OFFICIAL STATEMENT

Dated October 31, 2019

Rating:
S&P: "AA-"
(See "OTHER INFORMATION – Rating" herein)

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$2,985,000
CITY OF CANADIAN, TEXAS
(Hemphill County, Texas)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019

Dated Date: October 15, 2019 **Due: February 15, as shown on the inside cover page**
Interest to Accrue from the Date of Initial Delivery

PAYMENT TERMS . . . Interest on the $2,985,000 City of Canadian, Texas, General Obligation Refunding Bonds, Series 2019 (the "Bonds") will accrue from the date of initial delivery, will be payable February 15 and August 15 of each year commencing February 15, 2020 until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – Book-Entry-Only System" herein). The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "THE BONDS – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), and are direct obligations of the City of Canadian, Texas (the "City"), payable from a direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to an officer of the City, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The terms of sale are included in a "Pricing Certificate" which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt, as shown on SCHEDULE I hereto, for debt service savings, and to pay the costs of issuing the Bonds.

CUSIP PREFIX: 136663
SEE MATURITY SCHEDULE, 9 Digit CUSIP AND REDEMPTION PROVISIONS ON THE INSIDE COVER PAGE

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser identified below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see "APPENDIX C – Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on December 3, 2019 (the "Date of Initial Delivery").

SAMCO CAPITAL MARKETS, INC.

CUSIP Prefix(1): 136663

MATURITY SCHEDULE

Principal Amount	Maturity (February 15)	Interest Rate	Price or Yield	CUSIP Suffix (1)
$ 65,000	2020	4.000%	1.340%	CC3
310,000	2021	4.000%	1.380%	CD1
310,000	2022	4.000%	1.430%	CE9
330,000	2023	4.000%	1.490%	CF6
250,000	2024	4.000%	1.570%	CG4
260,000	2025	4.000%	1.650%	CH2
270,000	2026	4.000%	1.750%	CJ8
280,000	2027	4.000%	1.830%	CK5
290,000	2028	4.000%	1.920%	CL3
305,000	2029	4.000%	2.000% (2)	CM1
315,000	2030	4.000%	2.040% (2)	CN9

(Interest Accrues from the Date of Initial Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
(2) Yield shown is yield to first call date, February 15, 2028.

Optional Redemption . . . The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

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This Official Statement, which includes the cover pages, inside cover pages, Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY THE DEPOSITORY TRUST COMPANY IN CONNECTION WITH THE OFFERING OF THE BONDS.

THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

The cover pages hereof, this page, the schedule, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY .... The City of Canadian is a political subdivision and Type A General Law municipal corporation of the State, located in Hemphill County, Texas. The City covers approximately 1.8 square miles (see "INTRODUCTION – Description of the City").

THE BONDS .... The Bonds are issued as $2,985,000 General Obligation Refunding Bonds, Series 2019. The Bonds are issued as serial bonds maturing February 15 in each of the years 2020 through 2030 (see "THE BONDS – Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the date of delivery, and is payable February 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS – Description of the Bonds").

AUTHORITY FOR ISSUANCE .... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and the ordinance passed by the City Council of the City (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to an officer of the City, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The terms of sale are included in a "Pricing Certificate" which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS – Security and Source of Payment").

OPTIONAL REDEMPTION .... The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

QUALIFIED TAX-EXEMPT OBLIGATIONS .... The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").

TAX EXEMPTION .... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt as shown on SCHEDULE I hereto, for debt service savings, and to pay the costs of issuing the Bonds.

RATING .... The Bonds and the outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") without regard to the municipal bond insurance. The City also has issues outstanding which are insured by various commercial insurance companies (see "OTHER INFORMATION – Rating").

BOOK-ENTRY-ONLY SYSTEM ...... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – Book-Entry-Only System").

PAYMENT RECORD .... The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population [(1)]	Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	General Purpose G.O. Tax Debt [(3)]	Ratio of General Purpose G.O. Tax Debt to Taxable Assessed Valuation	General Purpose G.O. Tax Debt Per Capita	% of Total Tax Collections
2016	2,887	$ 146,858,640	$ 50,869	$ 4,555,000	3.10%	$ 1,578	95.38%
2017	2,771	143,519,520	51,793	4,290,000	2.99%	1,548	100.17%
2018	2,683	138,429,550	51,595	4,015,000	2.90%	1,496	98.10%
2019	2,683	135,822,470	50,623	3,735,000	2.75%	1,392	97.56% [(5)]
2020	2,683	130,598,210	48,676	2,920,000 [(4)]	2.24%	1,088	N/A

(1) Source: Municipal Advisory Council of Texas.
(2) As reported by the Hemphill County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Includes Self-Supporting Debt.
(4) Includes the Bonds and excludes the Refunded Obligations.
(5) Collections as of September 30, 2019.

