

CITY OF CANYON, TEXAS

Annual Financial Report

**For the Year Ended
September 30, 2016**



**CITY OF CANYON, TEXAS
ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2016**

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INTRODUCTORY SECTION

CITY OF CANYON, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2016

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

FINANCIAL SECTION



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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2016, 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, 2016, 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 53 – 58), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 17, 2017, on our consideration of the City of Canyon, Texas's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in conjunction with this report in considering the results of our audit.

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

DOSHIER, PICKENS & FRANCIS, LLC
March 17, 2017

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, 2016. 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 \$51,687,889 (net position) for the fiscal year reported.

Total net position is comprised of the following:

1. Net investment in capital assets of \$45,584,388 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 \$275,894 represents the portion that is restricted to a specific purpose.
3. Unrestricted net position of \$5,827,607 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 \$21,714,608 this year. This includes an unrestricted deficit of (\$1,584,707).

For the fiscal year ended September 30, 2016, the City's net position increased by \$1,388,651. Governmental activities decreased by \$729,562, while business-type activities increased by \$2,118,213.

The City has total liabilities of \$25,975,408, which now includes the pension liability in the amount of \$4,358,636. Current liabilities were \$2,100,350 and non-current liabilities were \$23,875,050.

The governmental activities earned \$2,277,509 in fees for services, and received \$521,616 in contributions, grants, and inter-governmental revenue. The governmental activities also received \$5,471,683 of general revenues. Property and sales taxes accounted for \$4,425,493 of the general revenues.

The business-type activities of the City generated \$8,051,443 in charges for services. The business-type activities also had \$47,947 in general revenues consisting of unrestricted investment earnings.

Total governmental activities expenses were \$9,000,370. Public safety, streets, and sanitation accounted for \$6,007,873 of the total expenditures.

Total business-type activities expenses were \$6,562,838. Waterworks and sewer system operations accounted for \$5,155,626, and municipal golf course operations accounted for \$1,407,212 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>	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 7,635,973	\$ 2,623,181	\$13,002,978	\$14,787,267	\$20,638,951	\$17,410,448
Capital Assets, net of						
Depreciation	<u>23,292,386</u>	<u>22,889,076</u>	<u>32,045,630</u>	<u>28,766,175</u>	<u>55,338,016</u>	<u>51,655,251</u>
Total Assets	<u>30,928,359</u>	<u>25,512,257</u>	<u>45,048,608</u>	<u>43,553,442</u>	<u>75,976,967</u>	<u>69,065,699</u>
Deferred Charge on Refunding	-	-	209,483	232,140	209,483	232,140
Deferred pension contributions	476,308	467,054	140,756	134,816	617,064	601,870
Deferred pension-deficient earnings	1,072,514	162,350	336,443	51,156	1,408,957	213,506
Deferred pension-assumption changes	<u>50,594</u>	<u>-</u>	<u>16,351</u>	<u>-</u>	<u>66,945</u>	<u>-</u>
Total Deferred Outflows of						
Resources	<u>1,599,416</u>	<u>629,404</u>	<u>703,033</u>	<u>418,112</u>	<u>2,302,449</u>	<u>1,047,516</u>
Current liabilities	563,786	547,738	1,536,564	1,286,692	2,100,350	1,834,430
Long-term liabilities	<u>9,783,740</u>	<u>3,046,404</u>	<u>14,091,318</u>	<u>14,806,407</u>	<u>23,875,058</u>	<u>17,852,811</u>
Total liabilities	<u>10,347,526</u>	<u>3,594,142</u>	<u>15,627,882</u>	<u>16,093,099</u>	<u>25,975,408</u>	<u>19,687,241</u>
Deferred pension-earnings	-	29,125	-	-	-	29,125
Deferred pension-actuarial gains	<u>465,641</u>	<u>74,224</u>	<u>150,478</u>	<u>23,388</u>	<u>616,119</u>	<u>97,612</u>
Total deferred inflows of resources	<u>465,641</u>	<u>103,349</u>	<u>150,478</u>	<u>23,388</u>	<u>616,119</u>	<u>126,737</u>
Net Investment in						
Capital Assets	23,023,421	22,876,764	22,560,967	21,972,162	45,584,388	44,848,926
Restricted:						
Municipal Court Technology						
and Security	24,881	21,842	-	-	24,881	21,842
Civic Activities	145,493	84,469	-	-	145,493	84,469
Education Programs	3,096	4,593	-	-	3,096	4,593
Emergency Management	61,357	64,653	-	-	61,357	64,653
Police and Fire Services	34,468	11,044	-	-	34,468	11,044
Library	5,205	6,517	-	-	5,205	6,517
Debt service	1,394	-	-	-	1,394	-
Unrestricted	<u>(1,584,707)</u>	<u>(625,712)</u>	<u>7,412,314</u>	<u>5,882,905</u>	<u>5,827,607</u>	<u>5,257,193</u>
Total Net Position	<u>\$21,714,608</u>	<u>\$22,444,170</u>	<u>\$29,973,281</u>	<u>\$27,855,067</u>	<u>\$51,687,889</u>	<u>\$50,299,237</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 \$51,687,889 at the close of the most recent fiscal year, which is an increase of \$1,388,652 from the prior year.

Government-wide total assets increased by \$6,911,268 while the total liabilities increased by \$6,288,167. Investment in capital assets represents approximately 88% 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 \$570,414.

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

CITY OF CANYON, TEXAS
Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Charges for services	\$ 2,277,509	\$ 2,186,369	\$ 8,051,443	\$ 6,914,485	\$ 10,328,952	\$ 9,100,854
Capital Grants and contributions	-	-	581,661	78,270	581,661	78,270
Operating grants and contributions	521,616	836,577	-	-	521,616	836,577
Property taxes	2,369,990	2,260,506	-	-	2,369,990	2,260,506
Sales taxes	2,055,503	1,948,745	-	-	2,055,503	1,948,745
Franchise taxes	621,695	678,725	-	-	621,695	678,725
Other taxes	223,060	214,656	-	-	223,060	214,656
Investment earnings	14,904	3,880	47,947	42,727	62,851	46,607
Sales of capital assets	11,599	7,694	-	-	11,599	7,694
Miscellaneous revenue	174,932	24,408	-	-	174,932	24,408
Operating transfers	-	682,155	-	(682,155)	-	-
Total revenues and transfers	8,270,808	8,843,715	8,681,051	6,353,327	16,951,859	15,197,042
General governmental	976,892	958,544	-	-	976,892	958,544
Judicial	10,918	16,219	-	-	10,918	16,219
Public safety	3,796,180	3,592,791	-	-	3,796,180	3,592,791
Streets	1,079,886	1,001,771	-	-	1,079,886	1,001,771
Sanitation	1,131,807	976,788	-	-	1,131,807	976,788
Culture and recreation	1,536,153	1,434,755	-	-	1,536,153	1,434,755
Conservation and development	211,800	218,818	-	-	211,800	218,818
Public services	151,016	193,562	-	-	151,016	193,562
Interest on long-term debt	105,718	2,578	-	-	105,718	2,578
Water and sewer	-	-	5,155,626	4,916,977	5,155,626	4,916,977
Golf course	-	-	1,407,212	1,411,951	1,407,212	1,411,951
Total expenses	9,000,370	8,395,826	6,562,838	6,328,928	15,563,208	14,724,754
Change in net position	\$ (729,562)	\$ 447,889	\$ 2,118,213	\$ 24,399	\$ 1,388,651	\$ 472,288

Government-wide total revenues increased \$1,754,817 from the prior year. Government-wide expenses increased \$838,454.

Overall, the City's net position increased \$1,388,651 during the year.

Governmental activities: Governmental activities decreased the City's net position by (\$729,562) for the year. Revenue from governmental activities increased by \$109,248 (exclusive of operating transfers). Most of this increase was from increase property and sales tax collections, netted against a decreases in operating grants and contributions. Total expenditures by governmental activities increased by \$604,544. Depreciation on capital assets in the governmental activities was \$959,319 for the year.

Business-type activities: Revenue for business-type activities increased \$1,645,569 (exclusive of operating transfers). This increase was primarily due to an increase in water rates. Expenses in the business-type activities increased \$233,910, primarily caused by increased cost to provide water to residents. Depreciation in the business-type activities was \$957,769 for the year.

