

CITY OF CANADIAN
CANADIAN, TEXAS
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT
YEAR ENDED SEPTEMBER 30, 2018

INTRODUCTORY SECTION

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CITY OF CANADIAN
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2018

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CITY OF CANADIAN
ROSTER OF ELECTED AND APPOINTED OFFICIALS
September 30, 2018

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member

Rob Talley
Jonathan Frederick
Blake Beedy
Joe Schaeff
Wendie Cook
Gary Prater

Appointed Officials

City Manager
City Secretary

Joe Jarosek
Kimberly Sloat

FINANCIAL SECTION

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BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 67 • Spearman, Texas 79081 • 806-659-2538

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Rob Talley and
Members of the City Council
City of Canadian

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018, the respective changes in financial position, the respective budgetary comparison for the General Fund and the major special revenue fund, 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 management's discussion and analysis on pages 5-11 and the pension schedules and related notes on pages 65-68 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying *Introductory Section* and *Supplementary Information* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *Supplementary Information* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 *Supplementary Information* as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The *Introductory Section* has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

Brown, Graham, & Company, P.C.

Spearman, Texas
March 18, 2019

Management's Discussion and Analysis

As city manager of the City of Canadian, Texas (the City), I offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. I encourage readers to consider the information presented here in conjunction with the financial statements of the City and additional information provided. The *Independent Auditor's Report* is on Page 3 and the basic financial statements begin on page 14.

BACKGROUND INFORMATION

The City of Canadian was incorporated in 1908, under Title 28 of the Statutes of the State of Texas. The City operates under a council-manager form of government and provides the services of public safety (code enforcement and fire), streets, culture and recreation, public works, planning and zoning, promotion and tourism, water, sewer, solid waste disposal, a golf course and various general services.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11,605,717 (*net position*). Of this amount, \$4,710,805 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors. This represents approximately 133 percent of the City's annual government-wide expenses.
- The City's total net position increased \$327,942. The increase is comparable to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,966,097 or 272 percent of total general fund expenditures.
- The assets and deferred outflows of resources of the enterprise funds (Water and Sewer, Sanitation and the Golf Course) exceed their liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,396,143 (*net position*). The enterprise funds' total net position increased \$279,554.
- In accordance with GASB 68 – *Accounting and Financial Reporting for Pensions*, the City has recorded a net pension liability of \$1,045,535 at September 30, 2017.
- The City implemented GASB 75 – *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, this year. This resulted in the City recording a total Other Post Employment Benefit (OPEB) liability of \$56,326. A prior period adjustment of \$48,340 was recorded to net position for the OPEB liability at the beginning of the year.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business (accrual basis). The *government-wide financial statements*, exhibits A-1 and A-2, include the *statement of net position* and the *statement of activities*. These statements present a long-term view of the City's financial situation and they reflect the flow of total economic resources of the City.

- The *statement of net position* presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them 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 is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, promotion and tourism, culture and recreation, and economic development. The business-type activities of the City include water and sewer, sanitation and a golf course.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The *fund financial statements*, beginning on page 18, report the City's operations in greater detail than the *government-wide statements*. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. The effect is that long-term assets and liabilities are not reported on the fund financial statements. Such information may be useful in evaluating a government's near-term financing requirements. They also serve as the basis for tax levies and the appropriation of budgets.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations can be viewed on pages 19 and 21.

The City maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Hotel/Motel Occupancy Tax Fund, and the Debt Service Fund, which are considered to be major funds as defined by GASB Statement Nos. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34) and 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34* (GASB 37), or as designated by City management.

The City adopts an annual appropriated budget for its general fund and special revenue fund. Budgetary comparison statements have been provided for these budgeted funds beginning at page 22 to demonstrate compliance with the budget.

- **Proprietary Funds:** These are also known as business-type funds. The focus for proprietary funds is on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Proprietary funds are used for activities similar to those found in the private sector. The proprietary fund statements (Exhibits D-1, D-2 and D-3) report the revenues and expenses of providing utilities (water and sewer), solid waste disposal (sanitation) and golf. These Funds account for activities that the City charges fees to users for goods and services. Generally, fees are set high enough to cover most or all of the costs of providing the goods and services.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-62 of this report.

Other information: Information about the City's pension plan, OPEB plan and cash deposits can be found on pages 65-71.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position and the Statement of Activities

The primary purpose of the *government-wide financial statements* is to report whether the City's financial condition has improved or worsened as a result of the year's activities and to report the resources available for future needs. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Other factors such as changes in the City's property tax base, strength of the local economy, utility rates and the condition of facilities must also be considered. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,605,717 at the close of the most recent fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The largest portion of the City's net position (54 percent) reflects the net position of the governmental activities, while 57 percent of net position represents the City's investment in capital assets (e.g., land, buildings, equipment, furnishings, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$4,710,805 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for the government as a whole. The same situation held true for the prior fiscal year.

Net position of the City is presented in the table below:

CITY OF CANADIAN Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 4,415,259	\$ 4,228,638	\$ 1,878,074	\$ 2,303,974	\$ 6,293,333	\$ 6,532,612
Capital assets, net of accumulated depreciation	2,820,764	2,978,884	7,434,834	6,940,538	10,255,598	9,919,422
Total Assets	<u>7,236,023</u>	<u>7,207,522</u>	<u>9,312,908</u>	<u>9,244,512</u>	<u>16,548,931</u>	<u>16,452,034</u>
Deferred outflows of resources	84,390	141,405	72,402	127,665	156,792	269,070
Total assets & deferred outflows of resources	<u>7,320,413</u>	<u>7,348,927</u>	<u>9,385,310</u>	<u>9,372,177</u>	<u>16,705,723</u>	<u>16,721,104</u>
Other liabilities	32,202	6,073	100,507	92,875	132,709	98,948
Long-term liabilities	434,230	504,957	3,335,799	3,552,929	3,770,029	4,057,886
Net pension liability	562,740	650,689	482,795	587,466	1,045,535	1,238,155
OPEB liability	30,316	-	26,010	-	56,326	-
Total liabilities	<u>1,059,488</u>	<u>1,161,719</u>	<u>3,945,111</u>	<u>4,233,270</u>	<u>5,004,599</u>	<u>5,394,989</u>
Deferred inflows of resources	51,351	-	44,056	-	95,407	-
Total liabilities & deferred inflows of resources	<u>1,110,839</u>	<u>1,161,719</u>	<u>3,989,167</u>	<u>4,233,270</u>	<u>5,100,006</u>	<u>5,394,989</u>
Net position:						
Net investment in capital assets	2,431,762	2,571,749	4,089,798	3,377,769	6,521,560	5,949,518
Restricted:						
Promotion and tourism	373,352	391,277	-	-	373,352	391,277
Unrestricted	3,404,460	3,224,182	1,306,345	1,761,138	4,710,805	4,985,320
Total net position	<u>\$ 6,209,574</u>	<u>\$ 6,187,208</u>	<u>\$ 5,396,143</u>	<u>\$ 5,138,907</u>	<u>\$ 11,605,717</u>	<u>\$ 11,326,115</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The cost of all governmental activities was \$1,823,042 in 2018 as compared to \$1,812,424 in 2017. However, as shown in the *statement of activities* on pages 16 and 17, the amount that our taxpayers ultimately financed for these activities through City property and sales taxes was only \$1,522,327 because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Governmental activities increased the City's net position by \$72,686 before transfers. This is slightly higher than in the prior year, primarily due to increases in charges for services.

Key elements of the changes in net position are as follows:

CITY OF CANADIAN Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 79,735	\$ 45,490	\$ 1,686,736	\$ 1,743,927	\$ 1,766,471	\$ 1,789,417
Operating grants and contributions	-	-	258,000	258,000	258,000	258,000
Capital grants and contributions	1,000	-	5,450	-	6,450	-
General revenues:						
Property taxes	886,296	901,251	-	-	886,296	901,251
Other taxes	783,867	772,336	18,161	-	802,028	772,336
Other revenues	144,830	135,566	24,000	26,618	168,830	162,184
Total revenues	<u>1,895,728</u>	<u>1,854,643</u>	<u>1,992,347</u>	<u>2,028,545</u>	<u>3,888,075</u>	<u>3,883,188</u>
Expenses:						
General government	464,743	465,950	-	-	464,743	465,950
Public safety	52,585	48,676	-	-	52,585	48,676
Public works	139,526	331,974	-	-	139,526	331,974
Highways and streets	499,122	344,369	-	-	499,122	344,369
Culture and recreation	98,279	107,989	-	-	98,279	107,989
Support services	358,728	283,986	-	-	358,728	283,986
Promotion and tourism	190,934	207,380	-	-	190,934	207,380
Interest on long-term debt	19,125	22,100	135,830	94,536	154,955	116,636
Water and sewer	-	-	856,053	811,708	856,053	811,708
Utility administration	-	-	57,987	77,684	57,987	77,684
Sanitation	-	-	478,651	545,462	478,651	545,462
Golf course	-	-	208,570	203,845	208,570	203,845
Total expenses	<u>1,823,042</u>	<u>1,812,424</u>	<u>1,737,091</u>	<u>1,733,235</u>	<u>3,560,133</u>	<u>3,545,659</u>
Increase (decrease) in net position before transfers	72,686	42,219	255,256	295,310	327,942	337,529
Transfers in (out)	<u>(24,298)</u>	<u>56,350</u>	<u>24,298</u>	<u>(56,350)</u>	<u>-</u>	<u>-</u>
Change in net position	48,388	98,569	279,554	238,960	327,942	337,529
Net position - beginning, as previously reported	6,187,208	6,088,639	5,138,907	4,899,947	11,326,115	10,988,586
Prior period adjustment	<u>(26,022)</u>	<u>-</u>	<u>(22,318)</u>	<u>-</u>	<u>(48,340)</u>	<u>-</u>
Net position - beginning as restated	<u>6,161,186</u>	<u>6,088,639</u>	<u>5,116,589</u>	<u>4,899,947</u>	<u>11,277,775</u>	<u>10,988,586</u>
Net position - ending	<u>\$ 6,209,574</u>	<u>\$ 6,187,208</u>	<u>\$ 5,396,143</u>	<u>\$ 5,138,907</u>	<u>\$ 11,605,717</u>	<u>\$ 11,326,115</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The costliest functions of the governmental activities relate to general government, highways and streets, and support services. It costs the City \$1,322,593 (73 percent of total governmental activity expenses) to provide these services, while direct charges for these services to citizens and others only amounts to \$3,486. The net expense of these functions must be subsidized by the taxpayers. The business-type activities operations were comparable to the prior year and they increased net position of the City by \$255,256 before transfers during the year ended September 30, 2018. This is a slightly lower than the \$295,310 increase in the prior year but still very comparable.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The City's governmental funds include the General Fund, the Hotel/Motel Occupancy Tax Fund (special revenue) and the Debt Service Fund.