For additional information regarding the City, please contact:

Mr. Joe Jarosek City Manager City of Canadian 6 Main Street Canadian, Texas 79014 Phone: (806) 323-6473	or	Mr. Vince Viaille Managing Director Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 1350 Dallas, Texas 75206 Phone: (214) 373-3911

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Terrill Bartlett Mayor	4 Months	May, 2021	Store Owner
Gary Prater Mayor Pro Tem	3 Years	May, 2020	Truck Driver
Blake Beedy Councilmember	3 Years	May, 2020	Manager
Wendie Cook Councilmember	1 Year	May, 2020	Executive Director
Jonathan Frederick Councilmember	4 Years	May, 2021	Engineer
Ben Needham Councilmember	4 Months	May, 2021	Senior Land Manager

SELECTED ADMINISTRATIVE STAFF

Name	Position	Time in Current Position	Years in City Government
Joe Jarosek	City Manager	2 Years	12 Years
Kimberly Sloat	City Secretary	6 Years	8 Years

CONSULTANTS AND ADVISORS

Auditors .... Brown, Graham, & Company, P.C.
Spearman, Texas

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.. Specialized Public Finance Inc.
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

$2,985,000
CITY OF CANADIAN, TEXAS
(Hemphill County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $2,985,000 City of Canadian, Texas, General Obligation Refunding Bonds, Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, and is a Type A General Law City under State Law. The City was incorporated in 1934. The City operates under a Council/Manager form of government where the Mayor and five Councilmembers are elected for two-year staggered terms. The Council formulates operating policy for the City while the City Manager is the chief administrative officer. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, sanitation, health, parks and recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 2,233. The City covers approximately 1.80 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt, as shown on SCHEDULE I hereto (the "Refunded Obligations"), for debt service savings, and to pay the costs of issuing the Bonds.

REFUNDED OBLIGATIONS . . . The Refunded Obligations, and interest due thereon, are to be paid on the scheduled redemption date therefor from funds to be deposited with U.S. Bank National Association, Dallas, Texas (the "Escrow Agent") pursuant to an Escrow Agreement (the "Escrow Agreement") between the City and the Escrow Agent. The Ordinance provides that from the proceeds of the sale of the Bonds to the Underwriter, the City will deposit with the Escrow Agent an amount which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations, and such funds will not be available to pay the Bonds. Samuel Klein and Company, a nationally recognized CPA Firm, in conjunction with Public Finance Partners LLC, (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriter that the Federal Securities deposited under the Escrow Agreement will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund established under the Escrow Agreement, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations addressed by such Escrow Agreement on their scheduled redemption date. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See "OTHER INFORMATION – Verification of Mathematical Computations." Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to the paying agent for the Refunded Obligations to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from funds held under the Escrow Agreement.

By the deposit of the cash and investments described above with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of the ordinances authorizing the issuance of the Refunded Obligations, and the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Obligations. It is the opinion of Bond Counsel that, as a result of such deposit and in reliance upon the report of the Verification Agent, firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations will have been made and, therefore, the Refunded Obligations will be deemed to be fully paid and no longer outstanding except for the purpose of receiving payments from the funds provided therefor in the Escrow Agreement.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds, together with other lawfully available funds of the City, if any, will be applied approximately as follows:

SOURCES OF FUNDS:	
Par Amount of Bonds	$ 2,985,000.00
Reoffering Premium	322,059.55
Transfers from Prior Issue Debt Service Funds	18,000.00
Transfers from Series 2008 Construction Fund	39,711.56
Total Sources of Funds	$ 3,364,771.11
USES OF FUNDS:	
Deposit to Escrow Fund	$ 3,262,948.16
Underwriter's Discount	27,899.72
Costs of Issuance and Rounding Amount	73,923.23
Total Uses of Funds	$ 3,364,771.11

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated October 15, 2019 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, will accrue from the date of delivery and will be payable on February 15 and August 15, commencing February 15, 2020 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1207, Texas Government Code, as amended ("Chapter 1207"), and an ordinance adopted by the City Council (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to an officer of the City, pursuant to Chapter 1207, authority to complete the sale of the bonds. The terms of sale are included in a "Pricing Certificate" which completes the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance").

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City. All taxable property within the City is subject to a direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable from ad valorem taxes, which tax must be levied within the limits prescribed by law.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $1.50 per $100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.00 of the $1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bond, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agents for the Refunded Obligations. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharges obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligation of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council approves the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council approves the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded as being outstanding or unpaid.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Direct Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriter.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Bond Ordinance the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bonds to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange (i) any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Bonds, aggregating in principal amount 51% of the outstanding Bonds, shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

BONDHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Bonds, as applicable, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds, as applicable, or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia* (197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in a clear and unambiguous language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the covenants in the Bonds or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "Book-Entry-Only System" herein.

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AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board ("Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Hemphill Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM PROPERTY TAXATION – Issuer and Taxpayer Remedies."

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED . . . The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

PERSONAL PROPERTY . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

FREEPORT EXEMPTIONS . . . Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1,1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Financing Zones . . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value," and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" for descriptions of any TIRZ created in the City.

Tax Abatement Agreements . . . Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" for descriptions of any of the City's tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

Tax Rate Limitations . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

Public Hearing and Maintenance and Operation Tax Rate Limitations…The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate."