The City invested in significant capital asset additions during the year. In the governmental activities \$1,595,141 in capital assets were purchased. The most significant purchases were for street improvement projects and the beginning of construction of the Canyon Aquatic Center. Of course, there were other capital expenditures in equipment and infrastructure assets, but these were the largest two. In the business type activities \$4,237,224 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>	
	2016	2015	2016	2015	2016	2015
Land and easements	\$ 739,375	\$ 739,375	\$ 4,634,270	\$ 4,131,011	\$ 5,373,645	\$ 4,870,386
Buildings	3,858,671	3,850,331	695,654	664,404	4,554,325	4,514,735
Equipment	7,009,160	6,590,213	3,549,399	3,489,183	10,558,559	10,079,396
Improvements	5,199,597	4,119,814	12,026,539	12,021,314	17,226,136	16,141,128
Infrastructure	30,501,404	30,132,081	28,839,142	25,872,139	59,340,546	56,004,220
Construction in progress	<u>775,705</u>	<u>1,164,270</u>	<u>966,118</u>	<u>295,847</u>	<u>1,741,823</u>	<u>1,460,117</u>
Total	48,083,912	46,596,084	50,711,122	46,473,898	98,795,034	93,069,982
Accumulated depreciation	<u>(24,791,526)</u>	<u>(23,707,008)</u>	<u>(18,665,492)</u>	<u>(17,707,723)</u>	<u>(43,457,018)</u>	<u>(41,414,731)</u>
Net Capital Assets	<u>\$23,292,386</u>	<u>\$22,889,076</u>	<u>\$32,045,630</u>	<u>\$28,766,175</u>	<u>\$55,338,016</u>	<u>\$51,655,251</u>

Summary and Future Outlook:

The question is always asked, how did we finish the year? How much did we were we able to place back into reserves? This year, that's roughly \$570,000. The simplest explanation is that revenues exceeded expenditures for the year. Our staff is dedicated to their budget, and they strive diligently to work within or below their budgets. I commend them for that.

The economy is good. Sales taxes are up again this year. Property taxes are up a little from last year. Canyon is growing. A year ago in this summary, I referenced Canyon East, Gagestone Ridge, and Madison Park. Canyon East has now sold every available lot. Gagestone is a little slow, perhaps due to the unique location and lot configuration, but we hope they'll build out soon. Madison Park has begun construction. Property values are up again this year. Business is up. Looming on the horizon for next year we see some retail development, such as the Shoppes at 5th Avenue, Burger King, and a new Subway store, and we continue to be approached by different retailers and restaurants.

The Lone Star Dairy Products facility will open in full production in 2017, which will be a tremendous boost to the local economy. We're excited about the completion and function of this plant, and the number of jobs that will be created, and the effect on our economy.

WTAMU continues to expand and grow. It looks like there will be a football stadium built on campus in the future. Without question, the University is a benefit to this community of immeasurable value.

We're working with a developer to find a location for a Skilled Nursing Facility. I fully expect to see that come to reality in 2017/2018. Our water park, THE CAP, is under construction with a hope to still meet the early summer 2017 deadline for opening. More growth and development is expected and anticipated.

We still are facing decisions in the future. What to do with our brick streets, a need for more space in the Civic Complex, whether or not to assist with funding for a Senior Citizens Center, how to continue to fund our infrastructure needs and still provide for growth. We're going to be faced in the very near future with making a change to our emergency communications equipment due to the fact that the City of

Amarillo, Randall County, and WTAMU have all either made or will be making changes. In order for us to communicate with them, we'll be forced to make equipment changes. This will be a sizeable cost, but one we can't avoid. It all boils down to safety, and there is no compromise when the safety of our responders is in question.

We'll be working on the Comprehensive Plan update in 2017/2018. This will be a tremendous tool for us moving forward into the future. We'll continue to make water supply and availability a priority.

Canyon is healthy and stable financially. We constantly look for ways to improve our productivity and efficiency, and we continue to be leaders among our fellow cities, not just in this area, but across the State

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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 1,159,388	\$ 3,945,609	\$ 5,104,997	\$ 339,278
Investments	1,821,739	1,201,309	3,023,048	192,668
Restricted cash - customer deposits	-	229,336	229,336	-
Restricted cash for construction	6,008,343	4,189,273	10,197,616	-
Receivables, net	621,426	774,098	1,395,524	-
Internal balances	(2,350,471)	2,350,471	-	-
Due from component unit	11,221	-	11,221	-
Intergovernmental receivables	364,327	124,807	489,134	121,442
Inventories	-	170,997	170,997	-
Security deposit	-	-	-	1,007
Prepaid items	-	17,078	17,078	2,412
Capital assets not being depreciated:				
Land	739,375	4,634,270	5,373,645	-
Construction in progress	775,705	966,118	1,741,823	-
Capital assets, net of accumulated depreciation				
Buildings	1,975,945	241,110	2,217,055	151,508
Improvements other than buildings	3,960,602	8,382,958	12,343,560	-
Equipment	3,303,445	475,743	3,779,188	18,151
Infrastructure	12,537,314	17,345,431	29,882,745	-
Total assets	30,928,359	45,048,608	75,976,967	826,466
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	209,483	209,483	-
Pension contributions	476,308	140,756	617,064	-
Pension deficient earnings	1,072,514	336,443	1,408,957	-
Pension assumption changes	50,594	16,351	66,945	-
Total deferred outflows of resources	1,599,416	703,033	2,302,449	-
LIABILITIES				
Accounts payable	221,842	558,070	779,912	-
Accrued liabilities	8,200	12,522	20,722	-
Accrued interest	34,030	42,057	76,087	-
Intergovernmental payable	30,928	-	30,928	-
Due to primary government	-	-	-	11,221
Customer deposits	-	229,336	229,336	-
Unearned revenues	-	12,500	12,500	-
Pension liability	3,347,105	1,011,531	4,358,636	-
Noncurrent liabilities:				
Due within one year	268,786	911,415	1,180,201	65,777
Due in more than one year	6,436,635	12,850,451	19,287,086	160,439
Total liabilities	10,347,526	15,627,882	25,975,408	237,437
DEFERRED INFLOWS OF RESOURCES				
Pension economic/dempgraphic gains	465,641	150,478	616,119	-
Total deferred inflows of resources	465,641	150,478	616,119	-
NET POSITION				
Net investment in capital assets	23,023,421	22,560,967	45,584,388	69,659
Restricted:				
By enabling legislation for special projects	266,199	-	266,199	-
Special projects	8,301	-	8,301	-
Debt service	1,394	-	1,394	-
Unrestricted	(1,584,707)	7,412,314	5,827,607	519,370
Total net position	\$ 21,714,608	\$ 29,973,281	\$ 51,687,889	\$ 589,029

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, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit Economic Development Corporation
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 976,892	\$ 4,133	\$ 130,137	\$ -	\$ (842,622)	\$ -	\$ (842,622)	\$ -
Judicial	10,918	328,874	-	-	317,956	-	317,956	-
Public safety	3,796,180	31,552	325,702	-	(3,438,926)	-	(3,438,926)	-
Highways and streets	1,079,886	-	-	-	(1,079,886)	-	(1,079,886)	-
Culture and recreation	1,536,153	287,642	65,777	-	(1,182,734)	-	(1,182,734)	-
Conservation and development	211,800	-	-	-	(211,800)	-	(211,800)	-
Sanitation	1,131,807	1,625,308	-	-	493,501	-	493,501	-
Public services	151,016	-	-	-	(151,016)	-	(151,016)	-
Interest on long-term debt	105,718	-	-	-	(105,718)	-	(105,718)	-
Total governmental activities	<u>9,000,370</u>	<u>2,277,509</u>	<u>521,616</u>	<u>-</u>	<u>(6,201,245)</u>	<u>-</u>	<u>(6,201,245)</u>	<u>-</u>
Business-Type Activities:								
Water and sewer	5,155,626	7,162,205	-	581,661	-	2,588,240	2,588,240	-
Golf course	1,407,212	889,239	-	-	-	(517,973)	(517,973)	-
Total business-type activities	<u>6,562,838</u>	<u>8,051,444</u>	<u>-</u>	<u>581,661</u>	<u>-</u>	<u>2,070,267</u>	<u>2,070,267</u>	<u>-</u>
Total primary government	<u>\$ 15,563,208</u>	<u>\$ 10,328,953</u>	<u>\$ 521,616</u>	<u>\$ 581,661</u>	<u>(6,201,245)</u>	<u>2,070,267</u>	<u>(4,130,978)</u>	<u>-</u>
Component Unit:								
Economic Development	<u>\$ 665,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(665,380)</u>
General revenues:								
Property taxes					2,369,990	-	2,369,990	-
Sales and use taxes					2,055,503	-	2,055,503	685,168
Franchise taxes					621,695	-	621,695	-
Hotel/Motel taxes					212,005	-	212,005	-
Alcoholic beverage taxes					11,055	-	11,055	-
Unrestricted investment earnings					14,904	47,947	62,851	767
Gain on disposal of assets					11,599	-	11,599	-
Miscellaneous					174,932	-	174,932	16,314
Total general revenues					<u>5,471,683</u>	<u>47,947</u>	<u>5,519,630</u>	<u>702,249</u>
Change in net position					(729,562)	2,118,214	1,388,652	36,869
Net position - beginning					<u>22,444,170</u>	<u>27,855,067</u>	<u>50,299,237</u>	<u>552,160</u>
Net position - ending					<u>\$ 21,714,608</u>	<u>\$ 29,973,281</u>	<u>\$ 51,687,889</u>	<u>\$ 589,029</u>