As of the end of the current fiscal year, the City's governmental funds reported ending fund balance of \$4,348,400 an increase of \$154,066 in comparison with the prior year. Approximately 92 percent of this total amount, \$3,964,885 constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$3,976,260 of which, \$3,966,097 is *unassigned*. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. *Unassigned* and *total fund balance* represents 272 percent of total general fund expenditures. A general rule of thumb is for governments to maintain *unassigned fund balance* in the range of 30 to 100 percent of annual general fund expenditures, however governments often accumulate higher percentages in anticipation of major projects. The fund balance of the City's general fund increased \$173,890 during the current fiscal year.

BUDGETARY HIGHLIGHTS

Budgets reflect the same pattern as seen in the revenue and expenditures of the City. To enhance the process of developing a budget, the City utilizes goals and objectives defined by the mayor and city council, community input, long-term plans and input from various staff groups. City priorities are well defined through this process.

GASBs 34 and 37 do not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

The General Fund, Hotel/Motel Occupancy Tax Fund and Debt Service Fund are considered major budgetary funds based on criteria defined in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* or as determined by management.

The following table examines the summary budget performance of the budgeted funds for the fiscal year ending September 30, 2018. Detailed budget performance is examined through the Budgetary Comparison Statements at exhibits C-1 and C-2.

CITY OF CANADIAN Funds Expenditure Budget Performance

	Final Budget	Actual Amounts Budgetary Basis	Variance
General Fund	\$ 1,457,240	\$ 1,457,206	\$ 34
Hotel/Motel Occupancy Tax Fund	159,962	159,962	-

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The major differences between the original budget and the final amended budget of the general fund are briefly summarized as follows:

- \$88,506 in increases to revenues
- \$44,509 in decreases to various contractual services
- \$43,980 in decreases to personnel
- \$41,070 in decreases to maintenance

There was also a \$171,038 decrease in the Occupancy Tax Fund budget which is primarily decreased maintenance. Occupancy tax fund budgeted revenues also decreased \$182,695 due to a significant slow down in oil field activity in the area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets: The City's investment in capital assets for business-type activities and governmental activities as of September 30, 2018, amounts to \$4,089,798 and \$2,483,629, respectively (net of accumulated depreciation and debt related to the financing of the capital assets). This investment in capital assets includes the following:

CITY OF CANADIAN Capital Assets, Net of Accumulated Depreciation

	Business-type Activities		Governmental Activities	
	2018	2017	2018	2017
Buildings and improvements	\$ 833,932	\$ 796,038	\$ 5,189,001	\$ 5,189,001
Furniture and fixtures	3,640	3,640	59,785	59,785
Machinery and equipment	1,195,041	1,183,426	714,126	692,056
Transportation equipment	874,202	874,202	521,088	521,088
Infrastructure	10,411,750	4,166,290	-	-
Construction-in-progress	25,772	5,473,609	36,700	-
Land	32,464	32,464	75,000	75,000
Total, at cost	13,376,801	12,529,669	6,595,700	6,536,930
Accumulated depreciation	(5,941,967)	(5,589,131)	(3,774,936)	(3,558,046)
 Total capital assets, net of accumulated depreciation	 \$ 7,434,834	 \$ 6,940,538	 \$ 2,820,764	 \$ 2,978,884

Major capital asset events during the current fiscal year included:

Water and Sewer	
Waste water treatment plant	\$ 771,851
Golf Course	
Water Well	\$ 37,894

Additional information on the City's capital assets can be found in Note 5 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-term debt: At the end of the current fiscal year, the business-type activities and governmental activities of the City had total long-term debt outstanding of \$3,335,799 and \$434,230, respectively. \$415,000 of long-term debt in the governmental activities is secured by pledged property tax revenues.

	CITY OF CANADIAN			
	Outstanding Debt			
	Business-type Activities		Governmental Activities	
	2018	2017	2018	2017
Long-term debt:				
Certificates of obligation, 2008 Series	\$ -	\$ -	\$ 415,000	\$ 485,000
Certificates of obligation, 2010 Series	3,320,000	3,530,000	-	-
Lease payable	750	9,558	-	-
Accrued compensated Absences	15,049	13,371	19,230	19,957
Total long-term debt	<u>\$ 3,335,799</u>	<u>\$ 3,552,929</u>	<u>\$ 434,230</u>	<u>\$ 504,957</u>

Additional information on the City's long-term debt can be found in Note 7 of this report. Information on the City's landfill closure and post closure care costs can be found in Note 16.

POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) ACCOUNTING AND REPORTING

The City implemented Governmental Accounting Standards Board (GASB) Statement number 75 in the accompanying financial statements. This new GASB statement significantly changed how governmental entities account for and report OPEB activity. The notes to the financial statements have a detailed discussion of the impact on the City's financial statements, including a prior period adjustment to the City's net position that decreased it by \$48,340. Additional information on the City's OPEB plan can be found in Note 13 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials consider many factors when adopting budgets and setting tax rates. Chief among those factors is the local economy. The economy of the City has been hit hard by decreases in oil and gas activity in the area over the past four years but it seems to have stabilized somewhat. Sales tax collections were up slightly compared to the prior year but occupancy tax revenues continue to decrease. The City's efforts at economic development have helped to diversify the economy of the City and this has helped soften the blow from slide in the oil and gas industry.

These and other factors are taken into account during the budgeting process. For the fiscal year ending September 30, 2019, the City has budgeted \$1,651,121 of revenues in the General Fund that will be available for appropriation, a decrease of 1% percent over the final 2017-2018 budget of \$1,652,929. The City will use its revenues to finance programs we currently offer. The City has not added or subtracted any major programs or initiatives in its 2018-2019 budget.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase \$68,991 at the close of the 2018-2019 fiscal year. In the event of any national, state, economic, or natural catastrophe, management will adjust and maintain necessary services while cutting expenditures and capital projects.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager at the City of Canadian, 6 Main Street, Canadian, Texas 79014.

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**BASIC
FINANCIAL STATEMENTS**

CITY OF CANADIAN
STATEMENT OF NET POSITION
September 30, 2018

Exhibit A-1
Page 1 of 2

	Primary Government			Component Unit
	Governmental	Business-type		Economic
	Activities	Activities	Total	Development
				Corporation
Assets				
Cash and temporary investments	\$ 4,234,066	\$ 1,686,600	\$ 5,920,666	\$ 718,817
Receivables, net of allowance for uncollectibles	145,032	122,617	267,649	20,896
Due from primary government	-	-	-	24,444
Inventory	10,163	68,857	79,020	-
Restricted cash	25,998	-	25,998	-
Capital assets, net of accumulated depreciation	2,820,764	7,434,834	10,255,598	28,260
Total assets	7,236,023	9,312,908	16,548,931	792,417
Deferred outflows of resources				
Differences between expected and actual experience on pension plan	14,871	12,758	27,629	-
Changes in assumptions on pension plan	6,865	5,890	12,755	-
Pension contributions subsequent to the measurement date	59,928	51,415	111,343	-
Changes in assumptions on OPEB plan	2,137	1,833	3,970	-
OPEB contributions subsequent to the measurement date	589	506	1,095	-
Total deferred outflows of resources	84,390	72,402	156,792	-
Total assets and deferred outflows of resources	\$ 7,320,413	\$ 9,385,310	\$ 16,705,723	\$ 792,417

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF NET POSITION
September 30, 2018

Exhibit A-1
Page 2 of 2

	Primary Government			Component Unit
	Governmental	Business-type		Economic
	Activities	Activities	Total	Development
				Corporation
Liabilities				
Accounts payable	\$ 7,194	\$ 19,089	\$ 26,283	\$ 6,497
Accrued expenses	564	7,019	7,583	5,415
Utility deposits	-	50,113	50,113	-
Accrued interest on long-term debt	-	24,286	24,286	-
Due to component unit	24,444	-	24,444	-
Long-term debt:				
Due within one year	75,000	220,750	295,750	-
Due in more than one year	359,230	3,115,049	3,474,279	-
Net pension liability	562,740	482,795	1,045,535	-
OPEB liability	30,316	26,010	56,326	-
Total liabilities	1,059,488	3,945,111	5,004,599	11,912
Deferred inflows of resources				
Differences between projected and actual earnings on pension plan	51,351	44,056	95,407	-
Net position				
Net investment in capital assets	2,431,762	4,089,798	6,521,560	28,260
Restricted:				
Promotion and tourism	373,352	-	373,352	-
Unrestricted	3,404,460	1,306,345	4,710,805	752,245
Total net position	6,209,574	5,396,143	11,605,717	780,505
Total liabilities, deferred inflows of resources and net position	\$ 7,320,413	\$ 9,385,310	\$ 16,705,723	\$ 792,417

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 464,743	\$ 3,486	\$ -	\$ -
Public safety	52,585	562	-	1,000
Public works	139,526	63,091	-	-
Highways and streets	499,122	-	-	-
Culture and recreation	98,279	12,596	-	-
Support services	358,728	-	-	-
Promotion and tourism	190,934	-	-	-
Interest on long-term debt	19,125	-	-	-
Total governmental activities	<u>1,823,042</u>	<u>79,735</u>	<u>-</u>	<u>1,000</u>
Business-type activities:				
Water and sewer	856,053	984,581	250,000	-
Utility administration	57,987	-	-	-
Sanitation	478,651	577,935	-	5,450
Golf Course	208,570	124,220	8,000	-
Interest on long-term debt	135,830	-	-	-
Total business-type activities	<u>1,737,091</u>	<u>1,686,736</u>	<u>258,000</u>	<u>5,450</u>
Total Primary Government	<u>\$ 3,560,133</u>	<u>\$ 1,766,471</u>	<u>\$ 258,000</u>	<u>\$ 6,450</u>
Component unit:				
Economic Development Corporation	<u>\$ 473,038</u>	<u>\$ 30,720</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property tax
Sales tax
Occupancy tax
Franchise fees
Other tax
Royalties and rents
Unrestricted investment earnings
Gain (loss) on disposal of assets
Transfers in (out)
Total general revenues and transfers
Change in net position