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its "de minimis rate," an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

ISSUER AND TAXPAYER REMEDIES…Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least $50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "– Public Hearing and Maintenance and Operation Tax Rate Limitations.") The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in either the standard edition of the Annual Energy Outlook published by the United States Energy Information Administration or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . . Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City does grant an exemption to the market value of the residence homestead of persons 65 years of age or older and does not grant an exemption to the market value of the residence homestead of the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Canadian Independent School District collects taxes for the City.

The City does permit split payments, and discounts are allowed.

The City does not tax freeport property.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy.

TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by the Appraisal District (excluding exempt property)		$ 135,240,055
Less Exemptions/Reductions at 100% Market Value:	$ 4,641,845	
2019/2020 Net Taxable Assessed Valuation		$ 130,598,210
City Funded Debt Payable from Ad Valorem Taxes		
General Obligation Debt (as of 9/1/2019)		$ 230,000 (1)
The Bonds		2,985,000
General Obligation Debt Payable from Ad Valorem Taxes		$ 3,215,000
Less: Self Supporting Debt (2)		
Waterworks and Sewer System General Obligation Debt		$ 3,215,000
General Purpose Funded Debt Payable from Taxation (as of 9/1/2019)		$ -
General Obligation Interest and Sinking Fund (as of 9/30/2019)		$ 86,226
Ratio General Obligation Debt to Taxable Assessed Valuation		2.46%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		0.00%

2019 Estimated Population - 2,683
Per Capita Taxable Assessed Valuation - $48,676
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $1,198
Per Capita General Purpose Funded Debt - $0

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(1) Excludes the Refunded Obligations.
(2) Certain ad valorem tax-supported indebtedness which was issued for water and sewer purposes is currently being paid from waterworks and sewer system revenues are considered by the City to be self-supporting debt. While the City considers such ad valorem tax-supported debt to be self-supporting, revenues and are not (except to the extent of certain limited pledges of surplus net revenues of the waterworks and sewer system, which may or may not have been fully satisfied) pledged to the payment of such debt. The transfers of such revenues to make debt service payments on such ad valorem tax debt is discretionary and may be discontinued by the City, in whole or in part, at any time. In the event and to the extent the City elects to discontinue such revenue transfers, the City will be required to levy ad valorem taxes or to appropriate other lawfully available funds of the City in an amount sufficient to pay the debt service on such debt.

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Table 2 – Valuation and General Obligation Debt History

Fiscal Year Ended 9/30	Estimated Population [(1)]	Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	General Purpose G.O. Tax Debt [(3)]	Ratio of General Purpose G.O. Tax Debt to Taxable Assessed Valuation	General Purpose G.O. Tax Debt Per Capita
2016	2,887	$ 146,858,640	$ 50,869	$ 4,555,000	3.10%	$ 1,578
2017	2,771	143,519,520	51,793	4,290,000	2.99%	1,548
2018	2,683	138,429,550	51,595	4,015,000	2.90%	1,496
2019	2,683	135,822,470	50,623	3,735,000	2.75%	1,392
2020	2,683	130,598,210	48,676	2,920,000 (4)	2.24%	1,088

(1) Source: Municipal Advisory Council of Texas.
(2) As reported by the Hemphill County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt.
(4) Includes the Bonds and excludes the Refunded Obligations.

Table 3 – Tax Rate, Levy and Collection History

Fiscal Year Ended 9/30	Tax Rate	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
2016	$ 0.6200	$ 0.5587	$ 0.0613	$ 910,509	94.38%	95.38%
2017	0.6286	0.5644	0.0642	902,164	97.91%	100.17%
2018	0.6530	0.5886	0.0644	903,945	97.20%	98.10%
2019	0.6674	0.6004	0.0670	906,466	95.92% (1)	97.56% (1)
2020	0.6861	0.6151	0.0710	895,997	N/A	N/A

(1) Collections as of September 30, 2019.

Table 4 – Ten Largest Taxpayers

Name of Taxpayer	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
BNSF Railway Company	$ 2,634,540	2.02%
Enable Gas Gathering LLC	2,496,560	1.91%
SAA Properties LP	2,011,795	1.54%
Athena Hospitality LP	1,695,910	1.30%
Natural Gas Compression System	1,508,320	1.15%
Rio Canadian Rental Properties LLC	1,106,420	0.85%
Southwestern Public Service Co	1,096,100	0.84%
Quiet Inn, LLC	1,052,810	0.81%
Multi Chem Group LLC	920,100	0.70%
KJK Rental Propertieis LLC	856,610	0.66%
	$ 15,379,165	11.78%

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law (see "THE BONDS – Tax Rate Limitation").