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

**CITY OF CANYON
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	<u>General</u>	<u>Canyon Aquatic Park</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 571,802	\$ -	\$ 206,250	\$ 778,052
Investments	1,821,739	-	-	1,821,739
Restricted cash for construction	-	6,008,343	-	6,008,343
Accounts receivables, net	575,274	3,948	-	579,222
Taxes receivable, net	21,821	-	20,383	42,204
Due from other funds	923,576	-	26,275	949,851
Due from other governments	375,548	-	-	375,548
	<u>4,289,760</u>	<u>6,012,291</u>	<u>252,908</u>	<u>10,554,959</u>
Total assets	<u>\$ 4,289,760</u>	<u>\$ 6,012,291</u>	<u>\$ 252,908</u>	<u>\$ 10,554,959</u>
LIABILITIES				
Accounts payable	\$ 221,842	\$ -	\$ -	\$ 221,842
Due to other funds	3,119,633	1,394	-	3,121,027
Payable to other governments	30,928	-	-	30,928
Accrued expenses	8,200	-	-	8,200
	<u>3,380,603</u>	<u>1,394</u>	<u>-</u>	<u>3,381,997</u>
Total liabilities	<u>3,380,603</u>	<u>1,394</u>	<u>-</u>	<u>3,381,997</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	18,294	-	-	18,294
Unavailable revenue - other receivables	204,964	-	-	204,964
	<u>223,258</u>	<u>-</u>	<u>-</u>	<u>223,258</u>
Total deferred inflows of resources	<u>223,258</u>	<u>-</u>	<u>-</u>	<u>223,258</u>
FUND BALANCES				
Restricted:				
By enabling legislation for special projects	22,986	-	243,213	266,199
Special projects	-	-	8,301	8,301
Debt service	-	-	1,394	1,394
Capital projects	-	6,010,897	-	6,010,897
Assigned to:				
Special projects	445,870	-	-	445,870
Unassigned	217,043	-	-	217,043
	<u>685,899</u>	<u>6,010,897</u>	<u>252,908</u>	<u>6,949,704</u>
Total fund balances	<u>685,899</u>	<u>6,010,897</u>	<u>252,908</u>	<u>6,949,704</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,289,760</u>	<u>\$ 6,012,291</u>	<u>\$ 252,908</u>	<u>\$ 10,554,959</u>

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

CITY OF CANYON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

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

Total fund balance - governmental funds	\$ 6,949,704
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	23,292,386
Certain accounts receivable are not available to pay for current-period expenditures and, therefore, are shown as unavailable revenues in the fund financial statements	223,258
Pension losses and deficient earnings are shown as deferred outflows of resources in the government-wide financial statements.	
Pension deficient earnings	1,072,514
Pension assumption changes	50,594
Pension contributions paid after the measurement date, December 31, 2015, and before September 30, 2016 are expensed in the governmental funds and shown as deferred outflows of resources in the government-wide financial statements.	
Pension contributions	476,308
Pension gains and excess earnings are shown as deferred inflows of resources in the government-wide financial statements.	
Pension economic/demographic gains	(465,641)
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	(6,243,278)
Accrued interest payable	(34,030)
Compensated absences	(326,839)
Other post employment benefit obligation	(135,304)
Net pension liability	(3,347,105)
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)	<u>202,041</u>
Net position - governmental activities	<u><u>\$ 21,714,608</u></u>

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

CITY OF CANYON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General</u>	<u>Canyon Aquatic Park</u>	<u>Non-major Governmental</u>	<u>Total Governmental</u>
REVENUES				
Taxes:				
Property	\$ 2,369,618	\$ -	\$ -	\$ 2,369,618
Sales	2,055,503	-	-	2,055,503
Franchise	621,695	-	-	621,695
Hotel/Motel	-	-	212,005	212,005
Mixed beverage	11,055	-	-	11,055
Licenses and fees	186,774	-	13,957	200,731
Fines and forfeitures	326,281	-	-	326,281
Intergovernmental	519,665	-	1,951	521,616
Charges for services	1,733,312	-	-	1,733,312
Investment earnings	6,861	6,949	79	13,889
Miscellaneous	173,645	-	1,287	174,932
	<u>8,004,409</u>	<u>6,949</u>	<u>229,279</u>	<u>8,240,637</u>
Total revenues				
EXPENDITURES				
Current:				
General government	936,131	-	1,500	937,631
Judicial	-	-	10,918	10,918
Public safety	3,637,283	-	4,847	3,642,130
Highways and streets	547,522	-	-	547,522
Culture and recreation	1,271,441	-	2,602	1,274,043
Conservation and development	207,737	-	-	207,737
Sanitation	1,117,772	-	-	1,117,772
Public services	-	-	151,016	151,016
Debt Service:				
Principal	49,332	-	-	49,332
Interest and other charges	636	-	-	636
Bond issuance costs	-	71,052	-	71,052
Capital Outlay	1,147,276	-	-	1,147,276
	<u>8,915,130</u>	<u>71,052</u>	<u>170,883</u>	<u>9,157,065</u>
Total expenditures				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(910,721)</u>	<u>(64,103)</u>	<u>58,396</u>	<u>(916,428)</u>
OTHER FINANCING SOURCES				
Proceeds from long-term debt	-	5,785,000	-	5,785,000
Proceeds from sale of assets	17,455	-	-	17,455
Premium on bonds issued	-	290,000	1,394	291,394
	<u>17,455</u>	<u>6,075,000</u>	<u>1,394</u>	<u>6,093,849</u>
Total other financing sources				
NET CHANGE IN FUND BALANCES	(893,266)	6,010,897	59,790	5,177,421
FUND BALANCES - BEGINNING	<u>1,579,165</u>	<u>-</u>	<u>193,118</u>	<u>1,772,283</u>
FUND BALANCES - ENDING	<u>\$ 685,899</u>	<u>\$ 6,010,897</u>	<u>\$ 252,908</u>	<u>\$ 6,949,704</u>

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

CITY OF CANYON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Net change in fund balances - total governmental funds:	\$ 5,177,421
<p>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.</p> <p>This is the amount by which capital outlays, \$1,147,276 were exceeded by depreciation, \$959,319 in the current period.</p>	
	187,957
<p>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 asset sold.</p>	
	(5,856)
<p>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.</p>	
	17,557
<p>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.</p>	
Debt issued or incurred:	
Bonds payable	(5,785,000)
Premiums on bonds issued	(291,394)
Principal repayments:	
Capital lease	49,332
Accrued interest payable, net change	(34,030)
<p>Changes in pension related liabilities, outflows, and inflows reported in the government-wide Statement of Activities are not reported in the governmental funds as revenues or expenditures.</p>	
	(78,936)
<p>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.</p>	
	(44,070)
<p>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 (\$152,277) less the amount charged to business-type activities (\$74,820) is the amount of the internal service fund charged to governmental activities.</p>	
	77,457
Change in net position - governmental activities	\$ (729,562)

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, 2016**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,728,171	\$ 217,438	\$ 3,945,609	\$ 381,336
Investments	1,201,309	-	1,201,309	-
Restricted cash - customer deposits	229,336	-	229,336	-
Restricted cash for construction	4,189,273	-	4,189,273	-
Receivables, net	774,098	-	774,098	-
Intergovernmental receivable	124,807	-	124,807	-
Due from other funds	3,519,706	11,999	3,531,705	-
Inventories	21,251	149,746	170,997	-
Prepaid expenses	17,078	-	17,078	-
Total current assets	<u>13,805,029</u>	<u>379,183</u>	<u>14,184,212</u>	<u>381,336</u>
Noncurrent assets:				
Capital assets:				
Land	4,237,132	397,138	4,634,270	-
Construction in progress	954,463	11,655	966,118	-
Buildings and improvements	326,379	369,275	695,654	-
Improvements other than buildings	11,491,913	534,626	12,026,539	-
Equipment	2,901,736	647,663	3,549,399	1,629,112
Infrastructure	28,140,972	698,170	28,839,142	-
Less accumulated depreciation	<u>(16,994,264)</u>	<u>(1,671,228)</u>	<u>(18,665,492)</u>	<u>(564,963)</u>
Total noncurrent assets	<u>31,058,331</u>	<u>987,299</u>	<u>32,045,630</u>	<u>1,064,149</u>
Total assets	<u>44,863,360</u>	<u>1,366,482</u>	<u>46,229,842</u>	<u>1,445,485</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	150,918	58,565	209,483	-
Pension contributions	120,331	20,425	140,756	-
Pension deficient earnings	287,621	48,822	336,443	-
Pension assumption changes	<u>13,978</u>	<u>2,373</u>	<u>16,351</u>	<u>-</u>
Total deferred outflows of resources	<u>572,848</u>	<u>130,185</u>	<u>703,033</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	463,959	94,111	558,070	-
Accrued liabilities	933	11,589	12,522	-
Accrued interest	37,058	4,999	42,057	-
Due to other funds	-	1,359,084	1,359,084	1,445
Unearned revenues	12,500	-	12,500	-
Pension liability	864,746	146,785	1,011,531	-
Customer deposits	229,336	-	229,336	-
Compensated absences - current	7,700	1,800	9,500	-
Capital leases payable - current	-	36,915	36,915	-
Certificates of obligation payable - current	<u>728,012</u>	<u>136,988</u>	<u>865,000</u>	<u>-</u>
Total current liabilities	<u>2,344,244</u>	<u>1,792,271</u>	<u>4,136,515</u>	<u>1,445</u>
Noncurrent liabilities:				
Accrued compensated absences	69,027	15,777	84,804	-
Other post employment benefits obligation	29,772	5,911	35,683	-
Certificates of obligation payable	<u>11,351,920</u>	<u>1,378,044</u>	<u>12,729,964</u>	<u>-</u>
Total noncurrent liabilities	<u>11,450,719</u>	<u>1,399,732</u>	<u>12,850,451</u>	<u>-</u>
Total liabilities	<u>13,794,963</u>	<u>3,192,003</u>	<u>16,986,966</u>	<u>1,445</u>
DEFERRED INFLOWS OF RESOURCES				
Pension economic/demographic gains	<u>128,642</u>	<u>21,836</u>	<u>150,478</u>	<u>-</u>
NET POSITION				
Net investment in capital assets (deficit)	23,130,614	(569,647)	22,560,967	1,064,149
Unrestricted (deficit)	<u>8,381,989</u>	<u>(1,147,525)</u>	<u>7,234,464</u>	<u>379,891</u>
Total net position	<u>31,512,603</u>	<u>(1,717,172)</u>	<u>29,795,431</u>	<u>\$ 1,444,040</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>101,560</u>	<u>76,290</u>	<u>177,850</u>	
Net Position (deficit) of business-type activities	<u>\$ 31,614,163</u>	<u>\$ (1,640,882)</u>	<u>\$ 29,973,281</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, 2016

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Golf Course	Total Enterprise Funds	Internal Service
OPERATING REVENUES:				
Charges for Sales and Services:				
Water sales	\$ 4,716,505	\$ -	\$ 4,716,505	\$ -
Sewer charges	2,347,163	-	2,347,163	-
Permits and licenses	17,065	-	17,065	-
Lease and other income	81,472	-	81,472	-
Golf services	-	596,930	596,930	-
Sales of goods	-	292,309	292,309	-
Internal service charges	-	-	-	377,918
Total operating revenues	<u>7,162,205</u>	<u>889,239</u>	<u>8,051,444</u>	<u>377,918</u>
OPERATING EXPENSES:				
Personnel costs	1,449,346	597,695	2,047,041	-
Supplies and contractual services	2,560,493	538,698	3,099,191	-
Depreciation	756,348	201,421	957,769	226,656
Intercity charges	135,622	51,100	186,722	-
Total operating expenses	<u>4,901,809</u>	<u>1,388,914</u>	<u>6,290,723</u>	<u>226,656</u>
OPERATING INCOME (LOSS)	<u>2,260,396</u>	<u>(499,675)</u>	<u>1,760,721</u>	<u>151,262</u>
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	581,661	-	581,661	-
Investment earnings	47,823	124	47,947	1,015
Interest and fiscal charges	(308,185)	(38,750)	(346,935)	-
Total nonoperating revenues (expenses)	<u>321,299</u>	<u>(38,626)</u>	<u>282,673</u>	<u>1,015</u>
CHANGE IN NET POSTION	2,581,695	(538,301)	2,043,394	152,277
NET POSITION - BEGINNING	<u>28,930,908</u>	<u>(1,178,871)</u>	<u>27,752,037</u>	<u>1,291,763</u>
NET POSITION - ENDING	<u>\$ 31,512,603</u>	<u>\$ (1,717,172)</u>	<u>\$ 29,795,431</u>	<u>\$ 1,444,040</u>
Change in Net Position	\$ 2,581,695	\$ (538,301)	\$ 2,043,394	
Adjustment for the net effect of the current year activity between the internal service fund and the business-type activity - enterprise funds	<u>54,368</u>	<u>20,452</u>	<u>74,820</u>	
Changes in Net Position of business-type activities	<u>\$ 2,636,063</u>	<u>\$ (517,849)</u>	<u>\$ 2,118,214</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, 2016**

	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	\$ 7,197,590	\$ 894,046	\$ 8,091,636	\$ -
Receipts for internal service charges	-	-	-	377,918
Payments to employees for salaries and benefits	(1,372,910)	(595,050)	(1,967,960)	-
Payments to suppliers and service providers	(2,408,822)	(559,726)	(2,968,548)	-
Payments for interfund services used	(135,622)	(51,100)	(186,722)	-
Net cash provided (used) by operating activities	<u>3,280,236</u>	<u>(311,830)</u>	<u>2,968,406</u>	<u>377,918</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Changes in interfund receivables/payables	(1,961,806)	436,369	(1,525,437)	31,469
Operating grants	581,661	-	581,661	-
Net cash provided (used) by noncapital financing activities	<u>(1,380,145)</u>	<u>436,369</u>	<u>(943,776)</u>	<u>31,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on capital debt	(710,806)	(180,833)	(891,639)	-
Interest paid on capital debt	(362,779)	(43,929)	(406,708)	-
Acquisition or construction of capital assets	(4,203,842)	(33,382)	(4,237,224)	(243,958)
Net cash used for capital and related financing activities	<u>(5,277,427)</u>	<u>(258,144)</u>	<u>(5,535,571)</u>	<u>(243,958)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchased investments	(3,260)	-	(3,260)	-
Interest on investments	47,823	124	47,947	1,015
Net cash provided by investing activities	<u>44,563</u>	<u>124</u>	<u>44,687</u>	<u>1,015</u>
NET INCREASE (DECREASE) IN CASH	(3,332,773)	(133,481)	(3,466,254)	166,444
CASH AND CASH EQUIVALENTS, BEGINNING (including restricted amounts)	<u>11,479,553</u>	<u>350,919</u>	<u>11,830,472</u>	<u>214,892</u>
CASH AND CASH EQUIVALENTS, ENDING, (including restricted amounts)	<u>\$ 8,146,780</u>	<u>\$ 217,438</u>	<u>\$ 8,364,218</u>	<u>\$ 381,336</u>

Continued

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

**CITY OF CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<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)	\$ 2,260,396	\$ (499,675)	\$ 1,760,721	\$ 151,262
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation and amortization	756,348	201,421	957,769	226,656
Change in allowance for doubtful accounts	(1,639)	-	(1,639)	-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	34,601	4,807	39,408	-
(Increase) decrease in intergovernmental receivable	(61,729)	-	(61,729)	-
(Increase) decrease in prepaids	(17,078)	-	(17,078)	-
(Increase) decrease in inventories	(2,841)	(34,570)	(37,411)	-
(Increase) decrease in deferred outflows of pension	(264,133)	(43,445)	(307,578)	-
Increase (decrease) in accounts payable	253,903	13,542	267,445	-
Increase (decrease) in accrued expenses	37,122	661	37,783	-
Increase (decrease) in pension liability	194,650	27,136	221,786	-
Increase (decrease) in unearned revenue	(20,584)	-	(20,584)	-
Increase (decrease) in customer deposits	2,423	-	2,423	-
Increase (decrease) in deferred inflows of pension	108,797	18,293	127,090	-
	<u>\$ 3,280,236</u>	<u>\$ (311,830)</u>	<u>\$ 2,968,406</u>	<u>\$ 377,918</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES:				
Amortization of debt issuance premiums and refunding charges	<u>\$ 52,250</u>	<u>\$ 3,771</u>	<u>\$ 56,021</u>	<u>\$ -</u>
	<u>\$ 52,250</u>	<u>\$ 3,771</u>	<u>\$ 56,021</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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description of Reporting Entity

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

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

Discretely Presented Component Unit: The Canyon Economic Development Corporation (CEDC) is a component unit due to the fact that the Commission appoints the CEDC board and also approves the annual budget. The CEDC has issued separately audited financial statements. Copies of the CEDC audit report for the fiscal year ended September 30, 2015 may be obtained by contacting the management of the CEDC at the following address:

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

B. Basis of Presentation – Government-wide Financial Statements

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

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

B. Basis of Presentation – Government Wide Financial Statements

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

C. Basis of Presentation - Fund Financial Statements

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

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

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

The City reports the following major governmental fund:

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

The Canyon Aquatic Park fund accounts for the resources to be used for the acquisition and/or construction of the Canyon Aquatic Park.

The City reports the following major proprietary funds:

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

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

In addition, the City reports the following fund types:

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

C. Basis of Presentation – Fund Financial Statements – Continuation

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

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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 public safety (fire), conservation and development, capital outlay (street improvements), and debt service interest functions (budgeted with principal) in the General Fund. These overspendings were covered by utilizing a carryover of prior year fund balance and transfers from other funds.

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

a. Cash and Cash Equivalents

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

b. Investments

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

c. Receivable and Payable Balances

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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. Interfund Activity

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

g. Use of Estimates

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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 for contributions paid after the measurement date, and the deficiency of earnings in the plans after the measurement date of the pension plans.

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

j. Pensions

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

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

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.

Committed fund balance – (self-imposed limitations)

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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

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

Fund Balance Policies:

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

G. Revenues and Expenditures/Expenses

a. Program Revenues

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

b. Property Taxes

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

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

c. Compensated Absences

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

d. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

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

Continued

**CITY OF CANYON, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continuation

H. Compliance and Accountability

a. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
Expenditures exceeded the budget in various functional areas in the General Fund	A combination of underspending in other functional categories, and excess revenues over budget, as well as the City planning to use fund balance carryovers have covered such overspendings.

I. Implementation of New Standards

The City implemented Governmental Accounting Standards Board (GASB) No. 77, *Tax Abatement Disclosures*. This standard requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, 2) the gross dollar amount of taxes abated during the period, and 3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

Cash and deposit balances consist of:

Petty cash funds	\$ 720
Bank deposits	3,232,527
Money market deposits (interest rates at .33%)	12,637,981
	<hr/>
Total	\$ 15,871,228
	<hr/> <hr/>

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

Government-wide Statement of Net Position:

Unrestricted	\$ 5,334,335
Restricted for customer deposits and construction	10,197,615
Component unit - unrestricted	339,278
	<hr/>
Total	\$ 15,871,228
	<hr/> <hr/>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2016 the City's deposits (cash, interest bearing accounts and certificates of deposit) with financial institutions was \$15,612,820, and \$12,887,981 of that amount was insured through the Federal Depository Insurance Corporation (FDIC) and \$2,724,839 was collateralized with securities held by the pledging of institution's agent in the City's name.

Following is a reconciliation of the City's investment balances as of September 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Certificates of deposit		
Governmental activities (interest rates at .30 - .4789%)	\$ 1,821,739	258
Business-Type activities (interest rates at .30 - .40%)	1,201,309	275
Component Unit (interest rates at .25 - .45895%)	174,718	181
	<hr/>	
Total fair value	3,197,766	
Portfolio weighted average maturity		<hr/> <hr/> 260
Amarillo Area Foundation (Component Unit)	15,950	
Real estate (Component Unit)	2,000	
	<hr/>	
	\$ 3,215,716	
	<hr/> <hr/>	

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2016 the carrying amount of the City's investments (certificates of deposit) with financial institutions was \$3,023,048, and \$615,491 was insured by the Federal Depository Insurance Corporation (FDIC) and \$2,407,557 was collateralized with securities held by the pledging of institution's agent in the City's name. The depository makes no distinction between the City and its component unit when pledging securities.

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

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

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

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of September 30, 2016, none of the City's investments were considered concentrated.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS – Continuation

Investment Accounting Policy

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

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

Primary Government:

Governmental activities:	Beginning Balances	Increases	Decreases	Transfers / Reclassifications	Ending Balances
Capital assets not being depreciated:					
Land	\$ 739,375	\$ -	\$ -	\$ -	\$ 739,375
Construction in progress	1,164,270	625,721	-	(1,014,286)	775,705
Total capital assets not being depreciated	1,903,645	625,721	-	(1,014,286)	1,515,080
Capital assets being depreciated:					
Buildings	3,850,331	8,340	-	-	3,858,671
Improvements other than buildings	4,119,814	65,497	-	1,014,286	5,199,597
Equipment	6,590,213	526,260	(107,313)	-	7,009,160
Infrastructure	30,132,081	369,323	-	-	30,501,404
Total capital assets being depreciated	44,692,439	969,420	(107,313)	1,014,286	46,568,832
Less accumulated depreciating for:					
Buildings	(1,790,736)	(91,990)	-	-	(1,882,726)
Improvements other than buildings	(1,075,889)	(163,106)	-	-	(1,238,995)
Equipment	(3,320,710)	(486,462)	101,457	-	(3,705,715)
Infrastructure	(17,519,673)	(444,417)	-	-	(17,964,090)
Total accumulated depreciation	(23,707,008)	(1,185,975)	101,457	-	(24,791,526)
Total capital assets being depreciated, net	20,985,431	(216,555)	(5,856)	1,014,286	21,777,306
Governmental activities capital assets, net	\$ 22,889,076	\$ 409,166	\$ (5,856)	\$ -	\$ 23,292,386

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

Governmental activities:	
General government	\$ 31,015
Public safety	101,312
Highways and streets	532,073
Sanitation	33,452
Culture and recreation	261,467
Capital assets held by the government's internal service funds	226,656
Total depreciation expense-governmental activities	\$ 1,185,975

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – CAPITAL ASSETS – Continuation

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
<u>Business-type activities:</u>					
Capital assets not being depreciated:					
Land	\$ 4,131,011	\$ 503,259	\$ -	\$ -	\$ 4,634,270
Construction in progress	295,847	3,595,204	-	(2,924,933)	966,118
Total capital assets not being depreciated	<u>4,426,858</u>	<u>4,098,463</u>	<u>-</u>	<u>(2,924,933)</u>	<u>5,600,388</u>
Capital assets being depreciated:					
Buildings	664,404	31,250	-	-	695,654
Improvements other than buildings	12,021,314	5,225	-	-	12,026,539
Equipment	3,489,183	60,216	-	-	3,549,399
Infrastructure	25,872,139	42,070	-	2,924,933	28,839,142
Total capital assets being depreciated	<u>42,047,040</u>	<u>138,761</u>	<u>-</u>	<u>2,924,933</u>	<u>45,110,734</u>
Less accumulated depreciation for:					
Buildings	(413,283)	(41,262)	-	-	(454,545)
Improvements other than buildings	(3,366,830)	(276,750)	-	-	(3,643,580)
Equipment	(2,920,771)	(152,886)	-	-	(3,073,657)
Infrastructure	(11,006,839)	(486,871)	-	-	(11,493,710)
Total accumulated depreciation	<u>(17,707,723)</u>	<u>(957,769)</u>	<u>-</u>	<u>-</u>	<u>(18,665,492)</u>
Total capital assets being depreciated, net	<u>24,339,317</u>	<u>(819,008)</u>	<u>-</u>	<u>2,924,933</u>	<u>26,445,242</u>
Business-type activities capital assets, net	<u>\$ 28,766,175</u>	<u>\$ 3,279,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,045,630</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	\$ 756,348
Golf course	201,421
Total depreciation expense-business-type activities	<u>\$ 957,769</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – CAPITAL ASSETS – Continuation

Component Unit:

	Beginning Balances	Increases	Decreases	Transfers / Reclassification	Ending Balances
Capital assets being depreciated:					
Buildings	\$ -	\$ 150,245	\$ -	\$ -	\$ 150,245
Building improvements	3,941	-	-	-	3,941
Equipment	53,207	-	-	-	53,207
Total capital assets being depreciated	57,148	150,245	-	-	207,393
Less accumulated depreciation for:					
Buildings	-	(642)	-	-	(642)
Building improvements	(1,248)	(788)	-	-	(2,036)
Equipment	(25,068)	(9,988)	-	-	(35,056)
Total accumulated depreciation	(26,316)	(11,418)	-	-	(37,734)
Total capital assets being depreciated, net	30,832	138,827	-	-	169,659
Component unit capital assets, net	<u>\$ 30,832</u>	<u>\$ 138,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,659</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, 2016. The projects included the Canyon East Park expansion, the Civic Complex expansion project, the Neblett Park project, and the Canyon Aquatic Center in the Governmental Activities and the Community Development water pipeline and wastewater expansion projects in the Business-Type Activities.

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 923,576	\$ 3,119,633
Special Revenue Funds:		
Municipal Court Technology	13,954	-
Municipal Court Security	10,927	-
Capital Projects Fund	-	1,394
Debt Service Fund	1,394	-
Water/Sewer Fund	3,519,706	-
Golf Course Fund	11,999	1,359,084
Internal Service Fund	-	1,445
	<u>\$ 4,481,556</u>	<u>\$ 4,481,556</u>

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

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – LONG-TERM DEBT

1. Long-Term Debt Activity

In August 2012, the City issued \$9,090,000 of Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2012, (the “2012 Obligations”), that are to be used for improvements to the City’s water and sewer system. The 2012 Obligations are due and payable between February 15, 2013 and February 15, 2032, and carry variable interest rates between 2.00% and 3.50%. As of September 30, 2016 the outstanding balance on the 2012 Obligations was \$7,660,000.

In February 2013, the City issued \$6,180,000 of General Obligation Refunding Bonds, Series 2013, (the “2013 Obligations”). Proceeds from the sale of the 2013 Obligations will be used to 1) refund a portion of the City’s Series 2004 and Series 2007 Obligations, and 2) pay costs of issuance of the bonds. The 2013 Obligations will be repaid through ad valorem taxes, within the limits prescribed by law. The 2013 Obligations are due and payable between February 15, 2014 and February 15, 2027, and carry variable interest rates between 2.00% and 3.00%. As of September 30, 2016 the outstanding balance on the 2013 Obligations was \$5,085,000.