Net position - beginning, as previously reported
Prior period adjustment

Net position - beginning as restated

Net position - ending

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ (461,257)	\$ -	\$ (461,257)	\$ -
(51,023)	-	(51,023)	-
(76,435)	-	(76,435)	-
(499,122)	-	(499,122)	-
(85,683)	-	(85,683)	-
(358,728)	-	(358,728)	-
(190,934)	-	(190,934)	-
(19,125)	-	(19,125)	-
<u>(1,742,307)</u>	<u>-</u>	<u>(1,742,307)</u>	<u>-</u>
-	378,528	378,528	-
-	(57,987)	(57,987)	-
-	104,734	104,734	-
-	(76,350)	(76,350)	-
-	(135,830)	(135,830)	-
<u>-</u>	<u>213,095</u>	<u>213,095</u>	<u>-</u>
<u>(1,742,307)</u>	<u>213,095</u>	<u>(1,529,212)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(442,318)</u>
886,296	-	886,296	-
636,031	-	636,031	211,941
142,037	-	142,037	-
130,347	-	130,347	-
5,799	18,161	23,960	-
2,185	24,000	26,185	-
12,298	-	12,298	1,311
-	-	-	(15,105)
<u>(24,298)</u>	<u>24,298</u>	<u>-</u>	<u>-</u>
<u>1,790,695</u>	<u>66,459</u>	<u>1,857,154</u>	<u>198,147</u>
<u>48,388</u>	<u>279,554</u>	<u>327,942</u>	<u>(244,171)</u>
6,187,208	5,138,907	11,326,115	1,024,676
<u>(26,022)</u>	<u>(22,318)</u>	<u>(48,340)</u>	<u>-</u>
<u>6,161,186</u>	<u>5,116,589</u>	<u>11,277,775</u>	<u>1,024,676</u>
<u>\$ 6,209,574</u>	<u>\$ 5,396,143</u>	<u>\$ 11,605,717</u>	<u>\$ 780,505</u>

**CITY OF CANADIAN
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018**

Exhibit B-1

	General Fund	Special Revenue Fund Hotel/Motel Occupancy Tax Fund	Debt Service Fund	Total Governmental Funds
Assets				
Cash and temporary investments	\$ 3,881,414	\$ 352,652	\$ -	\$ 4,234,066
Receivables, net of allowance for uncollectibles	120,538	21,077	3,417	145,032
Due from other funds	1,212	-	-	1,212
Inventory	10,163	-	-	10,163
Restricted cash	25,998	-	-	25,998
Total assets	\$ 4,039,325	\$ 373,729	\$ 3,417	\$ 4,416,471
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	\$ 6,817	\$ 377	\$ -	\$ 7,194
Accrued expenditures	564	-	-	564
Due to other funds	-	-	1,212	1,212
Due to component unit	24,444	-	-	24,444
Total liabilities	31,825	377	1,212	33,414
Deferred inflows of resources:				
Unavailable property taxes	31,240	-	3,417	34,657
Total liabilities and deferred inflows of resources	63,065	377	4,629	68,071
Fund balances:				
Nonspendable:				
Inventory	10,163	-	-	10,163
Restricted:				
Promotion and tourism	-	373,352	-	373,352
Unassigned	3,966,097	-	(1,212)	3,964,885
Total fund balances	3,976,260	373,352	(1,212)	4,348,400
Total liabilities, deferred inflows of resources and fund balances	\$ 4,039,325	\$ 373,729	\$ 3,417	\$ 4,416,471

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2018

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

Total fund balances - governmental funds (page 18)	\$ 4,348,400
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,820,764
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	34,657
Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$562,740, the OPEB liability required by GASB 75 in the amount of \$30,316, deferred resource outflows related to TMRS and OPEB in the amount of \$84,390, and deferred resource inflows related to TMRS and OPEB in the amount of \$51,351. This amounted to a decrease in net position in the amount of \$560,017.	(560,017)
Long-term liabilities, are reported in the Statement of Net Assets, including accrued compensated absences and bonds payable, are not due and payable in the current period and therefore are not reported as liabilities on the fund balance sheets.	<u>(434,230)</u>
Total net position - governmental activities (page 15)	<u>\$ 6,209,574</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2018

Exhibit B-2

	General Fund	Special Revenue Fund Hotel/Motel Occupancy Tax Fund	Debt Service Fund	Total Governmental Funds
Revenues				
Taxes, penalties, and interest	\$ 1,435,474	\$ 142,037	\$ 86,226	\$ 1,663,737
Charges for services	12,596	-	-	12,596
Fees and permits	133,185	-	-	133,185
Grants and donations	1,000	-	-	1,000
Royalties and rents	2,185	-	-	2,185
Interest on temporary investments	12,298	-	-	12,298
Other	64,302	-	-	64,302
Total revenues	1,661,040	142,037	86,226	1,889,303
Expenditures				
Current:				
City council	8,240	-	-	8,240
Administration	405,385	-	-	405,385
Legal	7,437	-	-	7,437
Tax office	33,376	-	-	33,376
Elections	2,018	-	-	2,018
Community service	20,160	-	-	20,160
Fire department	45,878	-	-	45,878
Highways and streets	343,727	-	-	343,727
Public works	130,675	-	-	130,675
Swimming pool	76,878	-	-	76,878
CARE commission	1,241	-	-	1,241
Support services	220,117	-	-	220,117
Maintenance shop	107,950	-	-	107,950
Promotion and tourism	-	159,962	-	159,962
Debt service:				
Principal	-	-	70,000	70,000
Interest	-	-	19,125	19,125
Capital outlay	58,770	-	-	58,770
Total expenditures	1,461,852	159,962	89,125	1,710,939
Excess of revenues over (under) expenditures	199,188	(17,925)	(2,899)	178,364
Other financing sources (uses)				
Operating transfers in (out)	(25,298)	-	1,000	(24,298)
Net change in fund balances	173,890	(17,925)	(1,899)	154,066
Fund balances - beginning	3,802,370	391,277	687	4,194,334
Fund balances - ending	\$ 3,976,260	\$ 373,352	\$ (1,212)	\$ 4,348,400

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

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

Net change in total fund balances - governmental funds (page 20)	\$	154,066
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense and the remaining basis on assets sold is offset against sales proceeds to report gain or loss on the sale.

Capital outlay		58,770
Depreciation		(216,890)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Property taxes		6,426
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GASB 68 and GASB 75 require that certain expenditures be de-expended and recorded as deferred resource outflows and inflows. The City recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability and the total OPEB liability. This caused an decrease in the change in net position of \$24,711.

		(24,711)
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Proceeds from the issuance of long-term debt are reported as providing current financial resources in governmental funds but are reported as long-term debt in the government wide financial statement and repayments of such debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in government-wide financial statements

Principal payment on long-term debt		70,000
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

		727
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Change in net position of governmental activities (page 17)	\$	48,388
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The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
Revenues			
Taxes, penalties, and interest	\$ 1,363,223	\$ 1,427,757	\$ 1,427,760
Charges for services	9,500	12,596	12,596
Fees and permits	144,000	134,159	134,160
Grants and donations	-	1,000	1,000
Royalties and rents	5,000	2,184	2,185
Interest on temporary investments	10,000	10,931	10,931
Other	32,800	64,302	64,302
Total revenues	<u>1,564,523</u>	<u>1,652,929</u>	<u>1,652,934</u>
Expenditures			
Current:			
City Council			
Supplies and materials	500	50	50
Contractual services	12,550	8,201	8,190
Total city council	<u>13,050</u>	<u>8,251</u>	<u>8,240</u>
Administration			
Personnel services	286,550	266,514	266,506
Supplies and materials	17,500	10,963	10,964
Maintenance of buildings and structures	4,000	590	590
Maintenance of equipment	1,900	1,072	1,072
Contractual services	148,500	127,862	127,867
Total administration	<u>458,450</u>	<u>407,001</u>	<u>406,999</u>
Legal			
Supplies and materials	100	-	-
Contractual services	8,500	7,436	7,437
Total legal	<u>8,600</u>	<u>7,436</u>	<u>7,437</u>
Tax office			
Contractual services	37,000	33,376	33,376
Total tax office	<u>37,000</u>	<u>33,376</u>	<u>33,376</u>
Elections			
Supplies and materials	1,000	360	355
Contractual services	1,500	1,675	1,663
Total elections	<u>2,500</u>	<u>2,035</u>	<u>2,018</u>

The accompanying notes are an integral part of these financial statements

Variance with Final Budget - Favorable/ (Unfavorable)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
\$ 3	\$ 7,714	\$ 1,435,474
-	-	12,596
1	(975)	133,185
-	-	1,000
1	-	2,185
-	1,367	12,298
-	-	64,302
5	8,106	1,661,040
-	-	50
11	-	8,190
11	-	8,240
8	-	266,506
(1)	(292)	10,672
-	-	590
-	-	1,072
(5)	(1,322)	126,545
2	(1,614)	405,385
-	-	-
(1)	-	7,437
(1)	-	7,437
-	-	33,376
-	-	33,376
5	-	355
12	-	1,663
17	-	2,018

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
Expenditures (continued)			
Community service			
Contractual services	14,000	20,159	20,160
Total community service	14,000	20,159	20,160
Fire department			
Personnel services	17,450	24,500	24,501
Supplies and materials	6,050	254	254
Maintenance of equipment	6,500	25	22
Contractual services	41,900	20,940	20,943
Total fire department	71,900	45,719	45,720
Highways and streets			
Personnel services	155,050	151,604	151,608
Supplies and materials	20,900	12,750	12,744
Maintenance of buildings and structures	162,000	127,004	127,005
Maintenance of equipment	12,600	7,273	7,275
Contractual services	21,700	45,317	45,320
Total highways and streets	372,250	343,948	343,952
Public Works			
Personnel services	127,044	119,544	119,548
Supplies and materials	7,900	6,839	6,835
Maintenance of equipment	640	640	632
Contractual services	9,200	3,658	3,660
Total public works	144,784	130,681	130,675
Swimming pool			
Personnel services	35,800	34,593	34,594
Supplies and materials	20,800	16,878	16,870
Maintenance of buildings and structures	2,000	66	66
Maintenance of equipment	5,750	10,551	10,552
Contractual services	17,500	14,838	14,840
Total swimming pool	81,850	76,926	76,922
CARE Commission			
Contractual services	-	-	-
Support services			
Personnel	129,360	113,467	113,472
Supplies and materials	22,750	20,334	20,337
Maintenance of buildings and structures	2,500	2,695	2,696
Maintenance of equipment	9,450	7,375	7,378
Contractual services	86,900	71,279	71,282
Total support services	250,960	215,150	215,165