TABLE 5 – TAX ADEQUACY [(1)]

2020 Net Tax Supported Debt Principal and Interest Requirements	$ 381,305
$0.3074 Tax Rate at 95% Collection Produces	$ 381,386
Average Net Tax Supported Debt Annual Principal and Interest Requirements, 2020-2030	$ 353,046
$0.2846 Tax Rate at 95% Collection Produces	$ 353,098
Maximum Annual Principal and Interest Requirements, 2021	$ 420,600
$0.3391 Tax Rate at 95% Collection Produces	$ 420,716

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(1) Projected. Excludes the Refunded Obligations and includes the Bonds and self-supporting debt (see Table 1 for detailed information on self-supporting debt).

TABLE 6 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	General Purpose G.O. Debt As of 8/31/19	Estimated % Applicable	City's Overlapping Funded Debt As of 8/31/19
City of Canadian	$ -	100.00%	$ - [(1)]
Canadian ISD	9,960,000	8.94%	890,424
Hemphill County	-	7.15%	-
Total Direct and Overlapping G.O. Debt			$ 890,424
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation			0.68%
Per Capita Overlapping G.O. Debt			$ 332

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(1) Includes the Bonds and excludes the Refunded Obligations and self-supporting debt.

DEBT INFORMATION

TABLE 7 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt (1)			The Bonds (2)			Total Debt Service Requirements	LESS: System-Supported Debt Service	Total Tax-Supported Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total				
2020	$ 230,000	$ 4,025	$ 234,025	$ 65,000	$ 82,280	$ 147,280	$ 381,305	$ 381,305	$ -	9.18%
2021	-	-	-	310,000	110,600	420,600	420,600	420,600	-	
2022	-	-	-	310,000	98,200	408,200	408,200	408,200	-	
2023	-	-	-	330,000	85,400	415,400	415,400	415,400	-	
2024	-	-	-	250,000	73,800	323,800	323,800	323,800	-	
2025	-	-	-	260,000	63,600	323,600	323,600	323,600	-	54.59%
2026	-	-	-	270,000	53,000	323,000	323,000	323,000	-	
2027	-	-	-	280,000	42,000	322,000	322,000	322,000	-	
2028	-	-	-	290,000	30,600	320,600	320,600	320,600	-	
2029	-	-	-	305,000	18,700	323,700	323,700	323,700	-	
2030	-	-	-	315,000	6,300	321,300	321,300	321,300	-	100.00%
	$ 230,000	$ 4,025	$ 234,025	$ 2,985,000	$ 664,480	$ 3,649,480	$ 3,883,505	$ 3,883,505	$ -	

(1) Excludes the Refunded Obligations. "Outstanding Debt" does not include lease/purchase obligations. Includes self-supporting debt. See "Table 10 – Computation of Self-Supporting Debt" herein.
(2) Interest on the Bonds has been calculated at the rates set forth on the inside cover.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not have any plans to issue additional general obligation debt in the next twelve months.

TABLE 8 – OTHER OBLIGATIONS

LONG-TERM DEBT:

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.

For more detailed information concerning the lease, see "APPENDIX B – Excerpts from the City's Annual Financial Report" - Note # 7.

PENSION PLANS

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense.

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.

For more detailed information concerning the retirement plans, see "APPENDIX B – Excerpts from the City's Annual Financial Report" - Note # 12.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS:

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 another 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.

For more detailed information concerning the benefits, see "APPENDIX B – Excerpts from the City's Annual Financial Report" - Note # 13.

FINANCIAL INFORMATION

TABLE 9 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
REVENUES	2018	2017	2016	2015	2014
Taxes, Penalties and Interest	$ 1,435,474	$ 1,422,706	$ 1,455,433	$ 1,635,895	$ 1,545,931
Charges for Services	12,596	9,599	10,194	8,955	11,047
Fees and Permits	133,185	129,696	129,534	175,389	167,327
Grants and Donations	1,000	-	-	4,432	-
Royalties and Rents	2,185	3,367	2,289	10,000	6,797
Interest on Temporary Investments	12,298	6,384	9,552	1,126	5,639
Other	64,302	32,010	39,936	29,643	6,954
Total Revenues	$ 1,661,040	$ 1,603,762	$ 1,646,938	$ 1,865,440	$ 1,743,695
EXPENDITURES					
Current:					
City Council	$ 8,240	$ 6,401	$ 10,819	$ 11,796	$ 9,221
Administration	405,385	408,321	514,470	399,877	369,405
Legal	7,437	7,472	8,671	7,510	7,996
Tax Office	33,376	36,653	30,816	26,599	25,611
Elections	2,018	1,105	1,111	1,170	2,535
Community Service	20,160	37,584	20,732	11,831	11,736
Fire Department	45,878	46,218	39,140	52,953	41,066
Highway and Streets	343,727	184,427	212,517	222,029	170,303
Public Works	130,675	320,717	343,179	306,325	273,042
Swimming Pool	76,878	70,405	79,122	84,492	85,604
CARE Commission	1,241	237,140	270,048	225,135	-
Support Services	220,117	16,610	15,485	22,006	257,147
Maintenance Shop	107,950	-	-	-	15,175
Capital Outlay	58,770	2,869	38,890	95,316	169,204
Total Expenditures	$ 1,461,852	$ 1,375,922	$ 1,585,000	$ 1,467,039	$ 1,438,045
Excess (Deficiency) of Revenues over Expenditures	$ 199,188	$ 227,840	$ 61,938	$ 398,401	$ 305,650
OTHER FINANCING SOURCES (USES)					
Operating Transfers in	$ -	$ -	$ -	$ -	$ 94,816
Operating Transfers Out	(25,298)	54,974	(188,597)	(259,003)	-
Total Other Financing Sources (Uses)	$ (25,298)	$ 54,974	$ (188,597)	$ (259,003)	$ 94,816
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$ 173,890	$ 282,814	$ (126,659)	$ 139,398	$ 400,466
Fund Balance at Beginning of Year	$ 3,802,370	$ 3,519,556 (1)	$ 3,646,214	$ 3,506,816 (1)	$ 3,106,348
Fund Balance at End of Year(2)	$ 3,976,260	$ 3,802,370	$ 3,519,555	$ 3,646,214	$ 3,506,814

