICIPAL LEAGUE
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed as available)

	Year Ended September 30,			
	2018	2017	2016	2015
Total OPEB Liability:				
Service cost	\$ 68,164	\$ N/A	\$ N/A	\$ N/A
Interest on total OPEB liability	75,120	N/A	N/A	N/A
Effect of plan changes	-	N/A	N/A	N/A
Effect of assumption changes or inputs	-	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	-	N/A	N/A	N/A
Benefit payments	(60,000)	N/A	N/A	N/A
Net change in total OPEB liability	83,284	N/A	N/A	N/A
Total OPEB liability, beginning	1,812,071	N/A	N/A	N/A
Total OPEB liability, ending	<u>\$ 1,895,355</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Covered employee payroll	\$ 3,201,000	\$ N/A	\$ N/A	\$ N/A
Total OPEB liability as a % of covered employee payroll	59.21%	N/A	N/A	N/A



COMBINING STATEMENTS AS SUPPLEMENTARY INFORMATION

Non-major Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

Capital Projects Fund

The Canyon Aquatic Park fund accounts for the resources to be used for the construction of the Canyon Aquatic Park.

Debt Service Fund

The Debt Service Fund accounts for the accumulation and disbursement of resources associated with the City's debt obligations. Property taxes and interest income provide the resources necessary to pay the annual principal and interest payments.

CITY OF CANYON, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2018

	Special Revenue							Capital Projects		Total Non-major Governmental Funds	
	Municipal Court Technology	Municipal Court Security	D-FY-IT Program	Emergency Management	LEOSE	Library Gifts & Memorials	Board of City Development (Hotel/Motel)	Total	Canyon Aquatic Park		Debt Service
ASSETS											
Cash and cash equivalents	\$ -	\$ -	\$ 559	\$ 7,852	\$ 8,626	\$ 3,526	\$ 127,818	\$ 148,381	\$ -	\$ 132,727	\$ 281,108
Taxes receivable, net	-	-	-	-	-	-	20,634	20,634	-	-	20,634
Due from other funds	25,561	20,157	-	-	-	-	-	45,718	-	342	46,060
Total assets	\$ 25,561	\$ 20,157	\$ 559	\$ 7,852	\$ 8,626	\$ 3,526	\$ 148,452	\$ 214,733	\$ -	\$ 133,069	\$ 347,802
FUND BALANCES											
Restricted:											
By enabling legislation for special projects	25,561	20,157	-	7,852	8,626	-	148,452	210,648	-	-	210,648
Special projects	-	-	559	-	-	3,526	-	4,085	-	-	4,085
Debt service	-	-	-	-	-	-	-	-	-	133,069	133,069
Total fund balances	25,561	20,157	559	7,852	8,626	3,526	148,452	214,733	-	133,069	347,802
Total liabilities, deferred inflows of resources, and fund balances	\$ 25,561	\$ 20,157	\$ 559	\$ 7,852	\$ 8,626	\$ 3,526	\$ 148,452	\$ 214,733	\$ -	\$ 133,069	\$ 347,802

CITY OF CANYON, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue							Capital Projects		Total Non-major Governmental Funds	
	Municipal Court Technology	Municipal Court Security	D-FY-IT Program	Emergency Management	LEOSE	Library Gifts & Memorials	Board of City Development (Hotel/Motel)	Total	Canyon Aquatic Park		Debt Service
REVENUES											
Taxes:											
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 442,918	\$ 442,918
Hotel/Motel	-	-	-	-	-	-	245,419	245,419	-	-	245,419
Licenses and fees	7,280	5,431	-	-	-	-	-	12,711	-	-	12,711
Intergovernmental	-	-	-	-	1,960	-	-	1,960	-	-	1,960
Investment earnings	-	-	-	7	5	2	94	108	50	217	375
Miscellaneous	-	-	-	-	-	625	-	625	-	1,381	2,006
Total revenues	7,280	5,431	-	7	1,965	627	245,513	260,823	50	444,516	705,389
EXPENDITURES											
Current:											
General government	-	-	144	-	-	-	-	144	-	-	144
Judicial	-	1,954	-	-	-	-	-	1,954	-	-	1,954
Culture and recreation	-	-	-	-	-	2,509	-	2,509	-	-	2,509
Public safety	-	-	-	27,555	1,480	-	-	29,035	-	-	29,035
Public services	-	-	-	-	-	-	270,674	270,674	-	-	270,674
Debt service:											
Principal	-	-	-	-	-	-	-	-	-	225,000	225,000
Interest	-	-	-	-	-	-	-	-	-	158,175	158,175
Capital outlay	-	-	-	-	-	-	-	-	3,600	-	3,600
Total expenditures	-	1,954	144	27,555	1,480	2,509	270,674	304,316	3,600	383,175	691,091
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,280	3,477	(144)	(27,548)	485	(1,882)	(25,161)	(43,493)	(3,550)	61,341	14,298
OTHER FINANCING SOURCES											
Transfers in	-	-	-	-	-	-	5,000	5,000	3,550	-	8,550
Total other financing sources	-	-	-	-	-	-	5,000	5,000	3,550	-	8,550
NET CHANGE IN FUND BALANCES	7,280	3,477	(144)	(27,548)	485	(1,882)	(20,161)	(38,493)	-	61,341	22,848
FUND BALANCES - BEGINNING	18,281	16,680	703	35,400	8,141	5,408	168,613	253,226	-	71,728	324,954
FUND BALANCES - ENDING	\$ 25,561	\$ 20,157	\$ 559	\$ 7,852	\$ 8,626	\$ 3,526	\$ 148,452	\$ 214,733	\$ -	\$ 133,069	\$ 347,802

COMPLIANCE AND INTERNAL CONTROL



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 13, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

DOSHIER, PICKENS & FRANCIS, LLC

March 13, 2019