The accompanying notes are an integral part of these financial statements

Variance with Final Budget - Favorable/ (Unfavorable)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
(1)	-	20,160
(1)	-	20,160
(1)	-	24,501
-	-	254
3	-	22
(3)	158	21,101
(1)	158	45,878
(4)	-	151,608
6	(14)	12,730
(1)	-	127,005
(2)	-	7,275
(3)	(211)	45,109
(4)	(225)	343,727
(4)	-	119,548
4	-	6,835
8	-	632
(2)	-	3,660
6	-	130,675
(1)	(13)	34,581
8	-	16,870
-	-	66
(1)	-	10,552
(2)	(31)	14,809
4	(44)	76,878
-	1,241	1,241
(5)	-	113,472
(3)	2,458	22,795
(1)	-	2,696
(3)	-	7,378
(3)	2,494	73,776
(15)	4,952	220,117

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
Expenditures (continued)			
Maintenance shop			
Personnel	92,640	89,692	89,672
Supplies and materials	16,100	15,981	15,984
Maintenance of buildings and structures	1,500	575	575
Maintenance of equipment	6,500	1,540	1,541
Total maintenance shop	<u>116,740</u>	<u>107,788</u>	<u>107,772</u>
Capital outlay	<u>40,000</u>	<u>58,770</u>	<u>58,770</u>
Total expenditures	<u>1,612,084</u>	<u>1,457,240</u>	<u>1,457,206</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(47,561)</u>	<u>195,689</u>	<u>195,728</u>
Other financing sources (uses)			
Cash used (generated) to balance budget	(8,789)	(225,026)	-
Operating transfers in (out)	<u>56,350</u>	<u>29,337</u>	<u>30,578</u>
Total other financing sources (uses)	<u>47,561</u>	<u>(195,689)</u>	<u>30,578</u>
Net change in fund balances	-	-	226,306
Fund balances - beginning	<u>3,802,370</u>	<u>3,802,370</u>	<u>3,802,370</u>
Fund balances - ending	<u>\$ 3,802,370</u>	<u>\$ 3,802,370</u>	<u>\$ 4,028,676</u>

Explanation of differences:

- (1) The City budgets for revenues and expenditures only to the extent expected to be received and paid (cash basis), rather than on the modified accrual basis.
- Accounts receivable
 - Accounts payable and accrued expenses

The accompanying notes are an integral part of these financial statements

Variance with Final Budget - Favorable/ (Unfavorable)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
20	-	89,672
(3)	178	16,162
-	-	575
(1)	-	1,541
<u>16</u>	<u>178</u>	<u>107,950</u>
-	-	<u>58,770</u>
<u>34</u>	<u>4,646</u>	<u>1,461,852</u>
<u>39</u>	<u>3,460</u>	<u>199,188</u>
225,026	-	-
<u>1,241</u>	<u>(55,876)</u>	<u>(25,298)</u>
<u>226,267</u>	<u>(55,876)</u>	<u>(25,298)</u>
<u>226,306</u>	<u>(52,416)</u>	<u>173,890</u>
<u>3,802,370</u>	<u>-</u>	<u>3,802,370</u>
\$ <u>4,028,676</u>	\$ <u>(52,416)</u> (1)	\$ <u>3,976,260</u>

\$ (48,276)
(4,140)
 \$ (52,416) (1)

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
HOTEL/MOTEL OCCUPANCY TAX - SPECIAL REVENUE FUND
Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
Revenues			
Taxes, penalties, and interest	\$ <u>331,000</u>	\$ <u>148,305</u>	\$ <u>148,305</u>
Expenditures			
Current:			
Promotion and tourism			
Maintenance of buildings and structures	1,000	-	-
Contractual services	<u>330,000</u>	<u>159,962</u>	<u>159,962</u>
Total expenditures	<u>331,000</u>	<u>159,962</u>	<u>159,962</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(11,657)</u>	<u>(11,657)</u>
Other financing sources (uses)			
Cash used (generated) to balance budget	<u>-</u>	<u>11,657</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(11,657)</u>
Fund balances - beginning	<u>391,277</u>	<u>391,277</u>	<u>391,277</u>
Fund balances - ending	\$ <u><u>391,277</u></u>	\$ <u><u>391,277</u></u>	\$ <u><u>379,620</u></u>

Explanation of differences:

- (1) The City budgets for revenues and expenditures only to the extent expected to be received and paid (cash basis), rather than on the modified accrual basis.
Accounts receivable

The accompanying notes are an integral part of these financial statements

Variance with Final Budget - Favorable/ (Unfavorable)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
\$ <u>-</u>	\$ <u>(6,268)</u>	\$ <u>142,037</u>
-	-	-
<u>-</u>	<u>-</u>	<u>159,962</u>
<u>-</u>	<u>-</u>	<u>159,962</u>
-	<u>(6,268)</u>	<u>(17,925)</u>
<u>(11,657)</u>	<u>-</u>	<u>-</u>
(11,657)	(6,268)	(17,925)
<u>391,277</u>	<u>-</u>	<u>391,277</u>
\$ <u><u>379,620</u></u>	\$ <u><u>(6,268) (1)</u></u>	\$ <u><u>373,352</u></u>

\$ (6,268) (1)

CITY OF CANADIAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

Exhibit D-1
Page 1 of 2

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	Totals
Assets				
Current assets:				
Cash and temporary investments	\$ 1,466,846	\$ 219,754	\$ -	\$ 1,686,600
Receivables:				
Accounts, net of allowance for doubtful accounts	75,045	47,548	24	122,617
Inventory	68,638	219	-	68,857
Total current assets	<u>1,610,529</u>	<u>267,521</u>	<u>24</u>	<u>1,878,074</u>
Noncurrent assets:				
Property, plant and equipment, net of accumulated depreciation	<u>7,023,532</u>	<u>316,783</u>	<u>94,519</u>	<u>7,434,834</u>
Total assets	<u>8,634,061</u>	<u>584,304</u>	<u>94,543</u>	<u>9,312,908</u>
Deferred outflows of resources				
Differences in expected and actual experience on pension plan	6,220	5,457	1,081	12,758
Difference in assumption changes on pension plan	2,872	2,519	499	5,890
Pension contributions subsequent to the measurement date	25,067	21,990	4,358	51,415
Changes in assumptions on OPEB Plan	894	784	155	1,833
OPEB contributions subsequent to the measurement date	<u>247</u>	<u>216</u>	<u>43</u>	<u>506</u>
Total deferred outflows of resources	<u>35,300</u>	<u>30,966</u>	<u>6,136</u>	<u>72,402</u>
Total assets and deferred outflows of resources	<u>\$ 8,669,361</u>	<u>\$ 615,270</u>	<u>\$ 100,679</u>	<u>\$ 9,385,310</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

Exhibit D-1
Page 2 of 2

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	Totals
Liabilities				
Current liabilities:				
Accounts payable	\$ 11,916	\$ 4,675	\$ 2,498	\$ 19,089
Accrued expenses	484	3,498	3,037	7,019
Accrued interest payable	24,286	-	-	24,286
Current portion of long-term debt	220,000	-	750	220,750
Total current liabilities	<u>256,686</u>	<u>8,173</u>	<u>6,285</u>	<u>271,144</u>
Long-term liabilities:				
Utility deposits	50,113	-	-	50,113
Compensated absences	2,811	12,238	-	15,049
Long-term debt due in more than one year	3,100,000	-	-	3,100,000
Net pension liability	235,383	206,490	40,922	482,795
OPEB liability	12,681	11,124	2,205	26,010
Total long-term liabilities	<u>3,400,988</u>	<u>229,852</u>	<u>43,127</u>	<u>3,673,967</u>
Total liabilities	<u>3,657,674</u>	<u>238,025</u>	<u>49,412</u>	<u>3,945,111</u>
Deferred inflows of resources				
Differences between projected and actual earnings on pension plan	<u>21,479</u>	<u>18,843</u>	<u>3,734</u>	<u>44,056</u>
Net position				
Net investment in capital assets	3,679,246	316,783	93,769	4,089,798
Unrestricted	<u>1,310,962</u>	<u>41,619</u>	<u>(46,236)</u>	<u>1,306,345</u>
Total net position	<u>4,990,208</u>	<u>358,402</u>	<u>47,533</u>	<u>5,396,143</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,669,361</u>	<u>\$ 615,270</u>	<u>\$ 100,679</u>	<u>\$ 9,385,310</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2018

Exhibit D-2

	Business-Type Activities - Enterprise Funds			Totals
	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	
Operating revenues:				
Water	\$ 538,845	\$ -	\$ -	\$ 538,845
Sewer	445,736	-	-	445,736
Sanitation	-	577,935	-	577,935
Golf course	-	-	124,220	124,220
Total operating revenues	<u>984,581</u>	<u>577,935</u>	<u>124,220</u>	<u>1,686,736</u>
Operating expenses:				
Cost of sales and services:				
Water and sewer	856,053	-	-	856,053
Administration	57,987	-	-	57,987
Sanitation	-	478,651	-	478,651
Golf course	-	-	208,570	208,570
Total operating expenses	<u>914,040</u>	<u>478,651</u>	<u>208,570</u>	<u>1,601,261</u>
Operating income (loss)	<u>70,541</u>	<u>99,284</u>	<u>(84,350)</u>	<u>85,475</u>
Non-operating revenues (expenses):				
Other income	18,161	-	-	18,161
Interest expense	(135,613)	-	(217)	(135,830)
Rents	24,000	-	-	24,000
Grants and donations	250,000	-	13,450	263,450
Total non-operating revenues (expenses)	<u>156,548</u>	<u>-</u>	<u>13,233</u>	<u>169,781</u>
Income (loss) before transfers	227,089	99,284	(71,117)	255,256
Operating transfers in (out)	(43,228)	(27,350)	94,876	24,298
Change in net position	<u>183,861</u>	<u>71,934</u>	<u>23,759</u>	<u>279,554</u>
Net position - beginning, as previously reported	4,817,228	296,015	25,664	5,138,907
Prior period adjustment	(10,881)	(9,547)	(1,890)	(22,318)
	<u>4,806,347</u>	<u>286,468</u>	<u>23,774</u>	<u>5,116,589</u>
Total net position - ending	<u>\$ 4,990,208</u>	<u>\$ 358,402</u>	<u>\$ 47,533</u>	<u>\$ 5,396,143</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2018