(1) Restated.
(2) The unaudited General Fund balance as of September 30, 2019 is $4,166,058.40.

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TABLE 10 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. Proceeds of these sales and use taxes are credited to the General Fund and are not pledged to the Certificates. Voters approved an additional sales and use tax of ½ of 1% for the Canadian-Hemphill County Economic Development Corporation (Type A) and ½ of 1% for property tax reduction. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. Revenue from this source, for the years shown, has been:

Fiscal Year Ended 9/30	Total Collected (1)	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita (2)
2015	$ 1,454,213	211.58%	$ 1.0731	$ 483
2016	907,861	99.71%	0.6182	314
2017	793,714	87.98%	0.5530	286
2018	828,995	91.71%	0.5989	309
2019	839,894 (3)	92.66%	0.6184	313

(1) Source: Texas Comptroller of Public Accounts.
(2) Source: Municipal Advisory Council of Texas.
(3) Collections as of September 30, 2019.

FINANCIAL POLICIES

Basis of Accounting . . . The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. 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 levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met (see "APPENDIX B – Excerpts from the City of Canadian Annual Financial Report" – Note #1).

General Fund . . . The General Fund Balance accounts for several of the City's primary services (Public Safety, Public Works, General Administration, etc.) and is the primary operating unit of the City.

Debt Service Fund . . . The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds, when applicable.

Budgetary Procedures . . . The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits a proposed operating budget to the City Council for the fiscal year beginning the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 1, the budget is legally enacted through passage of an ordinance.
4. 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.
5. Formal budgetary integration is employed as a management control device for the General Fund, certain Special Revenue Funds, and Proprietary Funds.
6. Budgets for these funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Capital outlay provisions are included in each fund's budget.
7. Budgeted amounts are as originally adopted or as amended by the City Council.
8. An appropriation in furtherance of public improvements or public works which will not be completed within the budget year continues in force until the purpose for which it was made is accomplished. All other appropriations lapse at year end and are subject to reappropriation.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City of Canadian. Both state law and the City's investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under Texas law, the City is authorized to invest in (1) obligations including letters of credit of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission (the "SEC") and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a contribution of cash and obligations described in clause (1) , clause (12) below, require the securities being purchased by the City or cash held by the City to be pledged to the City, and in the City's name and deposited at the time the uninvested is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC and complies with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the treasurer, the chief financial officer (if not the treasurer) and the investment officer, and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 11 – CURRENT INVESTMENTS

As of August 31, 2019, the City's investable funds were invested in the following categories:

Description	Book Value
Bank Accounts	$ 631,500
Money Market Accounts	5,514,181
	$ 6,145,682

TAX MATTERS

OPINIONS . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX C – Form of Bond Counsel's Opinion."

In rendering the foregoing opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) covenants of the City contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Obligations, respectively, and the property financed or refinanced therewith, and (iii) the report by Public Finance Partners LLC verifying the sufficiency of the amounts deposited with the Escrow Agent to redeem the Refunded Obligations. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The foregoing opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Issue.

The foregoing opinion of Bond Counsel represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. None of the aforementioned opinions is a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the projects financed with the proceeds of the Bonds or the Refunded Obligations. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with any of aforementioned opinions of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Securities"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Security, and (ii) the initial offering price to the public of such Original Issue Discount Security would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Security in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Security equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Security prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Security in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Security was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Security is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Issue and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Security for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Security.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Securities which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Securities should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Securities and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Securities.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excessive passive income, foreign corporation subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE ISSUE.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . .Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City covenants to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded, however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligation, because the City does not currently have outstanding more than $10,000,000 in aggregate amount of outstanding municipal securities (excluding securities offered in transactions that were exempt from the Rule 15c2-12(d)(2)). Pursuant to the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of Rule 15c2-12. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement that is customarily prepared by the City and publicly available, which currently consists of an audited annual financial statement. The City will update and provide this information within twelve months after the end of each fiscal year ending in and after 2019. The City will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the EMMA system at www.emma.msrb.org. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States SEC, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information by the last day of September in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change prior to the next date by which the City otherwise would be required to provide financial information and operating data.