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

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 will be 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%. As of September 30, 2016 the outstanding balance on the 2016 Obligations was \$5,785,000.

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.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – LONG-TERM DEBT – Continuation

Changes in long-term obligations for the year ended September 30, 2016, are as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
General Obligation Bonds, Series 2016	\$ -	\$ 5,785,000	\$ -	\$ 5,785,000	\$ 205,000
Unamortized Bond Premiums	-	291,394	-	291,394	-
Capital Leases	12,311	203,905	(49,332)	166,884	31,086
Compensated Absences	321,156	131,923	(126,240)	326,839	32,700
Other Post Employment Benefits Obligation	96,916	108,356	(69,968)	135,304	-
Total Governmental Activities Long-Term Liabilities	<u>\$ 430,383</u>	<u>\$ 6,520,578</u>	<u>\$ (245,540)</u>	<u>\$ 6,705,421</u>	<u>\$ 268,786</u>
Business-Type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Surplus Revenue Obligation, Series 2012	\$ 8,025,000	\$ -	\$ (365,000)	\$ 7,660,000	\$ 375,000
General Obligation Refunding Bond, Series 2013	5,565,000	-	(480,000)	5,085,000	490,000
Unamortized Bond Premiums	928,641	-	(78,677)	849,964	-
Capital Leases	83,555	-	(46,640)	36,915	36,915
Compensated Absences	86,723	51,904	(44,323)	94,304	9,500
Other Post Employment Benefits Obligations	658	35,924	(899)	35,683	-
Business-Type Activities Long-Term Liabilities	<u>\$ 14,689,577</u>	<u>\$ 87,828</u>	<u>\$ (1,015,539)</u>	<u>\$ 13,761,866</u>	<u>\$ 911,415</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.

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – LONG-TERM DEBT – Continuation

2. Debt Service Requirements

Debt service requirements at September 30, 2016, are as follows:

Business-type Activities:

Fiscal year ending September 30	Surplus Revenue Obligation, Series 2012		
	Principal	Interest	Total
2017	\$ 375,000	\$ 248,475	\$ 623,475
2018	385,000	238,950	623,950
2019	400,000	227,175	627,175
2020	405,000	215,100	620,100
2021	425,000	202,650	627,650
2022-2026	2,310,000	794,287	3,104,287
2027-2031	2,750,000	354,026	3,104,026
2032	610,000	10,675	620,675
Total	<u>\$ 7,660,000</u>	<u>\$ 2,291,338</u>	<u>\$ 9,951,338</u>

Fiscal year ending September 30	General Obligation Refunding Bond, Series 2013		
	Principal	Interest	Total
2017	\$ 490,000	\$ 132,650	\$ 622,650
2018	500,000	122,750	622,750
2019	510,000	112,650	622,650
2020	525,000	99,675	624,675
2021	540,000	83,700	623,700
2022-2026	2,425,000	169,575	2,594,575
2027	95,000	1,425	96,425
Total	<u>\$ 5,085,000</u>	<u>\$ 722,425</u>	<u>\$ 5,807,425</u>

Governmental Activities:

Fiscal year ending September 30	General Obligation Bond, Series 2016		
	Principal	Interest	Total
2017	\$ 205,000	\$ 176,737	\$ 381,737
2018	225,000	158,175	383,175
2019	230,000	151,350	381,350
2020	240,000	144,300	384,300
2021	245,000	137,025	382,025
2022-2026	1,330,000	569,250	1,899,250
2027-2031	1,530,000	378,575	1,908,575
2032-2036	1,780,000	136,800	1,916,800
Total	<u>\$ 5,785,000</u>	<u>\$ 1,852,212</u>	<u>\$ 7,637,212</u>

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5 – LONG-TERM DEBT – Continuation

3. Current year interest expense was recorded as follows:

	Accrued Interest Payable October 1, 2015	Interest Paid during the Year	Amortization of Bond Premium and Deferred Loss on Refunding	Accrued Interest Payable September 30, 2016	Interest Expense
Water and Sewer	\$ 39,402	\$ 362,778	\$ (52,249)	\$ 37,058	\$ 308,185
Golf Course	6,407	43,929	(3,771)	4,999	38,750
Total	<u>\$ 45,809</u>	<u>\$ 406,707</u>	<u>\$ (56,020)</u>	<u>\$ 42,057</u>	<u>\$ 346,935</u>

NOTE 6 – LEASE OBLIGATIONS

Capital Leases

The City has leased certain equipment under non-cancellable capital leases for various pieces of equipment. The interest rates range between 3.50% and 4.92% with maturity dates ranging from May 2017 and December 2020. The following summarizes the City's obligations under capital leases:

Year Ending September 30,	Governmental Activities	Golf Course
2017	\$ 37,021	\$ 38,773
2018	37,021	-
2019	37,021	-
2020	37,021	-
2021	37,021	-
Total	185,105	38,773
Less amounts representing interest	18,221	1,858
	<u>\$ 166,884</u>	<u>\$ 36,915</u>

The following summarized the assets acquired under capital lease:

Equipment	\$ 203,905	\$ 233,791
Accumulated Depreciation	30,586	222,101
Net Leased Equipment	<u>\$ 173,319</u>	<u>\$ 11,690</u>

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6 – LEASE OBLIGATIONS - Continuation

Operating Leases

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

Year Ending September 30,	Future Minimum Lease Payments
2017	\$ 16,316
2018	11,543
2019	6,609
2020	3,253
Total	\$ 37,721

Lease expenditures under the City’s operating leases for the year ended September 30, 2016 totaled \$18,824.

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 2016, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage described above. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded in any of the past three fiscal years.

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS

A. AGENT MULTIPLE – EMPLOYER PLAN

Plan Description:

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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

Benefits Provided:

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

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

Employees Covered by Benefit Terms:

At September 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	45
Active employees	84

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

The City contributed using the actuarially determined rate of 17.70% for the months of the accounting year in 2015 and 17.15% for the months of the accounting year in 2016. The contribution rate payable by the employee members is 7.0% for fiscal year 2016 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, 2015, and the total pension liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2015 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, 2015 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

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:

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CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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

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

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, 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. Therefore, we have used a discount rate of 7.00%.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Changes in the Net Pension Liability / (Asset):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances as of December 31, 2014	\$ 25,503,636	\$ 22,207,539	\$ 3,296,097
Changes for the year:			
Service cost	733,800	-	733,800
Interest on total pension liability	1,782,705	-	1,782,705
Difference between expected and actual experience	(687,944)	-	(687,944)
Changes of assumptions	84,701	-	84,701
Benefit payments/refunds of employee contributions	(806,634)	(806,634)	-
Contributions - employee	-	301,444	(301,444)
Contributions - employer	-	754,463	(754,463)
Net investment income	-	32,771	(32,771)
Administrative expenses	-	(19,959)	19,959
Other	-	(986)	986
Balances as of December 31, 2015	\$ 26,610,264	\$ 22,468,638	\$ 4,141,626
Plan fiduciary net position as a percentage of the total pension liability:			84.44%
Covered employee payroll:			\$ 4,306,341
Net pension liability as a percentage of covered employee payroll:			96.18%

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)	\$ 7,881,794	\$ 4,141,627	\$ 1,067,683

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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, 2015 to December 31, 2015
Total service cost	\$ 733,800
Interest on total pension liability	1,782,705
Employee contributions (reduction of expenses)	(301,444)
Projected earnings on plan investments (reduction of expenses)	(1,554,528)
Administrative expenses	19,959
Other changes in fiduciary net position	986
Recognition of current year deferred (inflows)/outflows of resources - liabilities	(126,466)
Recognition of current year deferred (inflows)/outflows of resources - assets	304,351
Amortization of prior year deferred (inflows)/outflows of resources - liabilities	(25,214)
Amortization of prior year deferred (inflows)/outflows of resources - assets	53,377
 Total pension expense	 \$ 887,526

Deferred Inflows / Outflows of Resources:

As of December 31, 2015, the deferred inflows and outflows - current and future expenses are as follows:

	Recognition or Amortization Period in Years	Total (Inflow) or Outflow of Resources	Recognized in Current Pension Expense	Deferred (Inflow)/Outflow in Future Expense
Due to Liabilities:				
Differences in expected and actual experience	4.7700	\$ (687,944)	\$ (144,223)	\$ (543,721)
Differences in assumption changes	4.7700	\$ 84,701	17,757	66,944
Due to Assets:				
Difference in projected and actual earnings	5.0000	\$ 1,521,757	\$ 304,351	\$ 1,217,406
Net Deferred Outflows (Inflows) of Resources				\$ 740,629

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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

	Year ended December 31:	
2016		\$ 206,048
2017		206,048
2018		209,290
2109		206,974
2020		-
Thereafter		-
Total		<u>\$ 828,360</u>

B. COST-SHARING MULTIPLE – EMPLOYER

Plan Description:

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

Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2015 there were 197 contributing fire and/or emergency service department members participating in TESRS.

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

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.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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, 2015, the pension system membership consisted of:

Non-participating vested members	21
Active participants	35

Funding Policy:

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

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

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

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

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

Contributions Required and Contributions Made:

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2015, total contributions (dues and prior service, and interest on financing of prior service) of \$40,750 were paid into TESRS by the City.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

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

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

Net Pension Liability:

The City’s net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2015.

Total Pension Liability	\$	939,186
Fiduciary Net Position		722,176
City's Net Pension Liability	\$	217,010
Fiduciary net position as a percentage of the total pension liability		76.9 %

Actuarial Assumptions

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

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

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

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

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32 %	5.2 %
Small cap domestic	10	5.8
Developed international	21	5.5
Emerging markets	6	5.4
Master limited partnerships	5	7.1
Fixed income		
Domestic	21	1.4
International	5	1.6
Cash	-	-
 Total	<u>100 %</u>	
Weighted Average		4.45 %

Discount Rate:

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

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	\$ 379,704	\$ 217,010	\$ 123,258

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT BENEFITS - Continuation

Pension Expense / (Income):

	Year Ended August 31, 2015
Service cost	\$ 13,774
Interest	68,867
Projected earnings on investments	(57,960)
Amortization of differences between projected and actual earnings on plan investments	7,238
Administrative expenses	1,755
Pension expense / (income)	\$ 33,674

Deferred Inflows / Outflows of Resources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Net difference between projected and actual earnings	\$ -	\$ 31,422

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:	
2016	\$ 7,238
2017	7,238
2018	16,946
2019	-
2020	-
Thereafter	-
Total	\$ 31,422

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

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

Plan Description:

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

Funding Policy

The funding requirements of the health plan are established and may be amended by the City of Canyon Commission whose authority has been assigned by Texas Local Government Code Section 157.102. The City funds the cost associated with OPEB on a current “pay as you go” basis for a single fiscal year through an annual appropriation authorized by the Court during the County’s annual budget adoption process. Premiums are determined annually by estimating the amount needed to cover projected claims. The retiree contributes 100% of the total monthly premium prescribed in the current health plan for active employees and their spouse and/or dependents, in excess of \$1,000 per month paid by the City.

Annual OPEB Cost

The City’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the fiscal year ending September 30, 2016, is as follows:

Annual Required Contribution (ARC)	\$ 142,917
Interest on NOO	3,903
Adjustment to ARC	<u>(4,522)</u>
 Annual OPEB Cost	 142,298
Net estimated employer contributions	<u>(68,885)</u>
 Increase in net OPEB obligation	 73,413
Net OPEB obligation - beginning of year	<u>97,574</u>
 Net OPEB obligation - end of year	 <u><u>\$ 170,987</u></u>

The City’s annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2016 and the preceding two fiscal years were as follows:

Continued

**CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2014	\$ 93,042	\$ 74,879	80.5 %	\$ 99,956
September 30, 2015	95,022	97,404	102.5	97,574
September 30, 2016	142,298	68,885	48.4	170,987

Funded Status and Funding Progress

Under the reporting parameters, the City’s retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$1,780,970 at October 1, 2015. The covered payroll (annual payroll of active employees, for the fiscal year ended September 30, 2016, covered by the plan) was \$3,381,263. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 52.67%.

Actuarial Methods and Assumptions

The Individual Entry Age Normal Cost Method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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

Significant methods and assumptions were as follows:

Actuarial method	Projected unit cost method
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 individual's service between date of hire and date of expected termination.
Discount rate	4.00% (1.00% of real rate of return plus 3.00% inflation)
Health care cost trend	Level 5.00% applied to both retiree premiums and employee contributions
Mortality	RP-2014 Total Table with Projection MP-2015 Fully
Salary scale	3.00%
Retirement rates	Rates vary by age, with an average retirement age of 60
Retiree contributions	The monthly cost of the plan selected in excess of \$1,000 per month paid by the City

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

Additional Disclosures

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

NOTE 10 – COMPONENT UNIT TRANSACTIONS

CEDC Commitments:

During the fiscal year ended September 30, 2014 the Canyon Economic Development Corporation committed funding in an amount not to exceed \$52,500 to Blue Bison Investments, LLC for renovations of a retail location at 410 15th Street. Reimbursements for supplies and labor costs will occur quarterly over an estimated renovation phase of twelve to eighteen months. As of September 30, 2016, the remaining commitment is \$500.

Continued

CITY OF CANYON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10 – COMPONENT UNIT TRANSACTIONS – Continuation

CEDC Commitments: – Continuation

During the fiscal year ended September 30, 2015, the Canyon Economic Development Corporation committed an amount not to exceed \$9,240 to Blush Boutique located at 314 16th Street. \$3,450 of the committed funds is to provide a lease subsidy for one year only. The remaining \$5,790 will be available for marketing assistance which is to be used on or before December 31, 2016. As of September 30, 2016, the remaining commitment is \$1,924 to be used for marketing assistance.

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, 2016 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, 2016, none of this commitment has been funded.

During the fiscal year ended September 30, 2016 the Canyon Economic Development Corporation committed funding in an amount not to exceed \$3,500 to the Kesler family for renovations to the front façade/exterior of a retail location at 404 15th Street. Reimbursements for supplies and labor costs will be made once the project is complete. As of September 30, 2016 none of this commitment has been funded.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CANYON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ 2,341,500	\$ 2,341,500	\$ 2,369,618	\$ 28,118
Sales	1,900,000	1,900,000	2,055,503	155,503
Franchise	690,000	690,000	621,695	(68,305)
Mixed beverage	11,000	11,000	11,055	55
Licenses and fees	80,000	80,000	186,774	106,774
Fines and forfeitures	329,100	329,100	326,281	(2,819)
Intergovernmental	511,878	511,878	519,665	7,787
Charges for services	1,616,900	1,616,900	1,733,312	116,412
Interest earnings	3,500	3,500	6,861	3,361
Miscellaneous	52,202	52,202	173,645	121,443
	<u>7,536,080</u>	<u>7,536,080</u>	<u>8,004,409</u>	<u>468,329</u>
Total revenues				
EXPENDITURES				
Current:				
General government:	987,121	987,121	936,131	50,990
Public safety	3,580,746	3,580,746	3,637,283	(56,537)
Highways and streets	1,064,497	1,064,497	547,522	516,975
Culture and recreation	1,256,428	1,256,428	1,271,441	(15,013)
Conservation and development	221,769	221,769	207,737	14,032
Sanitation	1,070,865	1,070,865	1,117,772	(46,907)
Debt Service:				
Principal	47,000	47,000	49,332	(2,332)
Interest and other charges	-	-	636	(636)
Capital outlay	482,988	482,988	1,147,276	(664,288)
	<u>8,711,414</u>	<u>8,711,414</u>	<u>8,915,130</u>	<u>(203,716)</u>
Total expenditures				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(1,175,334)</u>	<u>(1,175,334)</u>	<u>(910,721)</u>	<u>264,613</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	17,455	17,455
Transfers in	1,175,334	1,175,334	-	(1,175,334)
	<u>1,175,334</u>	<u>1,175,334</u>	<u>17,455</u>	<u>(1,157,879)</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCE	-	-	(893,266)	(893,266)
FUND BALANCES - BEGINNING	<u>1,579,165</u>	<u>1,579,165</u>	<u>1,579,165</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,579,165</u>	<u>\$ 1,579,165</u>	<u>\$ 685,899</u>	<u>\$ (893,266)</u>

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

	Year Ended December 31,			
	2015	2014	2013	2012
Total Pension Liability:				
Service cost	\$ 733,800	\$ 620,244	\$ N/A	\$ N/A
Interest on total pension liability	1,782,705	1,683,447	N/A	N/A
Changes of benefit terms	-	-	N/A	N/A
Difference between expected and actual experience	(687,944)	(122,826)	N/A	N/A
Changes of assumptions	84,701	-	N/A	N/A
Benefit payments/refunds of contributions	(806,634)	(832,709)	N/A	N/A
Net change in total pension liability	1,106,628	1,348,156	N/A	N/A
Total pension liability, beginning	25,503,636	24,155,480	N/A	N/A
Total pension liability, ending (a)	<u>\$ 26,610,264</u>	<u>\$ 25,503,636</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary Net Position:				
Employer contributions	\$ 754,463	\$ 714,632	\$ N/A	\$ N/A
Employee contributions	301,444	282,946	N/A	N/A
Net investment income	32,771	1,193,503	N/A	N/A
Benefit payments/refunds of contributions	(806,634)	(832,709)	N/A	N/A
Administrative expenses	(19,959)	(12,460)	N/A	N/A
Other	(986)	(1,024)	N/A	N/A
Net change in fiduciary net position	261,099	1,344,888	N/A	N/A
Fiduciary net position, beginning	22,207,539	20,862,651	N/A	N/A
Fiduciary net position, ending (b)	<u>\$ 22,468,638</u>	<u>\$ 22,207,539</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 4,141,626</u>	<u>\$ 3,296,097</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position as a % of total pension liability	84.44%	87.08%	N/A	N/A
Pensionable covered payroll	\$ 4,306,341	\$ 4,042,081	\$ N/A	\$ N/A
Net pension liability as a % of covered payroll	96.18%	81.54%	N/A	N/A

**CITY OF CANYON, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years**

Year Ending December 31:	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2006	Not Available	Not Available	Not Available	Not Available	Not Available
2007	Not Available	Not Available	Not Available	Not Available	Not Available
2008	Not Available	Not Available	Not Available	Not Available	Not Available
2009	Not Available	Not Available	Not Available	Not Available	Not Available
2010	Not Available	Not Available	Not Available	Not Available	Not Available
2011	Not Available	Not Available	Not Available	Not Available	Not Available
2012	Not Available	Not Available	Not Available	Not Available	Not Available
2013	Not Available	Not Available	Not Available	Not Available	Not Available
2014	\$ 754,529	\$ 754,529	\$ -	\$ 4,042,081	18.7%
2015	775,860	775,860	-	4,306,341	18.0%

Following are the key assumptions and methods used in this GASB analysis.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 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	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 Fiscal Years (will ultimately be displayed as available)

	Year Ended August 31,			
	2015	2014	2013	2012
Total Pension Liability:				
Service cost	\$ 13,774	\$ 15,498	\$ N/A	\$ N/A
Interest	68,867	68,275	N/A	N/A
Changes in benefit terms	-	-	N/A	N/A
Differences between expected and actual	-	-	N/A	N/A
Assumption changes	-	-	N/A	N/A
Benefit payments	(36,575)	(35,346)	N/A	N/A
Change in allocation percentage	(38,449)	-	N/A	N/A
	<u>7,617</u>	<u>48,427</u>	<u>N/A</u>	<u>N/A</u>
Net change in total pension liability				
Total pension liability, beginning	931,569	883,142	N/A	N/A
	<u>\$ 939,186</u>	<u>\$ 931,569</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary Net Position:				
Employer contributions	\$ 28,581	\$ 35,418	\$ N/A	\$ N/A
State contributions	13,311	12,977	N/A	N/A
Net investment income	(26,771)	100,983	N/A	N/A
Benefit payments	(36,575)	(35,346)	N/A	N/A
Plan administrative expenses	(1,755)	(1,405)	N/A	N/A
Other	-	-	N/A	N/A
Change in allocation percentage	(32,088)	-	N/A	N/A
	<u>(55,297)</u>	<u>112,627</u>	<u>N/A</u>	<u>N/A</u>
Net change in fiduciary net position				
Fiduciary net position, beginning	777,473	664,846	N/A	N/A
	<u>\$ 722,176</u>	<u>\$ 777,473</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position, ending (b)				
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 217,010</u>	<u>\$ 154,096</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Fiduciary net position as a % of total pension liability	76.9%	83.5%	N/A	N/A
Number of active members	35	32	N/A	N/A
Net pension liability per active member	\$ 6,200	\$ 4,815	\$ N/A	\$ N/A

CITY OF CANYON, TEXAS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

<u>Year Ending August 31:</u>	<u>Annual Money- Weighted Net Real Rate of Return</u>
2006	Not Available
2007	Not Available
2008	Not Available
2009	Not Available
2010	Not Available
2011	Not Available
2012	Not Available
2013	13.84 %
2014	14.92 %
2015	(3.58) %

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 LEAGUE
 INTERGOVERNMENTAL EMPLOYEE BENEFIT POOL
 OTHER POST EMPLOYMENT BENEFIT OBLIGATION
 SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]		
10/1/2012	\$ -	\$ 978,970	\$ 978,970	-	%	\$ unavailable	-	%
10/1/2014	-	1,024,425	1,024,425	-	unavailable	-		
10/1/2016	-	1,780,970	1,780,970	-	3,381,263	52.67		

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



COMBINING STATEMENTS AS SUPPLEMENTARY INFORMATION

Non-major Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

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
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016

<u>Special Revenue</u>										
	<u>Municipal Court Technology</u>	<u>Municipal Court Security</u>	<u>D-FY-IT Program</u>	<u>Emergency Management</u>	<u>LEOSE</u>	<u>Library Gifts & Memorials</u>	<u>Board of City Development (Hotel/Motel)</u>	<u>Total</u>	<u>Debt Service</u>	<u>Total Non- major Governmental Funds</u>
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ 3,096	\$ 61,357	\$ 11,482	\$ 5,205	\$ 125,110	\$ 206,250	\$ -	\$ 206,250
Taxes receivable, net	-	-	-	-	-	-	20,383	20,383	-	20,383
Due from other funds	13,954	10,927	-	-	-	-	-	24,881	1,394	26,275
Total assets	<u>\$ 13,954</u>	<u>\$ 10,927</u>	<u>\$ 3,096</u>	<u>\$ 61,357</u>	<u>\$ 11,482</u>	<u>\$ 5,205</u>	<u>\$ 145,493</u>	<u>\$ 251,514</u>	<u>\$ 1,394</u>	<u>\$ 252,908</u>
FUND BALANCES										
Restricted:										
By enabling legislation for special projects	13,954	10,927	-	61,357	11,482	-	145,493	243,213	-	243,213
Special projects	-	-	3,096	-	-	5,205	-	8,301	-	8,301
Debt service	-	-	-	-	-	-	-	-	1,394	1,394
Total fund balances	<u>13,954</u>	<u>10,927</u>	<u>3,096</u>	<u>61,357</u>	<u>11,482</u>	<u>5,205</u>	<u>145,493</u>	<u>251,514</u>	<u>1,394</u>	<u>252,908</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,954</u>	<u>\$ 10,927</u>	<u>\$ 3,096</u>	<u>\$ 61,357</u>	<u>\$ 11,482</u>	<u>\$ 5,205</u>	<u>\$ 145,493</u>	<u>\$ 251,514</u>	<u>\$ 1,394</u>	<u>\$ 252,908</u>

CITY OF CANYON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue									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	Debt Service	
REVENUES										
Taxes:										
Hotel/Motel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,005	\$ 212,005	\$ -	\$ 212,005
Licenses and fees	8,046	5,911	-	-	-	-	-	13,957	-	13,957
Intergovernmental	-	-	-	-	1,951	-	-	1,951	-	1,951
Investment earnings	-	-	3	32	6	3	35	79	-	79
Miscellaneous	-	-	-	-	-	1,287	-	1,287	-	1,287
Total revenues	<u>8,046</u>	<u>5,911</u>	<u>3</u>	<u>32</u>	<u>1,957</u>	<u>1,290</u>	<u>212,040</u>	<u>229,279</u>	<u>-</u>	<u>229,279</u>
EXPENDITURES										
Current:										
General government	-	-	1,500	-	-	-	-	-	-	1,500
Judicial	10,190	728	-	-	-	-	-	-	-	10,918
Culture and recreation	-	-	-	-	-	2,602	-	2,602	-	2,602
Public safety	-	-	-	3,328	1,519	-	-	4,847	-	4,847
Public services	-	-	-	-	-	-	151,016	151,016	-	151,016
Total expenditures	<u>10,190</u>	<u>728</u>	<u>1,500</u>	<u>3,328</u>	<u>1,519</u>	<u>2,602</u>	<u>151,016</u>	<u>158,465</u>	<u>-</u>	<u>170,883</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,144)</u>	<u>5,183</u>	<u>(1,497)</u>	<u>(3,296)</u>	<u>438</u>	<u>(1,312)</u>	<u>61,024</u>	<u>58,396</u>	<u>-</u>	<u>58,396</u>
OTHER FINANCING SOURCES										
Premium on bonds issued	-	-	-	-	-	-	-	-	1,394	1,394
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,394</u>	<u>1,394</u>
NET CHANGE IN FUND BALANCES	<u>(2,144)</u>	<u>5,183</u>	<u>(1,497)</u>	<u>(3,296)</u>	<u>438</u>	<u>(1,312)</u>	<u>61,024</u>	<u>58,396</u>	<u>1,394</u>	<u>59,790</u>
FUND BALANCES - BEGINNING	<u>16,098</u>	<u>5,744</u>	<u>4,593</u>	<u>64,653</u>	<u>11,044</u>	<u>6,517</u>	<u>84,469</u>	<u>193,118</u>	<u>-</u>	<u>193,118</u>
FUND BALANCES - ENDING	<u>\$ 13,954</u>	<u>\$ 10,927</u>	<u>\$ 3,096</u>	<u>\$ 61,357</u>	<u>\$ 11,482</u>	<u>\$ 5,205</u>	<u>\$ 145,493</u>	<u>\$ 251,514</u>	<u>\$ 1,394</u>	<u>\$ 252,908</u>

COMPLIANCE AND INTERNAL CONTROL



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the City of Canyon, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 17, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

DOSHIER, PICKENS & FRANCIS, LLC

March 17, 2017