Exhibit D-3

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	Totals
Cash flows from operating activities:				
Receipts from customers and users	\$ 980,532	\$ 575,489	\$ 124,220	\$ 1,680,241
Payments to employees	(245,407)	(209,250)	(36,457)	(491,114)
Payments to vendors	(426,948)	(210,795)	(149,211)	(786,954)
Net cash flows from operating activities	<u>308,177</u>	<u>155,444</u>	<u>(61,448)</u>	<u>402,173</u>
Cash flows from non-capital and related financing activities:				
Transfers from (to) other funds, net	(43,228)	(27,350)	94,876	24,298
Other receipts	<u>24,000</u>	<u>-</u>	<u>-</u>	<u>24,000</u>
Net cash flows from non-capital and related financing activities	<u>(19,228)</u>	<u>(27,350)</u>	<u>94,876</u>	<u>48,298</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(803,788)	-	(43,344)	(847,132)
Grants received	250,000	-	13,450	263,450
Principal paid on capital debt	(210,000)	-	(8,808)	(218,808)
Interest paid on capital debt	<u>(134,538)</u>	<u>-</u>	<u>(217)</u>	<u>(134,755)</u>
Net cash flows from capital and related financing activities	<u>(898,326)</u>	<u>-</u>	<u>(38,919)</u>	<u>(937,245)</u>
Cash flows from investing activities:				
Interest received	<u>18,161</u>	<u>-</u>	<u>-</u>	<u>18,161</u>
Net increase (decrease) in cash and temporary investments	(591,216)	128,094	(5,491)	(468,613)
Cash and temporary investments - beginning	<u>2,058,062</u>	<u>91,660</u>	<u>5,491</u>	<u>2,155,213</u>
Cash and temporary investments - ending	<u>\$ 1,466,846</u>	<u>\$ 219,754</u>	<u>\$ -</u>	<u>\$ 1,686,600</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income (loss)	\$ 70,541	\$ 99,284	\$ (84,350)	\$ 85,475
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation and amortization	289,722	48,303	14,811	352,836
(Increase) decrease in:				
Accounts receivable	(2,412)	(2,446)	-	(4,858)
Inventory	(37,792)	(63)	-	(37,855)
Deferred outflows of resources	(23)	(3,550)	(1,376)	(4,949)
Increase (decrease) in:				
Accounts payable	5,954	739	(1,329)	5,364
Accrued expenses	908	563	3,037	4,508
Pension liability	(71,853)	(32,279)	(539)	(104,671)
OPEB liability	1,800	1,577	315	3,692
Deferred inflows of resources	52,969	43,316	7,983	104,268
Utility deposits	<u>(1,637)</u>	<u>-</u>	<u>-</u>	<u>(1,637)</u>
Net cash flows from operating activities	<u>\$ 308,177</u>	<u>\$ 155,444</u>	<u>\$ (61,448)</u>	<u>\$ 402,173</u>

The accompanying notes are an integral part of these financial statements

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CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies

The City of Canadian (the City) was incorporated in 1908 under Title 28 of the Statutes of the State of Texas. The City operates under a council-manager form of government and provides the following services in accordance with its charter: public safety (code enforcement and fire), streets, culture and recreation, public works, planning and zoning, water, sewer, solid waste disposal, a golf course and various general services.

This summary of significant accounting policies of the City is presented to assist in the understanding of the City's financial statements. The financial statements and notes are the representation of the City's management who is responsible for their integrity and objectivity.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. *Financial Reporting Entity*

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth by the GASB in its *Codification of Governmental Accounting and Financial Reporting Standards*. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of these criteria, the City has one component unit, the Canadian-Hemphill County Economic Development Corporation (EDC), and is not a component unit of any other governmental agency. Separate financial statements of the EDC are not available. EDC, a discretely presented component unit, is a separate legal entity created when voters approved a portion of sales tax to be devoted to economic development in the City of Canadian. The purpose of the EDC is to promote and develop economic interests within the City in order to eliminate unemployment and enhance public welfare. The EDC is governed by a Board of Directors appointed by the City Council and the county commissioners of Hemphill County. The financial information of the EDC is reported as a discretely presented component unit in the government-wide financial statements.

B. *Government-wide and fund financial statements*

The government-wide financial statements (Exhibits A-1 and A-2) report information on all of the non-fiduciary activities of the primary government and its component unit. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Revenue Fund (Hotel/Motel Occupancy Tax Fund)* is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes. The City has revenue sources restricted for promotion and tourism development.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, long-term debt including principal, interest and related costs.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The City also reports the following major proprietary funds:

The *Water and Sewer Fund*, *Sanitation Fund* and *Golf Course Fund* account for operations financed and operated in a manner similar to a private business enterprise where the costs (expenses including depreciation) of providing water and sewer, sanitation and golf course services to the general public on a continuing basis are financed through user charges.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments: For the purposes of the Statement of Cash Flows for the Enterprise Funds, the City considers cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition to be cash and temporary investments. The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of the pool is reported in the financial statements as cash and temporary investments under each fund's caption.

The City's funds are invested in accordance with State of Texas Government Code Chapter 2256, *Public Funds Investment* (the Act). The Act contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. The City is required to adopt and implement an investment policy. The Policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable levels of risk, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, U.S. Agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The City's excess funds are held in interest bearing NOW accounts at the depository bank and cash reserve funds at TexStar Investments. The City is in substantial compliance with the Public Funds Investment Act.

Investments for the City are reported at fair value, which, in most cases, approximates cost.

All deposits and investments of the City are required by state law to be collateralized in an amount equal to 100% of uninsured deposits. The collateral may be held by the pledging financial institution's trust department or by a third party financial institution through a safekeeping arrangement. See Note 3.

Receivables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the governmental fund financial statements, delinquent property taxes are not recorded as revenue until received. See the policy on deferred outflows/inflows of resources below.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (continued)

Inventory: Inventories include plant maintenance and operating supplies and are stated at the lower of cost on a first-in, first-out basis or market. Inventories are accounted for using the purchase method.

Interfund Receivables and Payables: Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curb and gutter and similar items), are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the government as real or personal property with an initial, individual cost in excess of \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34 - *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) the historical cost of infrastructure assets, (retroactive to 1980) are to be included as part of the governmental capital assets reported in the government-wide statements. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable. Infrastructure assets are depreciated just as other assets are. Additions and improvements to infrastructure assets are capitalized and depreciated. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5 to 40
Furniture and fixtures	5 to 10
Machinery and equipment	3 to 10
Transportation equipment	5 to 7
Infrastructure	5 to 40

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the City are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the City are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in impairment of a capital asset are netted against impairment loss.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (continued)

Property Taxes: Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which they were imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during the 60-day period after the close of the fiscal year. The assessed value of the certified roll, upon which the levy for the 2018 fiscal year was based upon, was \$138,393,251.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended September 30, 2018 were 96% of the tax levy.

The tax rate assessed for the year ended September 30, 2018 to finance general fund operations and debt service, respectively, was .58862 and .064383 per \$100 valuation.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources: In addition to assets, if present the statements of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has items, which arise under the accrual basis of accounting that qualify for reporting in this category. Accordingly, the deferred outflows of resources reported on the Statement of Net Position are deferred and recognized as an outflow of resources in the future. All deferred outflows of resources reported at September 30, 2018 relate to the City's pension obligation and its supplemental death benefit that qualifies as an Other Post Employment Benefit (OPEB) plan.

In addition to liabilities, if present the statement of net position will 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) which will not be recognized as an inflow of resources (revenue) until that time. The City has one item, which arises under the accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, differences in projected and actual earnings on pension plan, is reported on the statement of net position as a deferred resource inflow. Additionally, the City has one item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. The item unavailable property taxes is reported as a deferred resource inflow on the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (continued)

Compensated Absences: Vested or accumulated vacation that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Eligible City employees may accumulate up to 160 hours of earned but unused vacation, which will be paid if not used, on death, retirement or termination. A long-term liability of \$34,279 (\$19,230 in governmental activities and \$15,049 in business-type activities) of accrued vacation has been recorded in the government-wide financial statements as non-current liabilities, at September 30, 2018.

Accumulated sick leave benefits accumulate to a maximum of 720 hours but are not paid on termination and are therefore not accrued.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activity's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are recognized as outflows of resources in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

Fund Balance: The City has not formally adopted an accounting policy for fund balance in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. However, the City believes its current practice conforms to the requirements of GASB 54. The City's fund balances for its governmental funds are presented in accordance with GASB 54, which classifies fund balance based on the level of constraints placed on the usage of fund resources. Under GASB 54, fund balances for governmental funds are reported in two major categories, nonspendable and spendable and applicable sub-categories as follows:

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventory and prepaid amounts.

Spendable fund balances are categorized and reported based on the following hierarchy of spending constraints:

Restricted: The restricted fund balance classification includes amounts constrained by (a) external parties (such as creditors, grantors, contributors or laws or regulations of other governments), or (b) law through constitutional provisions, or enabling legislation.

Committed: The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, the City Council. Formal action consists of a resolution passed by a majority vote of the City Council in a publicly held scheduled meeting. Committed fund balance amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution). Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the City Council. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: The assigned fund balance classification includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The City Council may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the City Council by majority vote in a publicly scheduled meeting. The City Council has not delegated the authority to make assignments of fund balance to any individual or group.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position or Equity (continued)

Unassigned: The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

As of September 30, 2018 the City has classified its fund balances as follows:

Nonspendable: The City has classified nonspendable fund balance related to supplies inventory. The amount of the classification is disclosed on the face of Exhibit B-1.

Spendable: The City has classified spendable fund balance as restricted to promotion and tourism and unassigned. The amounts of each classification are disclosed on the face of Exhibit B-1.

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

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

Rounding: Amounts in the financial statements, footnotes, and supplementary information have been rounded individually, consequently, some amounts that are expected to agree, do not.

E. New Pronouncements and the effects on Financial Reporting

Pronouncements Recently Issued and Adopted: In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* ("GASB 75"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB) and improve information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pension and OPEB) with regard to providing decision-useful information, supporting assessments of accountability an inter-period equity and creating additional transparency. This Statement replaces the requirements of Statements GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This statement is effective for fiscal years beginning after June 15, 2017. The adoption of this Statement resulted in a prior period adjustment of \$48,340 to net position.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

E. New Pronouncements and the effects on Financial Reporting (continued)

Pronouncements Recently Issued and Adopted (continued): In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements* (GASB 81). The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The adoption of this Statement did not have any significant impact on the City's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017* ("GASB 85"). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and for postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The adoption of this Statement did not have any significant impact on the City's financial statements.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

E. New Pronouncements and the effects on Financial Reporting (continued)

Pronouncements Recently Issued and Adopted (continued): In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The adoption of this Statement did not have any significant impact on the City's financial statements.

Pronouncements Recently Issued: In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations* ("GASB 83"). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, with earlier application encouraged. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early application is encouraged. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

E. New Pronouncements and the effects on Financial Reporting (continued)

Pronouncements Recently Issued (continued): In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a presorting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests-An amendment of GASB Statements No. 14 and No. 61*. The primary objective of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

E. New Pronouncements and the effects on Financial Reporting (continued)

Pronouncements Recently Issued (continued): Statement 90 (continued): This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. Management is currently evaluating the impact of the adoption of this Statement on the City's financial statements.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

At least 30 days prior to the time when the City Council makes its tax levy for the fiscal year beginning October 1, the City Manager, as budget officer, files a proposed operating budget, including proposed expenditures and the means of financing them. Such budget is available for the inspection of any taxpayer, and public hearings are conducted not less than 15 days subsequent to the time of filing. Prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The Council has the authority to make such changes in the budget as it deems warranted. Legal council has interpreted State law to determine that the budgetary level of control is at the fund level. All appropriations lapse at the end of the City's fiscal year. Amounts carried forward to the next fiscal year must be in the form of new appropriations and approved by the City Council.

The budgets are prepared on the non-GAAP, cash basis of accounting and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

Formal budgetary integration is employed as a management control device during the year for the General Fund and the special revenue fund.

The Council properly amended the budget during the year ended September 30, 2018. These amendments resulted in the following changes:

	Cash Generated (Used) to Balance the Budget	
	Original Budget	Final Budget
Budgeted funds:		
General Fund	\$ 8,789	\$ 225,026
Hotel/Motel Occupancy Tax Fund	-	(11,657)
Total	<u>\$ 8,789</u>	<u>\$ 213,369</u>

The City is required to balance its budget each year. Accordingly, amounts that are excess or deficient are presented as changes in cash generated or used, not as an excess or deficiency of revenues over expenditures.

Reconciliation of the Non-GAAP budgetary basis amounts to the financial statements on the GAAP basis by fund type is located on Exhibits C-1 and C-2.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 3. Deposits and Investments

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more Texas financial institutions. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution. Deposits of the City are reported in Schedule G-1.

At September 30, 2018, the carrying amount of the City's deposits was \$5,907,458. The total cash and temporary investment balance per the financial institutions of \$5,994,921 consists of interest bearing NOW accounts. Of the NOW account balances, \$5,631,179 was covered by federal depository insurance and \$363,742 was covered by collateral held in joint safekeeping by a third party in the name of the City. The City also has one account titled Cash Reserve Fund with TexStar Investments. This account is invested solely in U.S. Government obligations and has the implicit guarantee of the U.S. Government; therefore, no insurance or collateral is required.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be recovered. Texas State statutes and City policy require collateral pledged for deposits in excess of federal deposit insurance be delivered, or a joint safekeeping receipt be issued, to the City for the entire amount on deposit with the institution in excess of the insured amount.

The City is a public unit as defined by the Federal Deposit Insurance Corporation. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. In addition, deposits of funds that by law or under a bond indenture are required to be paid to the holders of bonds issued by the City are separately insured up to \$250,000.

The schedule below reports the insured portion of the deposits.

	Happy State Bank
NOW accounts	\$ 5,994,921
FDIC Coverage	5,631,179
Total uninsured public funds	363,742
Pledged collateral held by third parties in the City's name	2,524,593
(Over) collateralized	\$ (2,160,851)

NOTE 4. Receivables

Receivables as of September 30, 2018 for governmental fund types are as follows:

	General Fund	Hotel/Motel Occupancy Tax Fund	Debt Service Fund	Totals
Receivables:				
Property taxes	\$ 52,067	\$ -	\$ 5,695	\$ 57,762
Due from other governments	59,554	-	-	59,554
Accounts receivable	29,744	21,077	-	50,821
Total receivables	141,365	21,077	5,695	168,137
Allowance for doubtful accounts and taxes	(20,827)	-	(2,278)	(23,105)
Total net receivables	\$ 120,538	\$ 21,077	\$ 3,417	\$ 145,032

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 4. Receivables (continued)

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year deferred inflows of resources related to delinquent property taxes were \$34,657.

Receivables as of September 30, 2018 for proprietary fund types are as follows:

Proprietary Fund Types

	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	Totals
Receivables:				
Accounts receivable	\$ 96,529	\$ 55,464	\$ 24	\$ 152,017
Allowance for doubtful accounts and taxes	<u>(21,484)</u>	<u>(7,916)</u>	<u>-</u>	<u>(29,400)</u>
Total net receivables	<u>\$ 75,045</u>	<u>\$ 47,548</u>	<u>\$ 24</u>	<u>\$ 122,617</u>

NOTE 5. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows for the City's governmental activities:

	Beginning Balance	Increases	Decreases/ Transfer	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Construction-in-progress	<u>-</u>	<u>36,700</u>	<u>-</u>	<u>36,700</u>
Total capital assets not being depreciated	<u>75,000</u>	<u>\$ 36,700</u>	<u>\$ -</u>	<u>111,700</u>
Capital assets being depreciated:				
Buildings and improvements	5,189,001	\$ -	\$ -	5,189,001
Furniture and fixtures	59,785	-	-	59,785
Machinery and equipment	692,056	22,070	-	714,126
Transportation equipment	<u>521,088</u>	<u>-</u>	<u>-</u>	<u>521,088</u>
Total capital assets being depreciated	<u>6,461,930</u>	<u>\$ 22,070</u>	<u>\$ -</u>	<u>6,484,000</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,387,612)	\$ (188,135)	\$ -	(2,575,747)
Furniture and fixtures	(58,748)	(838)	-	(59,586)
Machinery and equipment	(636,893)	(15,428)	-	(652,321)
Transportation equipment	<u>(474,793)</u>	<u>(12,489)</u>	<u>-</u>	<u>(487,282)</u>
Total accumulated depreciation	<u>(3,558,046)</u>	<u>\$ (216,890)</u>	<u>\$ -</u>	<u>(3,774,936)</u>
Total capital assets being depreciated, net	<u>2,903,884</u>			<u>2,709,064</u>
Governmental activities capital assets, net	<u>\$ 2,978,884</u>			<u>\$ 2,820,764</u>

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 5. Capital Assets (continued)

Construction in progress above includes a street lighting project along Highway 60 being administered by TXDOT. The total cost of the project to the City is estimated to be \$379,700 and it is expected to be completed in 2022.

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

Governmental activities:

General government	\$ 838
Public safety	183
Public works	5,740
Highways and streets	151,518
Support services	27,639
Promotion and tourism	<u>30,972</u>

Total depreciation expense - governmental activities	\$ <u>216,890</u>
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Capital asset activity for the year ended September 30, 2018 was as follows for the City's business-type activities:

	Beginning Balance	Increases	Decreases/ Transfer	Ending Balance
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 16,164	\$ -	\$ -	\$ 16,164
Construction-in-progress	<u>5,473,609</u>	<u>797,623</u>	<u>(6,245,460)</u>	<u>25,772</u>
Total capital assets not being depreciated	<u>5,489,773</u>	<u>\$ 797,623</u>	<u>\$ (6,245,460)</u>	<u>41,936</u>
Capital assets being depreciated:				
Buildings and improvements	551,109	\$ -	\$ -	551,109
Machinery and equipment	551,958	6,165	-	558,123
Transportation equipment	124,706	-	-	124,706
Infrastructure	<u>4,166,290</u>	<u>6,245,460</u>	<u>-</u>	<u>10,411,750</u>
Total capital assets being depreciated	<u>5,394,063</u>	<u>\$ 6,251,625</u>	<u>\$ -</u>	<u>11,645,688</u>
Less accumulated depreciation for:				
Buildings and improvements	(480,144)	\$ (27,083)	\$ -	(507,227)
Machinery and equipment	(450,935)	(18,766)	-	(469,701)
Transportation equipment	(107,668)	(3,092)	-	(110,760)
Infrastructure	<u>(3,335,623)</u>	<u>(240,781)</u>	<u>-</u>	<u>(3,576,404)</u>
Total accumulated depreciation	<u>(4,374,370)</u>	<u>\$ (289,722)</u>	<u>\$ -</u>	<u>(4,664,092)</u>
Total capital assets being depreciated, net	<u>1,019,693</u>			<u>6,981,596</u>
Water and sewer fund capital assets, net	<u>\$ 6,509,466</u>			<u>\$ 7,023,532</u>

Construction in progress above includes relocating utility lines for a TXDOT project set to begin in 2019 and be completed in 2022. The total cost of the project to the City is estimated to be \$724,128.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 5. Capital Assets (continued)

	Beginning Balance	Increases	Decreases/ Transfer	Ending Balance
Sanitation Fund:				
Capital assets not being depreciated:				
Land	\$ 16,300	\$ -	\$ -	\$ 16,300
Capital assets being depreciated:				
Buildings and improvements	24,433	\$ -	\$ -	24,433
Machinery and equipment	401,407	-	-	401,407
Transportation equipment	729,780	-	-	729,780
Total capital assets being depreciated	1,155,620	\$ -	\$ -	1,155,620
Less accumulated depreciation for:				
Buildings and improvements	(24,433)	\$ -	\$ -	(24,433)
Machinery and equipment	(291,056)	(15,642)	-	(306,698)
Transportation equipment	(491,345)	(32,661)	-	(524,006)
Total accumulated depreciation	(806,834)	\$ (48,303)	\$ -	(855,137)
Total capital assets being depreciated, net	348,786			300,483
Sanitation fund capital assets, net	\$ 365,086			\$ 316,783
	Beginning Balance	Increases	Decreases/ Transfer	Ending Balance
Golf Course Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 220,496	\$ 37,894	\$ -	\$ 258,390
Furniture and fixtures	3,640	-	-	3,640
Machinery and equipment	230,061	5,450	-	235,511
Transportation equipment	19,716	-	-	19,716
Total capital assets being depreciated	473,913	\$ 43,344	\$ -	517,257
Less accumulated depreciation for:				
Buildings and improvements	(191,684)	\$ (3,631)	\$ -	(195,315)
Furniture and fixtures	(3,640)	-	-	(3,640)
Machinery and equipment	(192,887)	(11,180)	-	(204,067)
Transportation equipment	(19,716)	-	-	(19,716)
Total accumulated depreciation	(407,927)	\$ (14,811)	\$ -	(422,738)
Golf course fund capital assets, net	\$ 65,986			\$ 94,519

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 5. Capital Assets (continued)

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

Business-type activities:	
Water	\$ 122,989
Sewer	166,733
Sanitation	48,303
Golf course	<u>14,811</u>
Total depreciation expense - business-type activities	<u>\$ 352,836</u>

NOTE 6. Construction commitments

The City will continue a number of capital projects during the next year, to make improvements to the City's streets and public works. These projects are being administered by the City using proceeds from certificates of obligation, series 2008 and certificates of obligation, series 2010. The projects call for construction of street improvements, including lighting, drainage improvements and utility line relocations, and improvements and extensions to waterworks system facilities as well as improving water and sewer properties and facilities. The 2008 certificates of obligation were originally issued in the amount of \$1,000,000 and the city had \$25,998 of the funds remaining at September 30, 2018. The City will also be responsible for its share of fund the TXDOT projects in construction-in-progress discussed in Note 5.

NOTE 7. Long-term Debt

On June 21, 2010 the City issued \$4,820,000 of Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2010. The certificates were issued to make improvements to the City's water and sewer system properties and facilities, including land and rights-of-way. The certificates constitute a direct obligation of the City, payable from a combination of: (i) the Levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law upon all taxable property within the City, and (ii) a limited pledge of net revenues from the operation of the City's waterworks and sewer system. The Certificates are due in annual principal installments ranging from \$135,000 to \$340,000 due February 15 of each year through 2030. Interest at rates varying from 3.0% to 4.125% is due semi-annually on February and August 15 until maturity. \$135,613 of interest was paid on the certificates during the year ended September 30, 2018.

The amount currently outstanding on the above certificates of obligation is as follows:

	Interest rates	Amount
Purpose:		
Business-type activities - Water & Sewer	3.0 - 4.125%	\$ <u>3,320,000</u>

Annual debt service requirements to maturity for the certificate of obligation, series 2010 are as follows:

September 30	Business-type Activities	
	Principal	Interest
2019	\$ 220,000	\$ 127,538
2020	230,000	119,663
2021	240,000	110,838
2022	245,000	101,138
2023	260,000	91,038
2024-2028	1,455,000	288,090
2029-2030	<u>670,000</u>	<u>27,844</u>
Totals	<u>\$ 3,320,000</u>	<u>\$ 866,149</u>

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 7. Long-term Debt (continued)

On May 15, 2008 the City issued \$1,000,000 of Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008. The certificates were issued to make improvements to the City's streets, including drainage improvements and utility line relocations, improvements to the waterworks system facilities, improvements to the solid waste transfer station, and professional services rendered in relation to such projects. The certificates constitute a direct obligation of the City, payable from a combination of: (i) the Levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law upon all taxable property within the City, and (ii) a limited pledge of net revenues from the operation of the City's waterworks and sewer system. The Certificates are due in annual principal installments ranging from \$35,000 to \$90,000 due February 15 of each year through 2023. Interest at 4.25% is due semi-annually on February and August 15 until maturity. \$19,125 of interest was paid on the certificates during the year ended September 30, 2018.

The amount currently outstanding on the above certificates of obligation are as follows:

	<u>Interest rates</u>	<u>Amount</u>
Purpose:		
Governmental Activities	4.25%	\$ <u>415,000</u>

Annual debt service requirements to maturity for the certificate of obligation, series 2008 are as follows:

	<u>Governmental Activities</u>	
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 75,000	\$ 16,044
2020	80,000	12,750
2021	85,000	9,244
2022	85,000	5,631
2023	<u>90,000</u>	<u>1,912</u>
Totals	\$ <u>415,000</u>	\$ <u>45,581</u>

Lease contract payable – PNC Equipment Financing

On October 23, 2013 the City entered into a financing lease contract with PNC Equipment financing for the purchase of a Toro Greensmaster with a total cost of \$40,942. Accumulated amortization of the leased equipment at September 30, 2018 was approximately \$31,383. Amortization of assets under capital leases is included in depreciation expense. The contract provides for \$40,942 to be financed over 60 months with monthly payments of principal and interest of \$752.

The amount currently outstanding on the above lease contract payable is as follows:

	<u>Interest rates</u>	<u>Amount</u>
Purpose:		
Business-type activities - Golf Course	3.916%	\$ <u>750</u>

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 7. Long-term Debt (continued)

Lease contract payable – PNC Equipment Financing (continued)

Annual debt service requirements to maturity for the lease contract payable are as follows:

<u>September 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 750	2

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Certificates of obligation, series 2008	\$ 485,000	\$ -	\$ (70,000)	\$ 415,000
Accrued compensated absences	<u>19,957</u>	<u>-</u>	<u>(727)</u>	<u>19,230</u>
Totals	<u>\$ 504,957</u>	<u>\$ -</u>	<u>\$ (70,727)</u>	<u>\$ 434,230</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
PNC Equipment Leasing	\$ 9,558	\$ -	\$ (8,808)	\$ 750
Certificates of obligation, series 2010	3,530,000	-	(210,000)	3,320,000
Accrued compensated absences	<u>13,371</u>	<u>1,678</u>	<u>-</u>	<u>15,049</u>
Totals	<u>\$ 3,552,929</u>	<u>\$ 1,678</u>	<u>\$ (218,808)</u>	<u>\$ 3,335,799</u>

NOTE 8. Interfund receivables/payables

The City did not incur any interfund balances requiring disclosure as of September 30, 2018.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 9. Transfers and Payments

Transfers and payments within the reporting entity are for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The following schedule reports transfers within the reporting entity.

<u>Receiving Fund</u>	<u>Paying Fund</u>		
General	Water & Sewer	\$	69,000
General	Sanitation		27,350
Debt Service	General		1,000
Water & Sewer	General		25,772
CARE Commission	General		1,241
Golf Course	General		94,876
			<hr/>
		\$	219,239
			<hr/>

NOTE 10. 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. The City is a member and is insured through the Texas Municipal League Intergovernmental Risk Pool (the Pool). The Pool was created to provide comprehensive core insurance programs by expanding the pool of subscribers to maximize cost containment opportunities for required insurance coverage. The City pays an annual premium to the Pool based on claim experience and the status of the pool. The risk management program includes workers' compensation, general and automobile liability automobile physical damage, and property and crime coverage. The calculation of actuarial gains and losses were not available at the date of this report. However, the City is not liable for more than the premiums paid.

NOTE 11. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures as part of the fund financial statements of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds: The Debt Service fund and Golf Course fund reflect a deficit of unrestricted fund balance at September 30, 2018 of \$1,212 and \$46,236, respectively.
- B. Excess of expenditures over appropriations: No funds exceeded approved budgetary authority for the year ended September 30, 2018.
- C. Special revenue funds are limited by state and/or federal law for the financing of limited functions that are legally restricted to a specified purpose. The City's Hotel/Motel Occupancy Tax Fund is authorized by state law and local ordinance and is used to account for the proceeds of the Hotel/Motel Tax. This tax is restricted to expenditures that promote and develop tourism for the City of Canadian and the surrounding area.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 12. Pension Plans

Texas Municipal Retirement System Pension Plan

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.TMRS.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows: Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years. The contribution rate for employees is 7 percent, and the City matching rate is currently 2 to 1 both as adopted by the governing body of the City.

Employees covered by benefit terms.

At the December 31, 2017 valuation and measurement date, the City had the following numbers of employees covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	8
Active employees	20
Total	<u>38</u>

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 12. Pension Plans (continued)

Texas Municipal Retirement System Pension Plan (continued)

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.23% and 15.25% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$153,090 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used, with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who can become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 12. Pension Plans (continued)

Texas Municipal Retirement System Pension Plan (continued)

Net Pension Liability (continued)

Actuarial assumptions (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) the arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 12. Pension Plans (continued)

Texas Municipal Retirement System Pension Plan (continued)

Net Pension Liability (continued)

Allocations

The City's net pension liability, pension expense, deferred inflows and deferred outflows of resources related to TMRS have been allocated between governmental activities and business-type activities using a contribution-based method.

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/16	\$ 4,360,983	\$ 3,122,828	\$ 1,238,155
Service cost	153,990	-	153,990
Interest	292,877	-	292,877
Change in benefit terms	-	-	-
Difference between expected and actual experience	14,504	-	14,504
Changes in assumptions	-	-	-
Contributions - employer	-	152,056	(152,056)
Contributions - employee	-	71,245	(71,245)
Net investment income	-	433,048	(433,048)
Benefit payments, including refunds of employee contributions	(198,128)	(198,128)	-
Administrative expense	-	(2,243)	2,243
Other changes	-	(115)	115
Net changes	263,243	455,863	(192,620)
Balance at 12/31/17	\$ 4,624,226	\$ 3,578,691	\$ 1,045,535

The following presents the net pension liability (asset) 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%
City's net pension liability (asset)	1,759,325	1,045,535	469,036

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 12. Pension Plans (continued)

Texas Municipal Retirement System Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$173,220.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,629	\$ -
Changes in actuarial assumptions	12,755	-
Difference between projected and actual investment earnings	-	95,407
Contributions subsequent to the measurement date	111,343	-
Total	<u>\$ 151,727</u>	<u>\$ 95,407</u>

\$111,343 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31</u>	Outflows (Inflows)
2018	\$ 4,926
2019	14,694
2020	(34,668)
2021	(40,204)
2022	229
Thereafter	-
Total	<u>\$ (55,023)</u>

Texas Statewide Emergency Services Personnel Retirement Fund Pension Plan

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Statewide Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS provides pension, disability and survivor benefits to members of the Canadian Volunteer Fire Department (CVFD), a legal entity separate from the City. In October 2005, the City contracted to contribute \$100 per month per member into TESRS on behalf of the members of CVFD. The City makes contributions for approximately twenty to twenty-five members of CVFD per month. Hemphill County reimburses the City for half of the contributions to TESRS. The contribution by the City and Hemphill County is considered a special funding arrangement and neither party is liable for any pension obligation of CVFD beyond the payments under the contract.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 13. Post-Employment Benefits other than Pensions (OPEB)

Plan Description and Benefits Provided

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other Post Employment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75). The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

Employees Covered by Benefit Terms

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

Inactive employees currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	2
Active employees	20
Total	<u>31</u>

Total OPEB Liability

The City's total OPEB liability of \$56,326 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%
Retirees' share of benefit-related costs	\$ -
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates - service retirees	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.
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Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
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CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 13. Post-Employment Benefits other than Pensions (OPEB) (continued)

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

Total OPEB Liability - 12/31/16	\$ 48,340
Changes for the year	
Service cost	1,730
Interest on Total OPEB Liability	1,854
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	4,706
Benefit payments	(305)
Net changes	7,985
Total OPEB Liability - 12/31/17	\$ 56,325

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

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

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Total OPEB liability	\$68,353	\$56,325	47,036

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$4,435. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred inflows of Resources
Changes in assumptions or other inputs on OPEB plan	\$ 3,970	\$ -
Contributions subsequent to the measurement date on OPEB plan	1,095	-
Total	\$ 5,065	\$ -

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 13. Post-Employment Benefits other than Pensions (OPEB) (continued)

\$1,095 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31</u>	Net deferred outflows (inflows) of resources
2018	\$ 736
2019	736
2020	736
2021	736
2022	736
Thereafter	290
Total	<u>\$ 3,970</u>

NOTE 14. Deferred Compensation Plan

The City offers its employees the option to participate in the U.S. Conference of Mayors Deferred Compensation Program (Plan) created in accordance with Internal Revenue Code (IRC) Section 457. Previously, IRC Section 457 had required all amounts deferred by the Plan's participants remain solely the property and rights of the sponsoring municipality, subject only to the claims of the municipality's general creditors. As such the assets of the plan were reflected at market value with an agency fund.

IRC 457 was amended in 1996 and requires that in order to be considered an eligible plan, all assets and income of the Plan must be held in trust for the exclusive benefit of the participants and their beneficiaries. To comply with this requirement, the Plan entered into a trust and custody agreement with a third party to provide custodial services with respect to the assets of the Plan. The assets of the Plan are no longer required to be reflected within an agency fund of the City. Accordingly, these assets totaling \$252,709 are not reflected in the current year financial statements.

NOTE 15. Lawsuits and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by any grantors cannot be determined at this time, although the City expects such amount, if any, to be immaterial.

The City is exposed to various claims and lawsuits arising in the normal course of business. This City is insured through the Texas Municipal League Intergovernmental Risk Pool. The City is involved in a lawsuit arising from operating the swimming pool. The City's insurance company is administering the proceedings of the lawsuit and does not believe any settlement will exceed the City's coverage limits.

CITY OF CANADIAN
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2017

NOTE 16. Municipal Solid Waste Landfill Closure and Post Closure Care Costs

The City closed its landfill on April 9, 1994 as authorized by the Texas Natural Resources Conservation Commission (TNRCC). The closure accordingly exempted the City from most of the requirements under the EPA mandated "Subtitle D Landfill Regulations". State and Federal laws and regulations required the City to perform certain maintenance and monitoring functions at the landfill site for five years after closure. It is the City's opinion that there will be minimal post closure care costs and that any such costs incurred would be immaterial. However, due to changes in technology, laws and regulations these costs may change in the future.

The City is subject to the Financial Assurance Requirements promulgated by the Texas Commission on Environmental Quality (TCEQ) concerning its solid waste transfer station Permit #V-40026. The local government financial test requires the City to submit various documents and pledge net position of the sanitation fund in the amount of \$358,402 to demonstrate financial assurance as specified by TCEQ regulations, for closure of the transfer station.

NOTE 17. Prior Period Adjustment

During fiscal year 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits other than Pensions* (GASB 75). In accordance with GASB 75, the City recorded its total OPEB liability as well as related deferred inflows and outflows of resources in its financial statements. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment was a decrease in beginning net position of \$48,340. The restated beginning net position for the primary government is \$11,277,775.

NOTE 18. Subsequent Events

The City has evaluated subsequent events through March 18, 2019 which is the date on which the financial statements were issued. No subsequent events requiring disclosure were noted.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF CANADIAN
SCHEDULE OF CHANGES TO NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS
September 30, 2018

Schedule E-1

	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Total Pension Liability				
Service cost	\$ 116,896	\$ 141,436	\$ 143,622	\$ 153,990
Interest on total pension liability	248,811	260,685	273,930	292,877
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(88,286)	34,807	33,069	14,504
Changes of assumptions	-	31,421	-	-
Benefit payments, including refunds of employee contributions	(121,629)	(118,494)	(152,100)	(198,128)
Net change in total pension liability	155,792	349,855	298,521	263,243
Total pension liability, beginning	3,556,815	3,712,607	4,062,462	4,360,983
Total pension liability, ending (a)	3,712,607	4,062,462	4,360,983	4,624,226
Fiduciary Net Position				
Employer contributions	132,276	148,274	143,815	152,056
Member contributions	57,835	66,491	67,338	71,245
Investment income net of investment expenses	146,506	4,094	194,175	433,048
Benefit payments/refunds of contributions	(121,629)	(118,494)	(152,100)	(198,128)
Administrative expenses	(1,529)	(2,493)	(2,192)	(2,243)
Other	(126)	(123)	(118)	(115)
Net change in fiduciary net position	213,333	97,749	250,918	455,863
Fiduciary net position, beginning	2,560,828	2,774,161	2,871,910	3,122,828
Fiduciary net position, ending (b)	2,774,161	2,871,910	3,122,828	3,578,691
Net pension liability (asset), ending = (a) - (b)	\$ 938,446	\$ 1,190,552	\$ 1,238,155	\$ 1,045,535
Fiduciary net position as a % of total pension liability	74.72%	70.69%	71.61%	77.39%
Pensionable covered payroll	\$ 826,211	\$ 949,874	\$ 961,971	\$ 1,017,780
Net pension liability (asset) as a % of covered payroll	113.58%	125.34%	128.71%	102.73%

Note: This schedule of changes in the City's net pension liability (asset) with related ratios, shows the changes in total pension liability less the changes in fiduciary net position, resulting in the net pension liability (asset) for the City. Only four years of data are presented in accordance with GASB 68, paragraph 138, which states in part, "The information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirement of this Statement."

The information in the schedule above corresponds to the Plan measurement date of December 31, as opposed to the City's fiscal year end of September 30.

See the accompanying independent auditor's report

CITY OF CANADIAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2018

Schedule E-2

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2009	\$ 133,222	\$ 133,222	\$ -	\$ 707,308	18.84%
2010	126,213	126,213	-	728,821	17.32%
2011	117,111	117,111	-	728,821	16.07%
2012	126,089	126,089	-	826,375	15.26%
2013	125,976	125,976	-	815,582	15.45%
2014	132,276	132,276	-	826,211	16.01%
2015	148,274	148,274	-	949,874	15.61%
2016	146,288	146,288	-	949,874	15.40%
2017	152,813	152,813	-	961,971	15.89%
2018	153,090	153,090	-	1,009,551	15.16%

Note: This Schedule of Employer Contributions shows the City's required annual contributions from the actuarial valuation, compared with the actual contributions remitted. The data in the schedule above corresponds to the City's fiscal year as opposed to the time period covered by the plan measurement date of December 31.

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 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 2000 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

See the accompanying independent auditor's report

CITY OF CANADIAN
SCHEDULE OF CHANGES TO OPEB LIABILITY
AND RELATED RATIOS
September 30, 2018

Schedule F-1

	<u>12/31/2017</u>
Total OPEB Liability	
Service cost	\$ 1,730
Interest on total OPEB liability	1,854
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	4,706
Benefit payments	<u>(305)</u>
Net change in total OPEB liability	7,985
 Total OPEB liability, beginning	 <u>48,340</u>
Total OPEB liability, ending	\$ <u><u>56,325</u></u>
 Covered employee payroll	 \$ 1,017,780
 Total OPEB liability as a percentage of covered employee payroll	 5.53%

Notes to Schedule:

Changes of benefit terms: Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

See the accompanying independent auditor's report

CITY OF CANADIAN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended September 30, 2018

Changes of Benefit Terms:

There were no changes of benefit terms that affected measurement of the total pension liability or the OPEB liability during the measurement period.

Changes of Assumptions:

There were no changes of assumptions that affected measurement of the total pension liability or OPEB liability during the measurement period.

SUPPLEMENTARY INFORMATION

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CITY OF CANADIAN
DEPOSITS AND TEMPORARY INVESTMENTS
September 30, 2018

Schedule G-1

<u>Bank Name/Account Name</u>	<u>Account Type</u>	<u>Rate of Interest</u>	<u>Bank Balance</u>	<u>Reconciled Book Balance</u>
<u>Happy State Bank</u>				
General operating account	NOW	0.10%	\$ 613,742	\$ 526,279
General operating account - ICS	NOW	0.10%	5,381,179	5,381,179
Total Happy State Banking Center			<u>5,994,921</u>	<u>5,907,458</u>
<u>Texstar Investments</u>				
Cash Reserve Fund - General Fund	MMKT	2.00%	<u>38,806</u>	<u>38,806</u>
<u>Cash on hand</u>				
General fund			<u>-</u>	<u>400</u>
Total cash and temporary investments			<u>\$ 6,033,727</u>	<u>\$ 5,946,664</u>
Reported on the Statement of Net Assets as:				
Cash and temporary investments				\$ 5,920,666
Restricted cash				<u>25,998</u>
Total cash and temporary investments				<u>\$ 5,946,664</u>

See the accompanying independent auditor's report