NOTICES OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports."

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only as described above. The information will be available free of charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretation of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATING . . . The Bonds and the outstanding debt of the City are rated "AA-" by S&P without regard to the municipal bond insurance. The City also has issues outstanding which are insured by various commercial insurance companies. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the City Attorney and City staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION – Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS . . . The City will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. Though it may represent the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "PLAN OF FINANCING – Refunded Obligations," "THE BONDS" (exclusive of subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (excluding the last two sentences of the first paragraph thereof), "Registration and Qualification of Obligations for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fees of such firm are contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

VERIFICATION OF MATHEMATICAL COMPUTATIONS . . . Samuel Klein and Company, a nationally recognized CPA Firm, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations.

Samuel Klein and Company relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Samuel Klein and Company has relied on any information provided to it by the City's retained advisors, consultants or legal counsel, including Public Finance Partners LLC.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

UNDERWRITING . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of $27,899.72. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Bonds delegated to the Pricing Officer the authority to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriter.

This Official Statement has been approved by the Pricing Officer of the City for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

/s/ Joe Jarosek
Pricing Officer
City of Canadian, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Tax and Waterworks & Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2010

Original Dated Date	Original Maturity	Interest Rates	Amount
June 15, 2010	2/15/2021	4.000%	$ 240,000
	2/15/2022	4.000%	245,000
	2/15/2023	4.000%	260,000
	2/15/2024	4.000%	270,000
	2/15/2025	4.000%	280,000
	2/15/2026	4.000%	290,000
	2/15/2027	4.000%	300,000
	2/15/2028	4.000%	315,000
	2/15/2029	4.125%	330,000
	2/15/2030	4.125%	340,000
			$ 2,870,000

Redemption Date: February 15, 2020
Redemption Price: 100%

Tax and Waterworks & Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008

Original Dated Date	Original Maturity	Interest Rates	Amount
May 15, 2008	2/15/2020	4.250%	$ 80,000
	2/15/2021	4.250%	85,000
	2/15/2022	4.250%	85,000
	2/15/2023	4.250%	90,000
			$ 340,000

Redemption Date: December 3, 2019
Redemption Price: 100%

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND POPULATION

The City, the county seat and principal commercial center of Hemphill County (the "County"), is located in the northeastern portion of the Texas Panhandle approximately 30 miles from the Oklahoma border on U.S. Highway 60.

POPULATION

The City's estimated population for 2018 was 2,683 by the U.S. Census Bureau.

The City's 2010 U.S. Census population was 2,649, increasing 18.6% since 2000.

HEMPHILL COUNTY

The County is a north Texas panhandle county bordering Oklahoma, served by State Highways 60 and 83 and a well-developed farm-to-market road system.

The economy is based on mineral production and ranching.

AGRICULTURE

The Texas Almanac designates cattle and swine as principal sources of agricultural income. Major industries of the area include farming, ranching, oil and natural gas. A grain elevator serves area farmers.

LABOR FORCE ESTIMATES – HEMPHILL COUNTY

	August	Annual Averages			
	2019	2018	2017	2016	2015
Civilian Labor Force	2,295	2,285	2,318	2,116	2,303
Total Employment	2,238	2,237	2,260	2,037	2,231
Total Unemployment	57	48	58	79	72
Percent Unemployment	2.5%	2.1%	2.5%	3.7%	3.1%

Source: Texas Labor Market Information.

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APPENDIX B

EXCERPTS FROM THE

CITY OF CANADIAN, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2018

The information contained in this Appendix consists of excerpts from the City of Canadian, Texas Annual Financial Report for the Year Ended September 30, 2018, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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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.

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.

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	7,236,023	7,207,522	9,312,908	9,244,512	16,548,931	16,452,034
Deferred outflows of resources	84,390	141,405	72,402	127,665	156,792	269,070
Total assets & deferred outflows of resources	7,320,413	7,348,927	9,385,310	9,372,177	16,705,723	16,721,104
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	1,059,488	1,161,719	3,945,111	4,233,270	5,004,599	5,394,989
Deferred inflows of resources	51,351	-	44,056	-	95,407	-
Total liabilities & deferred inflows of resources	1,110,839	1,161,719	3,989,167	4,233,270	5,100,006	5,394,989
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	$ 6,209,574	$ 6,187,208	$ 5,396,143	$ 5,138,907	$ 11,605,717	$ 11,326,115

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	1,895,728	1,854,643	1,992,347	2,028,545	3,888,075	3,883,188
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	1,823,042	1,812,424	1,737,091	1,733,235	3,560,133	3,545,659
Increase (decrease) in net position before transfers	72,686	42,219	255,256	295,310	327,942	337,529
Transfers in (out)	(24,298)	56,350	24,298	(56,350)	-	-
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	(26,022)	-	(22,318)	-	(48,340)	-
Net position - beginning as restated	6,161,186	6,088,639	5,116,589	4,899,947	11,277,775	10,988,586
Net position - ending	$ 6,209,574	$ 6,187,208	$ 5,396,143	$ 5,138,907	$ 11,605,717	$ 11,326,115

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	-

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 treatement 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.

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	$ 3,335,799	$ 3,552,929	$ 434,230	$ 504,957

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic 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

CITY OF CANADIAN
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic 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

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
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	1,823,042	79,735	-	1,000
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	1,737,091	1,686,736	258,000	5,450
Total Primary Government	$ 3,560,133	$ 1,766,471	$ 258,000	$ 6,450
Component unit:				
Economic Development Corporation	$ 473,038	$ 30,720	$ -	$ -

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)	-
(1,742,307)	-	(1,742,307)	-
-	378,528	378,528	-
-	(57,987)	(57,987)	-
-	104,734	104,734	-
-	(76,350)	(76,350)	-
-	(135,830)	(135,830)	-
-	213,095	213,095	-
(1,742,307)	213,095	(1,529,212)	-
-	-	-	(442,318)
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)
(24,298)	24,298	-	-
1,790,695	66,459	1,857,154	198,147
48,388	279,554	327,942	(244,171)
6,187,208	5,138,907	11,326,115	1,024,676
(26,022)	(22,318)	(48,340)	-
6,161,186	5,116,589	11,277,775	1,024,676
$ 6,209,574	$ 5,396,143	$ 11,605,717	$ 780,505

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.		(434,230)
Total net position - governmental activities (page 15)	$	6,209,574

The accompanying notes are an integral part of these financial statements

CITY OF CANADIAN Exhibit B-2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended September 30, 2018

	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
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
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)
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
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
Change in net position of governmental activities (page 17)	$	48,388

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

	Budgeted Amounts		
	Original	Final	Actual Amounts Budgetary Basis
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	1,564,523	1,652,929	1,652,934
Expenditures			
Current:			
City Council			
Supplies and materials	500	50	50
Contractual services	12,550	8,201	8,190
Total city council	13,050	8,251	8,240
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	458,450	407,001	406,999
Legal			
Supplies and materials	100	-	-
Contractual services	8,500	7,436	7,437
Total legal	8,600	7,436	7,437
Tax office			
Contractual services	37,000	33,376	33,376
Total tax office	37,000	33,376	33,376
Elections			
Supplies and materials	1,000	360	355
Contractual services	1,500	1,675	1,663
Total elections	2,500	2,035	2,018

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

	Budgeted Amounts		
	Original	Final	Actual Amounts Budgetary Basis
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

	Budgeted Amounts		
	Original	Final	Actual Amounts Budgetary Basis
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	116,740	107,788	107,772
Capital outlay	40,000	58,770	58,770
Total expenditures	1,612,084	1,457,240	1,457,206
Excess (deficiency) of revenues over (under) expenditures	(47,561)	195,689	195,728
Other financing sources (uses)			
Cash used (generated) to balance budget	(8,789)	(225,026)	-
Operating transfers in (out)	56,350	29,337	30,578
Total other financing sources (uses)	47,561	(195,689)	30,578
Net change in fund balances	-	-	226,306
Fund balances - beginning	3,802,370	3,802,370	3,802,370
Fund balances - ending	$ 3,802,370	$ 3,802,370	$ 4,028,676

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
16	178	107,950
-	-	58,770
34	4,646	1,461,852
39	3,460	199,188
225,026	-	-
1,241	(55,876)	(25,298)
226,267	(55,876)	(25,298)
226,306	(52,416)	173,890
3,802,370	-	3,802,370
$ 4,028,676	$ (52,416) (1)	$ 3,976,260

$	(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

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

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
$ -	$ (6,268)	$ 142,037
-	-	-
-	-	159,962
-	-	159,962
-	(6,268)	(17,925)
(11,657)	-	-
(11,657)	(6,268)	(17,925)
391,277	-	391,277
$ 379,620	$ (6,268) (1)	$ 373,352
	$ (6,268) (1)	

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

	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	1,610,529	267,521	24	1,878,074
Noncurrent assets:				
Property, plant and equipment, net of accumulated depreciation	7,023,532	316,783	94,519	7,434,834
Total assets	8,634,061	584,304	94,543	9,312,908
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	247	216	43	506
Total deferred outflows of resources	35,300	30,966	6,136	72,402
Total assets and deferred outflows of resources	$ 8,669,361	$ 615,270	$ 100,679	$ 9,385,310

The accompanying notes are an integral part of these financial statements

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

	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	256,686	8,173	6,285	271,144
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	3,400,988	229,852	43,127	3,673,967
Total liabilities	3,657,674	238,025	49,412	3,945,111
Deferred inflows of resources				
Differences between projected and actual earnings on pension plan	21,479	18,843	3,734	44,056
Net position				
Net investment in capital assets	3,679,246	316,783	93,769	4,089,798
Unrestricted	1,310,962	41,619	(46,236)	1,306,345
Total net position	4,990,208	358,402	47,533	5,396,143
Total liabilities, deferred inflows of resources and net position	$ 8,669,361	$ 615,270	$ 100,679	$ 9,385,310

The accompanying notes are an integral part of these financial statements

Exhibit D-2

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

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Golf Course Fund	Totals
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	984,581	577,935	124,220	1,686,736
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	914,040	478,651	208,570	1,601,261
Operating income (loss)	70,541	99,284	(84,350)	85,475
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)	156,548	-	13,233	169,781
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	183,861	71,934	23,759	279,554
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)
	4,806,347	286,468	23,774	5,116,589
Total net position - ending	$ 4,990,208	$ 358,402	$ 47,533	$ 5,396,143

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	308,177	155,444	(61,448)	402,173
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	24,000	-	-	24,000
Net cash flows from non-capital and related financing activities	(19,228)	(27,350)	94,876	48,298
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	(134,538)	-	(217)	(134,755)
Net cash flows from capital and related financing activities	(898,326)	-	(38,919)	(937,245)
Cash flows from investing activities:				
Interest received	18,161	-	-	18,161
Net increase (decrease) in cash and temporary investments	(591,216)	128,094	(5,491)	(468,613)
Cash and temporary investments - beginning	2,058,062	91,660	5,491	2,155,213
Cash and temporary investments - ending	$ 1,466,846	$ 219,754	$ -	$ 1,686,600
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	(1,637)	-	-	(1,637)
Net cash flows from operating activities	$ 308,177	$ 155,444	$ (61,448)	$ 402,173

The accompanying notes are an integral part of these financial statements

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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.

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 G*eneral 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.

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.

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:

Assets	Years
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.

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.

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.

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.

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.

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.

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.

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	$ 8,789	$ 213,369

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.

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:

Governmental Fund Types

	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

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	(21,484)	(7,916)	-	(29,400)
Total net receivables	$ 75,045	$ 47,548	$ 24	$ 122,617

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	-	36,700	-	36,700
Total capital assets not being depreciated	75,000	$ 36,700	$ -	111,700
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	521,088	-	-	521,088
Total capital assets being depreciated	6,461,930	$ 22,070	$ -	6,484,000
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	(474,793)	(12,489)	-	(487,282)
Total accumulated depreciation	(3,558,046)	$ (216,890)	$ -	(3,774,936)
Total capital assets being depreciated, net	2,903,884			2,709,064
Governmental activities capital assets, net	$ 2,978,884			$ 2,820,764

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 saftey		183
Public works		5,740
Highways and streets		151,518
Support services		27,639
Promotion and tourism		30,972
Total depreciation expense - governmental activities	$	216,890

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		5,473,609		797,623		(6,245,460)		25,772
Total capital assets not being depreciated		5,489,773	$	797,623	$	(6,245,460)		41,936
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		4,166,290		6,245,460		-		10,411,750
Total capital assets being depreciated		5,394,063	$	6,251,625	$	-		11,645,688
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		(3,335,623)		(240,781)		-		(3,576,404)
Total accumulated depreciation		(4,374,370)	$	(289,722)	$	-		(4,664,092)
Total capital assets being depreciated, net		1,019,693						6,981,596
Water and sewer fund capital assets, net	$	6,509,466					$	7,023,532

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.

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

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		14,811
Total depreciation expense - business-type activities	$	352,836

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%	$	3,320,000

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

	Business-type Activities			
September 30		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		670,000		27,844
Totals	$	3,320,000	$	866,149

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:

	Interest rates	Amount
Purpose:		
Governmental Activities	4.25%	$ 415,000

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

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

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:

	Interest rates	Amount
Purpose:		
Business-type activities - Golf Course	3.916%	$ 750

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:

	Business-type Activities	
September 30	Principal	Interest
2019	$ 750	2

Changes in long-term liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Certificates of obligation, series 2008	$ 485,000	$ -	$ (70,000)	$ 415,000
Accrued compensated absences	19,957	-	(727)	19,230
Totals	$ 504,957	$ -	$ (70,727)	$ 434,230

	Beginning Balance	Increases	Decreases	Ending Balance
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	13,371	1,678	-	15,049
Totals	$ 3,552,929	$ 1,678	$ (218,808)	$ 3,335,799

NOTE 8. Interfund receivables/payables

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

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.

Receiving Fund	Paying Fund		
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
		$	219,239

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.

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	38

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.

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.

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.tmrs.com*.

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	$ 151,727	$ 95,407

$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:

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

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.

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	31

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.
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.

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	$ -

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:

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

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.

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.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

CITY OF CANADIAN, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019
DATED OCTOBER 15, 2019 IN THE PRINCIPAL AMOUNT OF $2,985,000

AS BOND COUNSEL FOR THE CITY OF CANADIAN, TEXAS, (the "Issuer") in connection with the issuance of the General Obligation Refunding Bonds, Series 2019, described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; and except as may be limited by laws applicable to the Issuer relating to governmental immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith, and the report prepared by Public Finance Partners LLC verifying the sufficiency of the amounts deposited to the escrow fund to pay the principal of and interest on the refunded obligations on their redemption date. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES