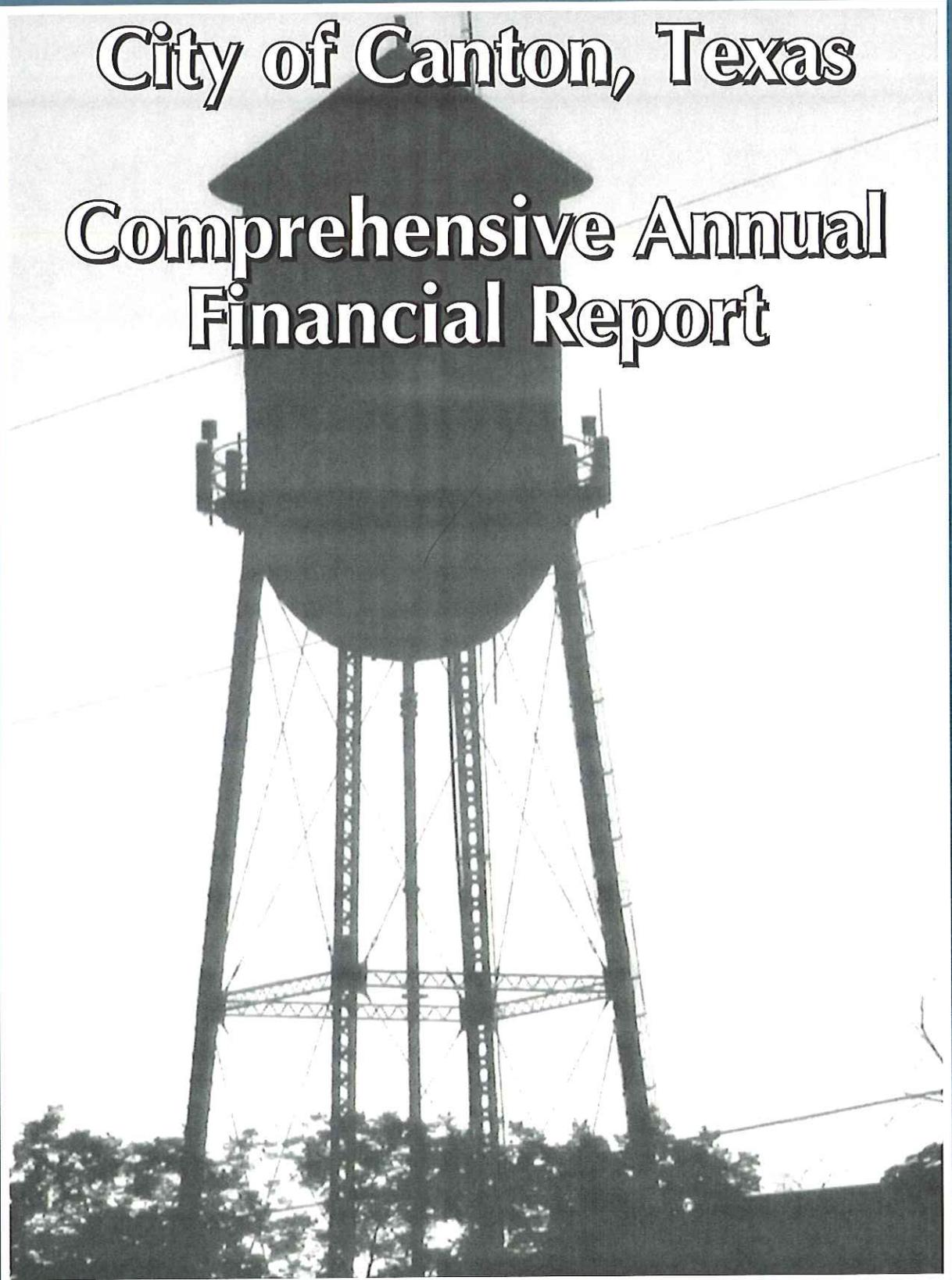




CITY OF CANTON

City of Canton, Texas

**Comprehensive Annual
Financial Report**



Fiscal Year Ended September 30, 2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF CANTON, TEXAS

FOR

FISCAL YEAR ENDED

SEPTEMBER 30, 2008

PREPARED BY:

CITY OF CANTON

FINANCE COMMITTEE

**CITY OF CANTON, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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INTRODUCTORY SECTION

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City of Canton

P.O. Box 100
Canton, Texas 75440

August 11, 2009

Honorable Mayor and City Council
City of Canton
Canton, Texas

Dear Mayor and Council Members:

The Comprehensive Annual Financial Report (CAFR) of the City of Canton, Texas, for the year ended September 30, 2008, is submitted herewith.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Conway Company CPAs, P.C. have issued an unqualified opinion on the City of Canton, Texas' financial statements for the year ended September 30, 2008. The independent auditor's report is located in the beginning of the financial section of the CAFR.

This letter of transmittal is designed to compliment Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements.

GENERAL INFORMATION – CITY OF CANTON

The City of Canton is located in Van Zandt County which is located in the Northeast region of Texas. The City was incorporated under the provisions of H.B. 901 of the Texas Legislature.

The City Council is comprised of a mayor and five council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, city manager, city attorney, and a municipal judge. The city manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the executive directors, and heads of departments, and the performance of functions within the municipal organization.

ECONOMIC CONDITIONS AND OUTLOOK

Canton, Texas is a commercial center for agriculture, manufacturing, and mining. Given Canton's pro-business attitude, the city continues to prosper economically. Highlights include:

Canton is home to First Monday which has provided economic benefits to the City since its opening over *one hundred and fifty* years ago. In the mid 1960's, the operations were organized and managed by the City of Canton which generated direct rental revenue and indirect sales tax revenue. Since that time, additional private First Monday properties have been developed. The City continues to receive a steady revenue stream from its First Monday operations and the sales tax revenue has continued to increase annually.

MAJOR INITIATIVES

In FY 2007-2008, several projects affecting the City's economic outlook were initiated. The luxurious Mill Creek Ranch RV Park & Cottage Resort expanded with Phase II, adding to Canton's allure as a tourist destination. The new Bridwell Shopping Center was completed and opened, including a new restaurant and a mix of new business and retail tenants such as Hibbits Sports and Anytime Fitness. A steel truss manufacturing company, Steelway International, also expanded its administrative offices in Canton.

The City completed construction of a major looped water line on the north side of town increasing pressure and flow to the Interstate 20 area. This project was funded by a Texas Capital Fund Economic Development Grant. A \$1,000,000 downtown sidewalk renovation project to improve safety, mobility, accessibility and the aesthetics of downtown and connecting pathways to First Monday Trade Days was completed. This project was funded by a T-21 grant from the Texas Department of Transportation. The City purchased property and began renovations on a new police station, jail cells, municipal court offices and administrative offices, eliminating the use of leased property. The City acquired a 16-acre baseball complex and reorganized the Parks Department. A master plan for First Monday was developed and improvements continued on the First Monday grounds and facilities. The City adopted a new personnel policy manual. A major improvement project on the Water Treatment Plant's filtration system to improve water quality and meet new TCEQ testing standards was initiated.

In FY 2008-2009, increased economic development is expected to continue with the opening of a new Brookshire's grocery store and the renovation of Traders Square Shopping Center. Construction will be completed on the \$1.4 million Etheridge Road project. Water planning initiatives continue with an engineering study for a long-range surface water plan, a water system capacity study, and a First Monday flood water retention study. Phase II of the Park Improvements project is expected to begin, including pavilions, restrooms, an amphitheater, a Frisbee golf course, and soccer field improvements. This project is funded by a Texas Parks & Wildlife grant.

FINANCIAL INFORMATION

Accounting Procedures and Budgetary Controls

The City's accounting records for general government are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis.

The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the City's financial management staff, and expenditure estimates by each

City department. Budgets are reviewed by the council. The city manager makes final decisions and submits a recommended budget to the city council.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates are reviewed by the mayor, city manager, and the city council concurrent with review of the proposed budget. This re-estimated budget may require a supplemental appropriation and, if so, such supplemental appropriation is approved by ordinance adopted by the city council prior to the end of the current fiscal year.

General Governmental Functions

Tax Rates: All eligible property within the City is subject to assessment, levy and collection by the City of a continuing, direct ad valorem tax sufficient to provide for the payment of principal and interest on outstanding debt within the limits prescribed by law, and the payment of operation and maintenance costs as approved by the City Council. The City's tax rate history as adopted by the City Council is shown below:

	<u>Tax Rate</u>
2005-2006	.4000000
2006-2007	.3900000
2007-2008	.4252300
2008-2009	.4252300

OTHER INFORMATION

Independent Audit The City of Canton has engaged the firm of Conway Company CPAs, P.C. to perform the annual audit and their opinion has been included in this report. It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material respects, the financial position of the City at September 30, 2008, and the changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Acknowledgements

Many persons are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to the City employees throughout the organization, especially those employees of the Accounting Department who were instrumental in the successful completion of this report.

Our appreciation is also extended to the mayor and members of the city council for providing the resources necessary to maintain the integrity of the City's financial affairs.

Respectfully submitted,

Andy McCuiston
CITY MANAGER

Julie H. Seymore
DIRECTOR OF FINANCE

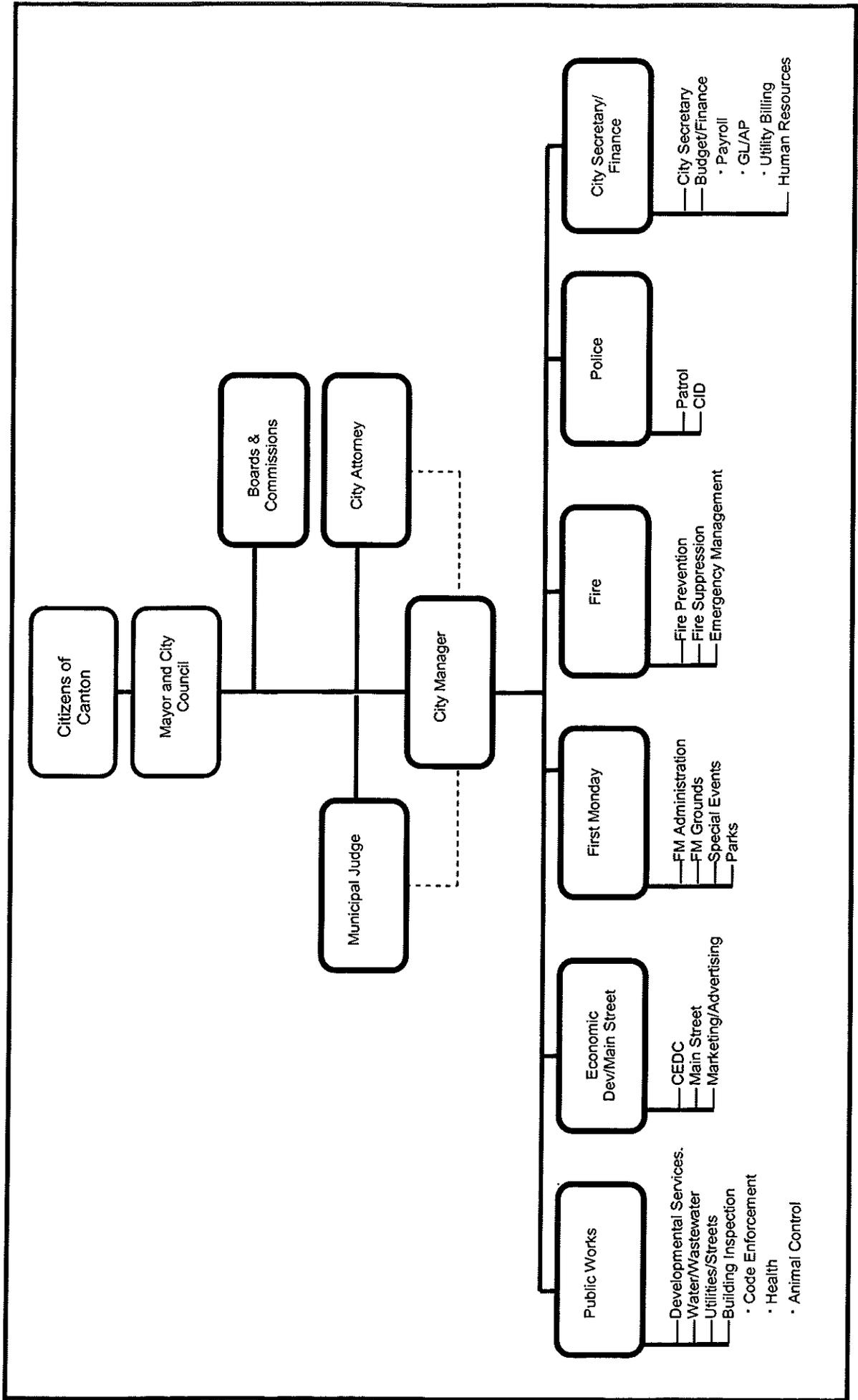
Council Members

Rusty Wilson, Mayor
Ross Maris, Mayor Pro Tem
Charles Huddle
Jim Fuller
Ron Sanford
Clay Nicklas

Administrative Staff

Andy McCuistion, City Manager
Lonny Cluck, Director of First Monday
Charles Bazhaw, Fire Chief
Mike Echols, Police Chief
Rick Malone, Director of Public Works
Julie H. Seymore, City Secretary/ Finance Officer
Lilia Durham, Municipal Court Judge

CITY OF CANTON ORGANIZATIONAL CHART



FINANCIAL SECTION



Michael Conway, CPA
Neil Conway, CPA

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CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

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PO Box 8234
Greenville, Texas 75404-8234

Member
American Institute of CPAs
Texas Society of CPAs

August 11, 2009

Independent Auditor's Report on Financial Statements

Mayor and City Council
City of Canton
290 E. Tyler
Canton, TX 75103-0245

Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canton ("City") as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Canton as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the statement of revenues, expenditures, and changes in fund balance – budget and actual for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's discussion and analysis and the Schedule of Pension Trust - TMRS Funding Progress and Contributions on pages 5 to 15 and page 49 identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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Fax (903) 454-3181

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated August 11, 2009, on our consideration of the City of Canton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be considered in assessing the results of our audit.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Respectfully Submitted,

CONWAY COMPANY CPAs, PC

Conway Company CPAs, P.C.

CITY OF CANTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2008

As management of the City of Canton, we offer readers of the City of Canton's financial statements this narrative overview and analysis of the financial activities of the City of Canton for the fiscal year ended September 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

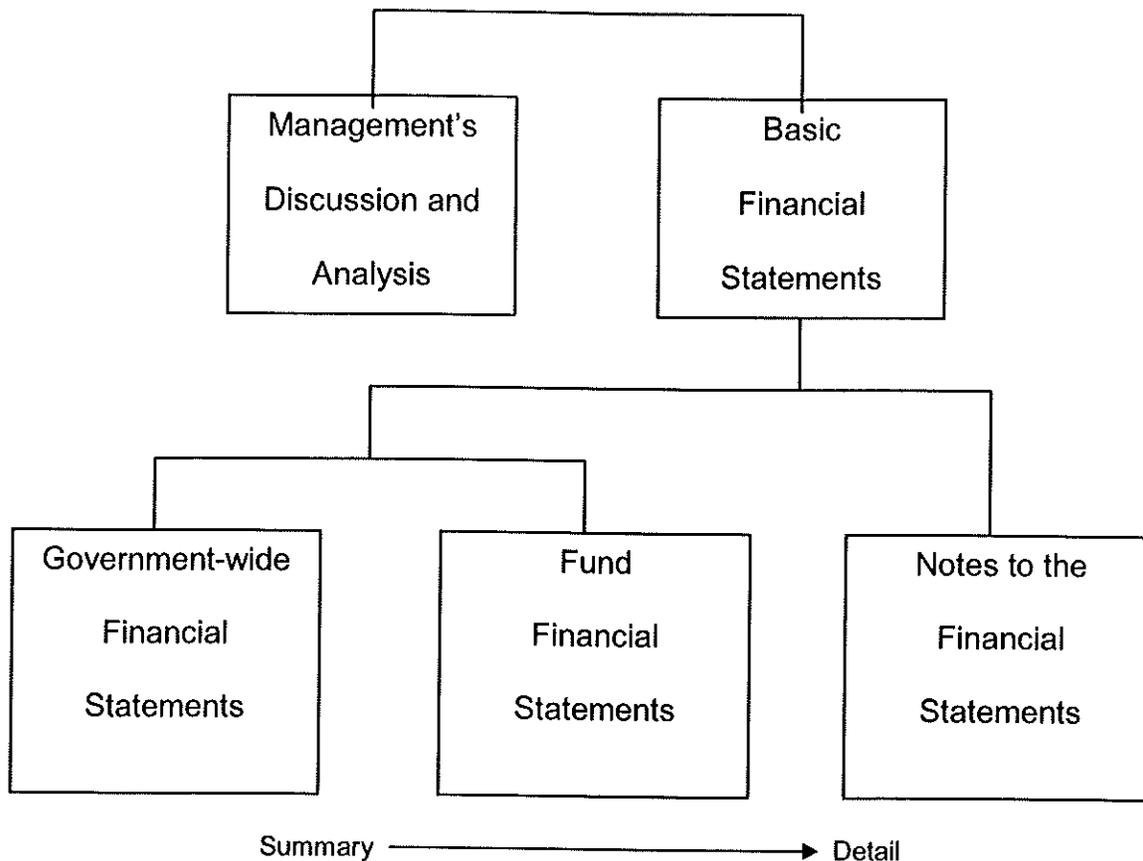
- The assets of the City of Canton exceeded its liabilities at the close of the fiscal year by \$18,299,370 (net assets). The portion of net assets that can be used to meet the government's on-going obligations to citizens and creditors, unrestricted net assets, is (\$905,054).
- The government's total net assets increased by \$1,754,247, (excluding prior period adjustments of \$234,357, due to increases in both the government-type activities net assets and business-type net assets.
- As of the close of the current fiscal year, the City of Canton's governmental funds reported combined ending fund balances of \$2,631,695, an increase of \$258,014 in comparison with the prior year. Approximately 45% of this total amount, or \$1,192,632, is available for spending at the government's discretion (unreserved fund balance)
- At the end of the current fiscal year, unreserved fund balance for the General Fund of \$1,192,632 was 36% percent of total general fund expenditures for the fiscal year.
- The City of Canton's total bonded debt increased by \$2,316,076 or 319.46% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Canton's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Canton.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 22-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City of Canton. The final category is the component unit. Currently, the City of Canton does not have significant activity in its component units.

The government-wide financial statements are on pages 19, 20, and 21 of this report.

Fund Financial Statements

The fund financial statements (Pages 22-28) provide a more detailed look at the City's most significant activities. 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 City of Canton, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Canton can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Canton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008

charges. The Governmental Fund financial statements can be found on pages 22-25 of this report.

Proprietary Funds – The City of Canton has one type of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Canton uses enterprise funds to account for its water and sewer activity and First Monday activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 26-28 of this report.

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 are on pages 29 to 46 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Canton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2008 continue the implementation of a new standard of financial reporting for the City of Canton, and many other units of government across the United States. Prior to 2004, the City of Canton maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Canton. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Canton's financial reports as well as those of many other units of government. While the City of Canton was required to implement these changes for the fiscal year ended September 30, 2004, other units were required to implement Statement 34 in 2002 and 2003.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

The City of Canton's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,268,211	\$ 2,534,337	\$ 2,205,932	\$ 1,577,484	\$ 5,474,143	\$ 4,111,821
Capital assets	10,258,044	8,499,833	11,178,756	10,745,595	21,436,800	19,245,428
Total assets	13,526,255	11,034,170	13,384,688	12,323,079	26,910,943	23,357,249
Current liabilities	1,166,751	724,274	416,360	778,127	1,583,111	1,502,401
Long-term liabilities	4,631,126	3,231,590	2,397,336	2,312,492	7,028,462	5,544,082
Total liabilities	5,797,877	3,955,864	2,813,696	3,090,619	8,611,573	7,046,483
Net assets:						
Invested in capital assets, net of related debt	8,917,364	4,780,990	8,847,997	8,049,798	17,765,361	12,830,788
Restricted	1,439,063	1,068,338	-	-	1,439,063	1,068,338
Unrestricted	(2,628,049)	1,228,978	1,722,995	1,182,662	(905,054)	2,411,640
Total net assets	\$ 7,728,378	\$ 7,078,306	\$ 10,570,992	\$ 9,232,460	\$ 18,299,370	\$ 16,310,766

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City of Canton exceeded liabilities by \$18,299,370 as of September 30, 2008. The City's net assets increased by \$1,754,247 for the fiscal year ended September 30, 2008. However, the largest portion (97.08%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Canton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Canton's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Canton's net assets, 7.86%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$905,054) is unrestricted.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

The City of Canton Changes in Net Assets
Figure 3

	Governmental Activities		Business Activities		Totals	
	2008	2007	2008	2007	2008	2007
REVENUE:						
Program Revenues						
Charges for Services	\$ 331,919	\$ 480,195	\$ 5,683,296	\$ 5,552,012	\$ 6,015,215	\$ 6,032,207
Grants and Contributions	446,870	312,144	-	28,000	446,870	340,144
General Revenues:						
Property Taxes	1,055,951	961,661	-	-	1,055,951	961,661
Sales Taxes	2,157,257	1,994,083	-	-	2,157,257	1,994,083
Franchise Fees	258,808	313,342	-	-	258,808	313,342
Mixed Drink Taxes	6,354	6,766	-	-	6,354	6,766
Hotel/Motel Tax	-	-	183,557	157,477	183,557	157,477
Donations	169,654	-	-	-	169,654	-
FEMA Reimbursement	56,873	-	-	-	56,873	-
Insurance Reimbursement	8,776	322	-	-	8,776	322
Miscellaneous	20,862	39,750	74,567	-	95,429	39,750
Sale of Assets	-	-	(205)	-	(205)	-
Intragovernmental Revenues	115,000	-	80,000	125,000	195,000	125,000
Total Revenues	4,628,324	4,108,263	6,021,215	5,862,489	10,649,539	9,970,752
EXPENSES:						
Program Expenses:						
Administrative Services	706,877	702,214	-	-	706,877	702,214
Police	1,131,783	1,086,149	-	-	1,131,783	1,086,149
Fire	341,626	282,429	-	-	341,626	282,429
Animal Control	177,310	115,159	-	-	177,310	115,159
Municipal Court	166,912	105,896	-	-	166,912	105,896
Streets	596,873	616,528	-	-	596,873	616,528
Parks and Recreation	293,487	202,809	-	-	293,487	202,809
Interest on Long-Term Debt	298,690	210,684	-	-	298,690	210,684
Water and Sewer	-	-	1,851,540	2,231,605	1,851,540	2,231,605
Sanitation	-	8,033	577,327	-	577,327	8,033
First Monday	-	-	2,911,402	2,884,669	2,911,402	2,884,669
Total Expenses	3,713,558	3,329,901	5,340,269	5,116,274	9,053,827	8,446,175
Increase in Net Assets before Transfers	914,766	778,362	680,946	746,215	1,595,712	1,524,577
Other Revenues and Financing Sources (uses)						
Transfers	(365,390)	(43,517)	365,390	43,517	-	-
Investment Income	111,716	78,512	46,819	94,252	158,535	172,764
Extraordinary Loss	-	(300,000)	-	-	-	(300,000)
Total Other Financing Sources (uses)	(253,674)	(265,005)	412,209	137,769	158,535	(127,236)
Increase in Net Assets	661,092	513,357	1,093,155	883,984	1,754,247	1,397,341
Net Assets, October 1	7,078,306	6,575,808	9,232,460	8,304,003	16,310,766	14,879,811
Prior Period Adjustments	(11,020)	(10,859)	245,377	44,473	234,357	33,614
Net Assets, September 30	\$ 7,728,378	\$ 7,078,306	\$10,570,992	\$ 9,232,460	\$18,299,370	\$16,310,766

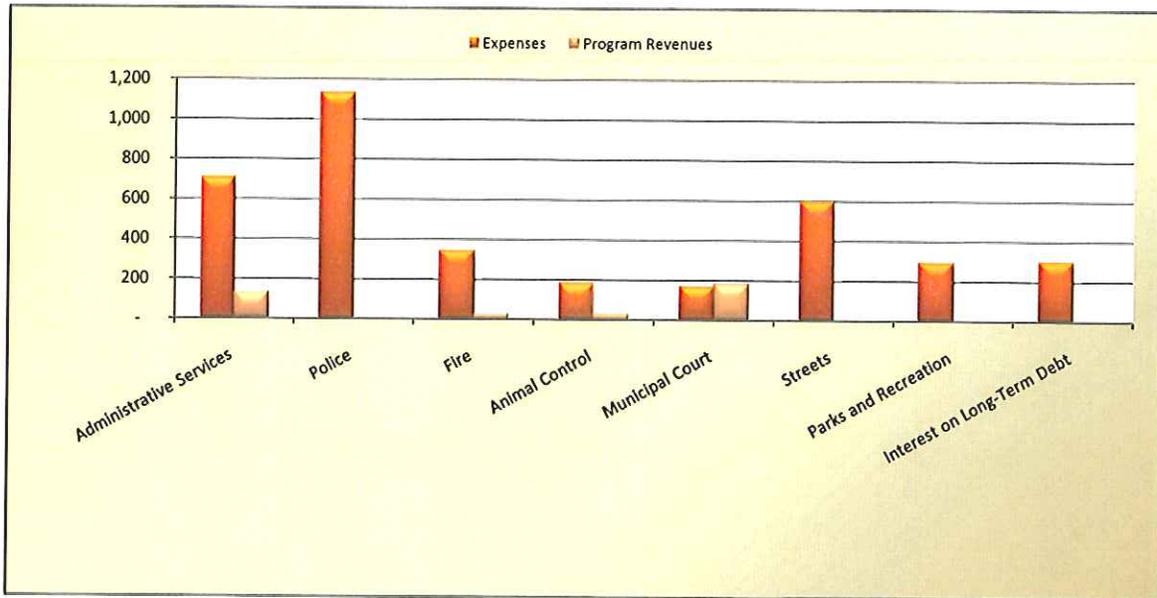
**CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008**

Governmental-type activities - The Governmental Funds increased the City's net assets by \$661,092, excluding prior period adjustments. Key elements of this increase are as follows:

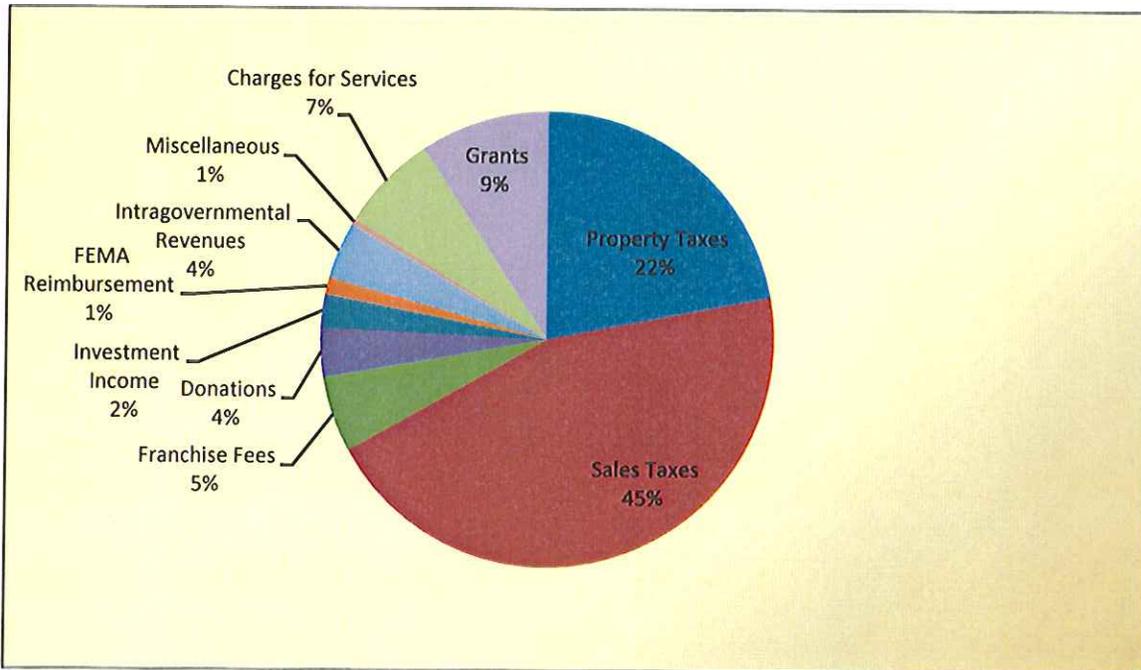
Property tax revenues increased by 7% and sales tax revenues increased by 8%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues By Source - Governmental Activities



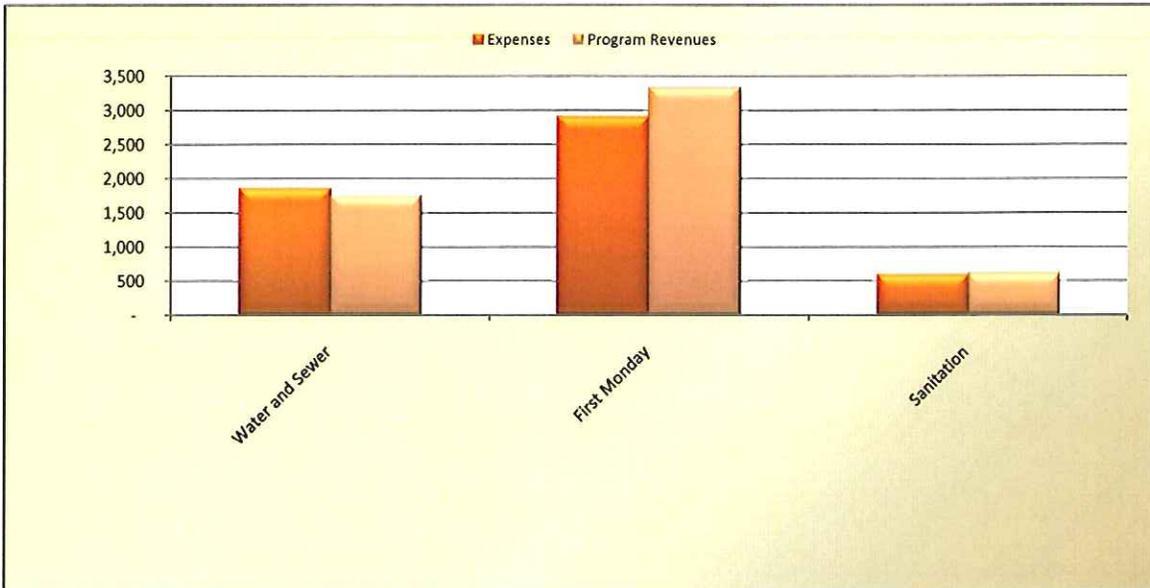
**CITY OF CANTON, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
 SEPTEMBER 30, 2008**

Business-type Activities - Proprietary fund activities increased the City of Canton's net assets by \$1,093,155. Key elements of this increase are as follows:

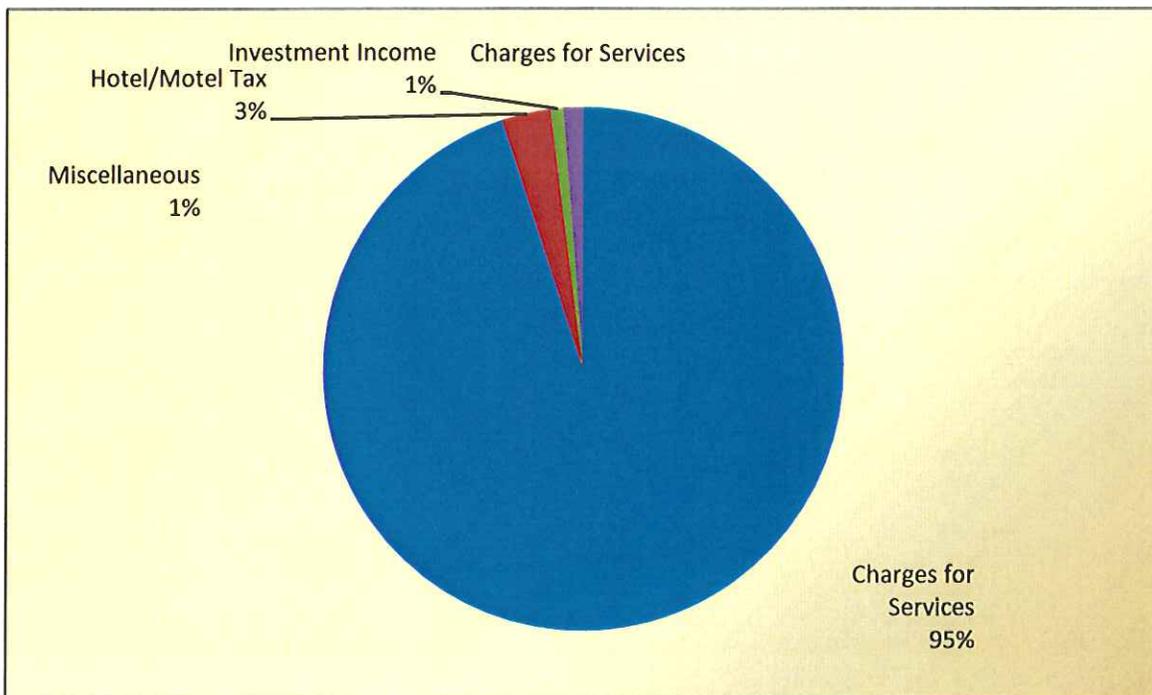
Water, Sewer and First Monday revenues and expenditures were very close to the budgeted amounts for these items. Revenues exceeded expenditures by 10%.

Expenses and Program Revenues - Business Activities

(amounts expressed in thousands)



Revenues By Source - Business Activities



Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City of Canton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Canton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Canton. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,192,632. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 36% of total General Fund expenditures.

At September 30, 2008, the governmental funds of the City of Canton reported a combined fund balance of \$2,631,695, a 11% increase, excluding prior period adjustments, over last year. Included in this change in fund balance is a decrease in fund balance in the Debt Service Fund and an increase in the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly more than the budgeted amounts mainly in the areas of Sales Taxes and Donations. However, expenditures were also more than budgeted amounts, mainly in the area of Parks and Recreation.

Proprietary Funds - The City of Canton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$1,722,995.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Capital assets - The City of Canton's investment in capital assets for its governmental and business-type activities as of September 30, 2008, totals \$21,436,800 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment. The total increase in the City of Canton's investment in capital assets for the current fiscal year was 11%.

Major capital asset events during the current fiscal year included the following:

- The completion of the downtown sidewalk renovation project.
- The completion of the waterline improvement project.

Figure 4

**City of Canton
Capital Assets
As of September 30, 2008
(net of accumulated depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land & Improvements	\$ 2,691,090	\$ 2,190,190	\$ 597,868	\$ 597,868	\$ 3,288,958	\$ 2,788,058
Machinery & Equipment	323,779	429,271	984,462	1,240,579	1,308,241	1,669,850
Buildings	241,916	355,702	5,060,621	4,867,051	5,302,537	5,222,753
Infrastructure	6,301,075	5,045,911	4,413,844	2,865,059	10,714,919	7,910,970
Construction in Progress	700,184	478,759	121,961	1,175,038	822,145	1,653,797
Total	<u>\$ 10,258,044</u>	<u>\$ 8,499,833</u>	<u>\$ 11,178,756</u>	<u>\$ 10,745,595</u>	<u>\$ 21,436,800</u>	<u>\$ 19,245,426</u>

More detailed information about the City's capital assets is presented in Note F to the financial statements

Long-term Debt - As of September 30, 2008, the City of Canton had long-term debt outstanding of \$7,205,001. This debt is secured by property taxes and/or revenues.

**City of Canton
Outstanding Debt
As of September 30, 2008**

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Limited Tax Note Payable	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000	\$ -
Certificates of Obligation	2,110,325	3,638,653	1,559,676	1,656,347	3,670,001	5,295,000
Bonds Payable	2,460,000	-	575,000	725,000	3,035,000	725,000
Total	<u>\$ 5,070,325</u>	<u>\$ 3,638,653</u>	<u>\$ 2,134,676</u>	<u>\$ 2,381,347</u>	<u>\$ 7,205,001</u>	<u>\$ 6,020,000</u>

More detailed information about the City's long-term liabilities is presented in Note G to the financial statements.

**CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008**

Economic Factors and Next Year's Budgets and Rates

The FY 08-09 budget incorporates a property tax rate of \$0.42523 per \$100 valuation year. This remains unchanged from the prior year budget.

Canton's certified taxable value for fiscal year 2008 is \$253,145,298. This is a 4% increase over last year's values, or \$9,798,642.

The City's General Fund budget increased 9.2% from the previous fiscal year. Sales tax revenues continue to increase due to sales at First Monday and economic development.

Some major changes between the original budget and the final budget in the General Fund were due to the additional payroll expenses incurred to host evacuees during Hurricanes Gustav and Ike, an increase in grant revenues and expenditures for the Sidewalk Improvements Project, and an increase in note proceeds and capital outlays for the receipt of a tax note and the purchase of land.

A major change between the original budget and the final budget in the Proprietary Funds was due to a dramatic increase in the cost of chemicals for water treatment.

Requests for Information

This report is designed to provide an overview of the City's finances for 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 of Canton, Finance Department, P O Box 245, Canton, Texas 75103.

BASIC FINANCIAL STATEMENTS

CITY OF CANTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Primary Government

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,131,952	\$ 1,475,725	\$ 2,607,677	\$ 864,898
Investments	-	489,573	489,573	-
Receivables (net of allowance for uncollectibles)	220,910	240,634	461,544	52,317
Deferred Charges	89,957	-	89,957	-
Restricted Assets:				
Cash and Cash Equivalents	542,268	-	542,268	-
Investments	1,283,124	-	1,283,124	-
Capital Assets not being depreciated:				
Land & Improvements	2,691,090	597,868	3,288,958	713,838
Construction in Progress	700,184	121,961	822,145	223,439
Capital Assets net of accumulated depreciation:				
Buildings	241,916	5,060,621	5,302,537	685,759
Infrastructure	6,301,075	4,413,844	10,714,919	-
Machinery & Equipment	323,779	984,462	1,308,241	15,639
Total Assets	<u>13,526,255</u>	<u>13,384,688</u>	<u>26,910,943</u>	<u>2,555,890</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable	425,552	234,982	660,534	-
Customer Deposits	-	104,155	104,155	-
Accrued Interest Payable	35,360	17,417	52,777	-
Other Liabilities	33,573	49,433	83,006	-
Deferred Revenue	12,766	10,373	23,139	-
Noncurrent Liabilities:				
Due within one year:				
Compensated Absences	11,042	3,946	14,988	-
Current Notes Payable	28,017	132,437	160,454	26,783
Current Limited Tax Note	45,441	-	45,441	-
Current Certificates of Obligations	105,000	100,000	205,000	-
Current Bonds Payable	470,000	155,000	625,000	-
Due in more than one year:				
Compensated Absences	161,931	62,631	224,562	-
Notes Payable	19,311	57,570	76,881	373,615
Limited Tax Note Payable	454,559	-	454,559	-
Certificates of Obligations Payable	2,005,325	1,459,676	3,465,001	-
Bonds Payable	1,990,000	426,076	2,416,076	-
Total Liabilities	<u>5,797,877</u>	<u>2,813,696</u>	<u>8,611,573</u>	<u>400,398</u>
NET ASSETS				
Invested in capital assets (net of related debt)	8,917,364	8,847,997	17,765,361	1,238,277
Restricted for:				
Debt	447,920	-	447,920	-
Capital Improvements	991,143	-	991,143	-
Unrestricted	(2,628,049)	1,722,995	(905,054)	917,215
Total Net Assets	<u>\$ 7,728,378</u>	<u>\$ 10,570,992</u>	<u>\$ 18,299,370</u>	<u>\$ 2,155,492</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Administrative Services	\$ 706,877	\$ 129,515	\$ -	\$ -
Police	1,131,783	-	-	-
Fire	341,626	-	346	19,890
Animal Control	177,310	23,618	-	-
Municipal Court	166,912	178,786	-	-
Streets	596,873	-	-	426,634
Parks and Recreation	293,487	-	-	-
Interest on Long-Term Debt	298,690	-	-	-
Total governmental activities	3,713,558	331,919	346	446,524
Business-type Activities:				
Water and Sewer	1,851,540	1,747,927	-	-
Sanitation	577,327	602,820	-	-
First Monday	2,911,402	3,332,549	-	-
Total business-type activities	5,340,269	5,683,296	-	-
Total primary government	9,053,827	6,015,215	346	446,524
Component units:				
Economic Development Corporation	250,758	-	-	-
Total component units	\$ 250,758	\$ -	\$ -	\$ -

General revenues:
Property taxes
Sales taxes
Franchise Fees
Mixed Drink taxes
Hotel/Motel tax
Donations
Investment income
FEMA Reimbursement
Insurance Reimbursement
Intragovernmental Revenues
Miscellaneous
Sale of Assets
Transfers
Total general revenues & transfers
Change in net assets
Net assets - beginning
Prior Period Adjustment
Net assets - ending

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Activities	Total	Component Units
\$ (577,362)	\$ -	\$ (577,362)	\$ -
(1,131,783)	-	(1,131,783)	-
(321,390)	-	(321,390)	-
(153,692)	-	(153,692)	-
11,874	-	11,874	-
(170,239)	-	(170,239)	-
(293,487)	-	(293,487)	-
(298,690)	-	(298,690)	-
<u>(2,934,769)</u>	<u>-</u>	<u>(2,934,769)</u>	<u>-</u>
-	(103,613)	(103,613)	-
-	25,493	25,493	-
-	421,147	421,147	-
-	343,027	343,027	-
<u>(2,934,769)</u>	<u>343,027</u>	<u>(2,591,742)</u>	<u>-</u>
-	-	-	(250,758)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (250,758)</u>
\$ 1,055,951	\$ -	\$ 1,055,951	\$ -
2,157,257	-	2,157,257	717,048
258,808	-	258,808	-
6,354	-	6,354	-
-	183,557	183,557	-
169,654	-	169,654	-
111,716	46,819	158,535	22,838
56,873	-	56,873	-
8,776	-	8,776	-
115,000	80,000	195,000	(195,000)
20,862	74,567	95,429	2,427
-	(205)	(205)	-
<u>(365,390)</u>	<u>365,390</u>	<u>-</u>	<u>-</u>
<u>3,595,861</u>	<u>750,128</u>	<u>4,345,989</u>	<u>547,313</u>
661,092	1,093,155	1,754,247	296,555
7,078,306	9,232,460	16,310,766	1,839,389
(11,020)	245,377	234,357	19,548
<u>\$ 7,728,378</u>	<u>\$ 10,570,992</u>	<u>\$ 18,299,370</u>	<u>\$ 2,155,492</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
BALANCE SHEET - GOVERNMENT FUNDS
SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Capital Improvements and Grants Funds	Total
ASSETS				
Cash and Cash Equivalents	\$ 1,038,958	\$ -	\$ 92,994	\$ 1,131,952
Investments	-	-	-	-
Receivables (net of allowances for uncollectibles)	205,170	15,740	-	220,910
Cash and Cash Equivalents - Restricted	22,654	519,614	-	542,268
Investments - Restricted	-	-	1,283,124	1,283,124
Total Assets	<u>1,266,782</u>	<u>535,354</u>	<u>1,376,118</u>	<u>3,178,254</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	40,577	-	384,975	425,552
Other Liabilities	33,573	-	-	33,573
Accrued Interest Payable	-	87,434	-	87,434
Total Liabilities	<u>74,150</u>	<u>87,434</u>	<u>384,975</u>	<u>546,559</u>
 Fund Balances				
Reserved for:				
Debt	-	447,920	-	447,920
Capital Improvements	-	-	991,143	991,143
Unreserved-Undesignated reported in:				
General Fund	1,192,632	-	-	1,192,632
Total Fund Balances	<u>1,192,632</u>	<u>447,920</u>	<u>991,143</u>	<u>2,631,695</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,266,782</u>	 <u>\$ 535,354</u>	 <u>\$ 1,376,118</u>	 <u>\$ 3,178,254</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANTON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total fund balances - governmental funds balance sheet	\$ 2,631,695
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,258,044
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(5,161,361)
Net assets of governmental activities - statement of net assets	<u>\$ 7,728,378</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Capital Improvement and Grants Funds	Total Governmental Funds
REVENUE				
Property Taxes	559,302	496,649	-	1,055,951
Sales Tax Collected	2,157,257	-	-	2,157,257
Franchise Fees	258,808	-	-	258,808
Licenses and Permits	90,420	-	-	90,420
Fines and Forfeitures	178,711	-	-	178,711
Mixed Drink Taxes	6,354	-	-	6,354
Rental Income	39,095	-	-	39,095
Charge for Services	23,693	-	-	23,693
Grant Revenue	-	-	446,870	446,870
Donations	169,654	-	-	169,654
Investment Income	21,699	44,797	45,219	111,715
Total Revenues	3,504,993	541,446	492,089	4,538,528
EXPENDITURES				
Current:				
Administrative Services	841,262	-	50,189	891,451
Police	1,114,407	-	566,548	1,680,955
Fire	331,685	-	25,890	357,575
Municipal Court	167,505	-	-	167,505
Streets	435,615	-	1,154,273	1,589,888
Parks and Recreation	317,861	-	1,310	319,171
Animal Shelter	124,836	-	-	124,836
Debt Service				
Principal Retirement	-	556,193	-	556,193
Interest and Fiscal Agent Fees	-	329,062	-	329,062
Total Expenditures	3,333,171	885,255	1,798,210	6,016,636
Excess (deficiency) of revenues over (under) expenditures	171,822	(343,809)	(1,306,121)	(1,478,108)
Other Revenues and Financing Sources (uses)				
Operating Transfers In(Out)	18,423	(53,422)	(330,391)	(365,390)
Certificate of Obligation Proceeds	-	-	1,400,000	1,400,000
Limited Tax Notes Proceeds	-	-	500,000	500,000
FEMA Reimbursements	56,873	-	-	56,873
Insurance Reimbursement	8,776	-	-	8,776
Intragovernmental Revenues	-	-	115,000	115,000
Miscellaneous	16,605	4,258	-	20,863
Total Other Financing Sources (uses)	100,677	(49,164)	1,684,609	1,736,122
Net Change in Fund Balances	272,499	(392,973)	378,488	258,014
Fund Balances/Equity, October 1	960,636	832,693	634,279	2,427,608
Prior Period Adjustments	(40,503)	8,200	(21,624)	(53,927)
Fund Balances/Equity, September 30	\$ 1,192,632	\$ 447,920	\$ 991,143	\$ 2,631,695

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Net change in fund balances - total governmental funds	\$ 258,014
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	1,715,304
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction, however, has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	(1,312,226)
Change in net assets of governmental activities - statement of activities	\$ 661,092

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Water/Sewer Fund	Sanitation Fund	First Monday Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 125,058	\$ -	\$ 1,350,667	\$ 1,475,725
Investments	-	-	489,573	489,573
Accounts Receivables (net of allow for uncollectibles)	178,808	61,826	-	240,634
Total Current Assets	303,866	61,826	1,840,240	2,205,932
Noncurrent Assets:				
Capital Assets:				
Land	248,652	-	349,216	597,868
Building	4,455,751	-	3,954,750	8,410,501
Machinery & Equipment	1,409,532	39,912	694,480	2,143,924
Infrastructure	6,353,264	-	1,920,174	8,273,438
Construction In Progress	121,961	-	-	121,961
Less: Accumulated Depreciation	(4,889,273)	(39,912)	(3,439,751)	(8,368,936)
Total Capital Assets (net of accumulated depreciation)	7,699,887	-	3,478,869	11,178,756
Total Assets	8,003,753	61,826	5,319,109	13,384,688
LIABILITIES				
Current Liabilities:				
Accounts Payable	179,945	9,543	45,494	234,982
Customer Deposits	104,155	-	-	104,155
Accrued Interest Payable	17,417	-	-	17,417
Other Liabilities	13,367	4,011	32,055	49,433
Deferred Revenues	10,373	-	-	10,373
Compensated Absences - current	1,403	-	2,543	3,946
Notes Payable - current	-	-	132,437	132,437
Certificates of Obligation - current	100,000	-	-	100,000
Bonds Payable - current	155,000	-	-	155,000
Total Current Liabilities	581,660	13,554	212,529	807,743
Noncurrent Liabilities:				
Compensated Absences	40,334	879	21,418	62,631
Notes Payable	-	-	57,570	57,570
Certificates of Obligation Payable (net of unamortized premiums and deferred amounts)	1,459,676	-	-	1,459,676
Revenue Bond Payable (net of unamortized discounts and deferred amounts)	426,076	-	-	426,076
Total Non-Current Liabilities	1,926,086	879	78,988	2,005,953
Total Liabilities	2,507,746	14,433	291,517	2,813,696
NET ASSETS				
Invested in Capital Assets (net of related debt)	5,559,135	-	3,288,862	8,847,997
Restricted for:				
Debt service	-	-	-	-
Unrestricted	(63,128)	47,393	1,738,730	1,722,995
Total Net Assets	\$ 5,496,007	\$ 47,393	\$ 5,027,592	\$ 10,570,992

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND NET ASSETS - PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Water/Sewer Fund	Sanitation Fund	First Monday Fund	Total
OPERATING REVENUES:				
Charges for Services	\$ 1,747,927	\$ 602,820	\$ 3,332,549	\$ 5,683,296
Hotel Tax	-	-	183,557	183,557
Total Operating Revenues	<u>1,747,927</u>	<u>602,820</u>	<u>3,516,106</u>	<u>5,866,853</u>
OPERATING EXPENSES:				
Salaries	534,583	35,684	699,833	1,270,100
Rent	-	-	721,775	721,775
Supplies and Materials	248,929	728	126,866	376,523
Maintenance and Repair	168,142	10,738	170,141	349,021
Contractual Services	448,742	530,147	966,117	1,945,006
Other	13,574	30	11,237	24,841
Depreciation	328,558	-	204,184	532,742
Interest Expense	109,012	-	11,250	120,262
Total Operating Expenses	<u>1,851,540</u>	<u>577,327</u>	<u>2,911,403</u>	<u>5,340,270</u>
Operating Income (Loss)	<u>(103,613)</u>	<u>25,493</u>	<u>604,703</u>	<u>526,583</u>
NON-OPERATING REVENUES (EXPENSES):				
Transfers In (Out)	623,892	21,900	(280,402)	365,390
Sale of Assets	(5,205)	-	5,000	(205)
Intragovernmental Revenues	80,000	-	-	80,000
Miscellaneous Revenues	8,722	-	65,845	74,567
Investment Income	-	-	46,819	46,819
Total Non-Operating Revenues (Expenses)	<u>707,409</u>	<u>21,900</u>	<u>(162,738)</u>	<u>566,571</u>
Change in Net Assets	<u>603,796</u>	<u>47,393</u>	<u>441,965</u>	<u>1,093,154</u>
Net assets - Beginning, October 1	4,691,450	-	4,541,011	9,232,461
Prior Period Adjustments	200,761	-	44,616	245,377
Net Assets - Ending, September 30	<u>\$ 5,496,007</u>	<u>\$ 47,393</u>	<u>\$ 5,027,592</u>	<u>\$ 10,570,992</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Proprietary Funds</u>
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 5,878,508
Cash Paid to Employees and Suppliers	(4,534,879)
Net Cash Provided by Operating Activities	<u>1,343,629</u>
Cash Flows from Non-capital Financing Activities	
Cash Received from Other Sources	74,567
Operating Transfers from Primary Government	445,390
Net Cash Provided by Non-capital Financing Activities	<u>519,957</u>
Cash Flows from Capital and Related Financing Activities:	
Interest Paid on Capital Debt	(120,262)
Principal Paid on Capital Debt	(298,462)
Acquisition or Construction of Capital Assets	(951,029)
Disposal of Capital Assets	(15,077)
Net Cash Used for Capital & Related Financing Activities	<u>(1,384,830)</u>
Cash Flows from Investing Activities:	
Interest Income	9,618
Net Cash Provided by Capital & Related Financing Activities	<u>9,618</u>
Net Increase (Decrease) in Cash and Cash Equivalents	488,374
Cash and Cash Equivalents at Beginning of Year	987,351
Cash and Cash Equivalents at End of Year	<u>\$ 1,475,725</u>

Reconciliation of Operating Income to Net Cash

Provided by Operation Activities:

Operating Income (Loss)	<u>\$ 526,583</u>
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	532,742
Interest Expense	120,262
Prior Period Adjustment	245,377
Change in Assets and Liabilities	
Decrease (Increase) in Receivables	(102,874)
Increase (Decrease) in Accounts Payable	64,318
Increase (Decrease) in Accrued Expenses	(75,278)
Increase (Decrease) in Deferred Revenues	10,373
Increase (Decrease) in Other Liabilities	22,126
Total Adjustments	<u>817,046</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,343,629</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Canton, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental and accounting financial reporting principles.

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by Government Accounting Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely by the citizenry and not the City.

Discretely presented component units. The City has one component unit, Canton Economic Development Corporation (the "CEDC"). The CEDC was incorporated March 12, 1997. The CEDC is governed by a seven-member board appointed by and serving at the pleasure of the City Council. Thus, the CEDC is legally separate, but due to the City appointing voting majority of the CEDC board, it is classified as a discretely presented component unit. The funding for the CEDC occurs by the City transferring 1/4 of sales tax collected by the City to the CEDC. Adding the creation of the CEDC to the resources currently available will more than double the current ability to assist economic development prospects. All of the CEDC funding can be used for direct assistance to prospects and continued development of infrastructure. The nature and significance of the relationship between the primary government and the organization is such that exclusion would cause the City's financial statement to be misleading or incomplete. Separate financial statements are also issued for the CEDC. These financial statement can be obtained by contacting the Canton EDC located at 119 N. Buffalo Street, Canton Texas.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies (continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of sales taxes and property taxes. Sales tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. The City chose to collect property taxes for the first time during 2006. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
 - b. Measurement Focus, Basis of Accounting (continued)

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

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

The *Capital Improvement Fund* accounts for all financial resources for on-going capital improvement projects.

The *Grants Fund* accounts for all financial resources for grant monies for projects not accounted for in another fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water, sewer and environmental waste services are charges to customers for sales and services. Operating expenses for Proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendment of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the operation and administrative expenses of the water and sewer utilities, which are self-supporting activities rendering services on a user-charge basis.

The *Sanitation Fund* accounts for the operations of the City's trash collection, which is a self-supporting activity rendering services on a user-charge basis.

The *First Monday Fund* accounts for the operations of the City's First Monday Trade Days, which is a self-supporting activity.

3. Financial Statement Amounts

- a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

a. Cash and Cash Equivalents (continued)

The City pools cash from all fund types (excluding certain restricted assets that are considered cash and cash equivalents) to increase the amount of funds available for investment. Investments held by the City that have a remaining maturity of greater than one year from purchase are carried at fair value. Interest earnings are allocated to the respective funds based upon each fund's relative balance in the pool. Each fund may liquidate its equity in the pool on demand.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Trade and property tax receivables are shown net of an allowance for uncollectibles.

c. Property Taxes

Property taxes attach as an enforceable lien on property located in the City as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. The Van Zandt County Tax Assessor/Collector's office bills and collects the City's property taxes.

The statutes of the State of Texas do not prescribe a legal limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 in population, limits the ad valorem tax rate to \$1.50 per \$100 assessed valuation. For the fiscal year ended September 30, 2008, the City had a tax rate of \$0.42523 per \$100 assessed valuation based upon the maximum rates described above.

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for specific capital additions, returning developer's escrow funds and various bond covenants. Restricted assets in the enterprise funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers, specific capital, additions, and various bond covenants.

e. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

f. Capital Assets (continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 - 40
Buildings	30 - 40
Building Improvements	10
Machinery and equipment	7 - 20

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, overtime not paid (comp time) and sick pay benefits. All vacation and comp time is accrued at the close of the fiscal year in the government-wide and proprietary fund financial statements.

h. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

i. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balances represent management plans that are subject to change.

j. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

k. Interfund Activity

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

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

m. Program Revenues

Certain revenues such as charges for services and impact fees are included in program revenues.

n. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

B. Reconciliation of Government-Wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balances - total governmental funds and net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds". The details of this \$10,258,044 balance are as follows:

Land & Improvements	\$ 2,691,090
Construction in Progress	700,184
Buildings	684,181
Infrastructure	6,956,508
Machinery & Equipment	1,115,719
Accumulated Depreciation	<u>(1,889,638)</u>

Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 10,258,044</u>
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Another element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this (\$5,161,361) difference are as follows:

Compensated Absences	\$ (172,973)
Notes Payable	(47,328)
Limited Tax Note Payable	(500,000)
Certificates of Obligation	(2,110,325)
Bonds Payable	(2,460,000)
Deferred Charges	89,957
Bond Discount	(12,766)
Accrued Interest Payable	<u>52,074</u>

Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (5,161,361)</u>
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CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

B. Reconciliation of Government-Wide and Fund Financial Statements (continued)

2. Explanation of certain differences between the governmental fund statements of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 1,715,304 difference are as follows:

Capital Outlay	\$ 1,992,967
Depreciation expense	<u>(277,663)</u>
Net adjustment to reduce net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,715,304</u>

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets". The details of this (\$1,312,226) difference are as follows:

Certificate of Obligation proceeds	\$ (1,400,000)
Tax Limited Note proceeds	(500,000)
Principal Payments	542,815
Amortization Expense	(14,620)
Bond Issuance Costs	50,189
Interest Expense	52,074
Compensated Absences Expense	<u>(42,684)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,312,226)</u>

C. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

**CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

C. Compliance and Accountability (continued)

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget appears on page 50 and other informational budgets are presented in the supplementary information.

Prior to September 1, the City Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the City Council. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund. One supplemental appropriation was made during the fiscal year. The budget approved for the Water, Sewer, Sanitation and First Monday Funds follow the similar approval procedures. One supplemental appropriation was made during the fiscal year.

The level of control (the level at which expenditures may not exceed the budget) is the fund level. The City Manager and/or Director of Finance are authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

D. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,149,495, and the bank balance was \$3,060,411. The City's cash deposits at September 30, 2008 and during the year ended September 30, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The amount of deposits covered by collateralized securities was \$2,529,464. Cash and investments as of September 30, 2008 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government	
Restricted cash and cash equivalents	\$ 542,268
Unrestricted cash & cash equivalents	<u>2,607,677</u>
Total cash and cash equivalents	<u>\$ 3,149,945</u>
Cash on hand	\$ 300
Savings and checking accounts	<u>3,149,645</u>
Total cash and cash equivalents	<u>\$ 3,149,945</u>

Investments:

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

D. Deposits and Investments (continued)

Investment in State Investment Pools

The City is a voluntary participant in Texpool. The Texas Local Investment Pool is a local government investment pool which operates in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. This type of investment pool uses amortized costs rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool. The Texas Local Government Investment Pool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Pool is governed by an Advisory Board composed equally of participants in the Pool and other persons who do not have a business relationship with the Pool who are qualified to advise the Pool.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard and Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as the office of the Comptroller for public review.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 1,283,124	34 days
LPL Financial	489,573	90 days
	<u>\$ 1,772,697</u>	

As of September 30, 2008, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
Texpool	\$ 1,283,124	N/A	AAA-m
U.S. General Obligations	489,573	N/A	N/A
	<u>\$ 1,772,697</u>		

**CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

D. Deposits and Investments (continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2008 other than external investment pools that represent 18% or more of the City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
FHLB	Federal agency securities	\$ 489,573

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possessions of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state, or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 101% of the principal plus accrued interest less the amount insured by the FDIC.

As of September 30, 2008, the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

E. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Proprietary	Total
Receivables			
Taxes	\$ 192,368	\$ -	\$ 192,368
Warrants	386,346	-	386,346
Fees and Charges	-	259,488	259,488
	<u>578,714</u>	<u>259,488</u>	<u>838,202</u>
Gross Receivables			
	578,714	259,488	838,202
Less: Allowance for Uncollectibles	<u>(357,804)</u>	<u>(18,854)</u>	<u>(376,658)</u>
Total Net Receivables	<u>\$ 220,910</u>	<u>\$ 240,634</u>	<u>\$ 461,544</u>

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

F. Capital Assets

Capital asset activity for the period ended September 30, 2008 was as follows:

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Governmental Activities:					
Capital assets, not being depreciated					
Land	\$ 2,190,190	\$ -	\$ 500,900	\$ -	\$ 2,691,090
Construction in Progress	478,759	-	1,192,685	(971,260)	700,184
Total capital assets, not being depreciated	<u>2,668,949</u>	<u>-</u>	<u>1,693,585</u>	<u>(971,260)</u>	<u>3,391,274</u>
Capital assets, being depreciated:					
Buildings & Improvements	763,749	-	-	(79,568)	684,181
Infrastructure	5,728,820	-	1,227,688	-	6,956,508
Machinery & Equipment	983,226	62,456	102,974	(32,937)	1,115,719
Total capital assets being depreciated	<u>7,475,795</u>	<u>62,456</u>	<u>1,330,662</u>	<u>(112,505)</u>	<u>8,756,408</u>
Less accumulated depreciation for:					
Buildings & Improvements	(426,193)	-	(15,396)	-	(441,589)
Infrastructure	(477,347)	-	(178,761)	-	(656,108)
Machinery & Equipment	(741,371)	-	(83,506)	32,936	(791,941)
Total accumulated depreciation	<u>(1,644,911)</u>	<u>-</u>	<u>(277,663)</u>	<u>32,936</u>	<u>(1,889,638)</u>
Total capital assets, being depreciated, net	<u>5,830,884</u>	<u>62,456</u>	<u>1,052,999</u>	<u>(79,569)</u>	<u>6,866,770</u>
Governmental activities capital assets, net	<u>\$ 8,499,833</u>	<u>\$ 62,456</u>	<u>\$ 2,746,584</u>	<u>\$ (1,050,829)</u>	<u>\$ 10,258,044</u>
	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Business-type Activities:					
Water/Sewer/Sanitation					
Capital assets, not being depreciated					
Land	\$ 248,652	\$ -	\$ -	\$ -	\$ 248,652
Construction in Progress	1,175,038	-	1,108,818	(2,161,895)	121,961
Total capital assets, not being depreciated	<u>1,423,690</u>	<u>-</u>	<u>1,108,818</u>	<u>(2,161,895)</u>	<u>370,613</u>
Capital assets, being depreciated:					
Buildings & Improvements	4,451,251	-	4,500	-	4,455,751
Infrastructure	4,524,054	80,950	1,748,260	-	6,353,264
Machinery & Equipment	1,436,492	-	21,627	(8,675)	1,449,444
Total capital assets being depreciated	<u>10,411,797</u>	<u>80,950</u>	<u>1,774,387</u>	<u>(8,675)</u>	<u>12,258,459</u>

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

F. Capital Assets (continued)

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Less accumulated depreciation for:					
Buildings & Improvements	(1,985,891)	-	(129,319)	-	(2,115,210)
Infrastructure	(2,029,968)	-	(148,566)	-	(2,178,534)
Machinery & Equipment	(587,630)	-	(50,673)	2,863	(635,440)
Total accumulated depreciation	<u>(4,603,489)</u>	<u>-</u>	<u>(328,558)</u>	<u>2,863</u>	<u>(4,929,184)</u>
Total capital assets, being depreciated, net	<u>5,808,308</u>	<u>80,950</u>	<u>1,445,828</u>	<u>(5,812)</u>	<u>7,329,274</u>
Business-type activities capital assets, net	<u>\$ 7,231,998</u>	<u>\$ 80,950</u>	<u>\$ 2,554,646</u>	<u>\$ (2,167,707)</u>	<u>\$ 7,699,887</u>
	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
First Monday					
Capital assets, not being depreciated					
Land	<u>\$ 349,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,216</u>
Capital assets, being depreciated:					
Buildings	3,916,439	-	38,311	-	3,954,750
Infrastructure	1,821,480	-	98,694	-	1,920,174
Machinery & Equipment	674,039	-	32,451	(12,010)	694,480
Total capital assets being depreciated	<u>6,411,958</u>	<u>-</u>	<u>169,456</u>	<u>(12,010)</u>	<u>6,569,404</u>
Less accumulated depreciation for:					
Buildings	(1,106,610)	-	(128,058)	-	(1,234,668)
Infrastructure	(1,640,046)	-	(42,007)	-	(1,682,053)
Machinery & Equipment	(500,921)	-	(34,119)	12,010	(523,030)
Total accumulated depreciation	<u>(3,247,577)</u>	<u>-</u>	<u>(204,184)</u>	<u>12,010</u>	<u>(3,439,751)</u>
Total capital assets, being depreciated, net	<u>3,164,381</u>	<u>-</u>	<u>(34,728)</u>	<u>-</u>	<u>3,129,653</u>
Business-type activities capital assets, net	<u>\$ 3,513,597</u>	<u>\$ -</u>	<u>\$ (34,728)</u>	<u>\$ -</u>	<u>\$ 3,478,869</u>

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

Governmental activities:	
General Government	\$ 6,061
Public Service	8,327
Public Safety	61,299
Public Works, including depreciation of general infrastructure assets	155,574
Parks and Recreation	46,402
	<u>277,663</u>
Total depreciation expense - governmental activity	<u>\$ 277,663</u>
Business-type activities:	
Water, Sewer, Sanitation	\$ 328,558
First Monday	204,184
	<u>532,742</u>
Total depreciation expense - business-type activity	<u>\$ 532,742</u>

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2008 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Certificates of Obligation	\$ 3,638,653	\$ 1,400,000	\$(2,928,328)	\$ 2,110,325	\$ 105,000
General Obligation Bonds	-	2,460,000	-	2,460,000	470,000
Limited Tax Note	-	500,000	-	500,000	24,169
Notes Payable	80,190	-	(32,862)	47,328	27,975
Total Bonds/Notes Payable	3,718,843	4,360,000	(2,961,190)	5,117,653	627,144
Compensated absences	130,289	63,267	(20,583)	172,973	11,042
Governmental activity Long-term Debt	<u>\$ 3,849,132</u>	<u>\$ 4,423,267</u>	<u>\$(2,981,773)</u>	<u>\$ 5,290,626</u>	<u>\$ 638,186</u>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2009	\$ 627,144	\$ 108,757	\$ 735,901
2010	623,861	103,951	727,812
2011	636,156	96,182	732,338
2012	660,865	90,368	751,233
2013	693,754	84,012	777,766
2014-2018	1,875,873	265,362	2,141,245
Totals	<u>\$ 5,117,653</u>	<u>\$ 748,631</u>	<u>\$ 5,866,294</u>

Changes in Governmental Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30		Retired	Amounts Outstanding September 30 2008	Due Within One Year
			2007	Issued			
2007 Cert of Oblig	4.00%	\$ 1,400,000	\$ -	\$ 1,400,000	\$ 70,000	\$ 1,330,000	\$ 55,000
2008 Limited Tax Note	4.35%	500,000	-	500,000	-	500,000	24,169
1995 Comb Tax & Rev	5.5%-8.5%	4,000,000	2,810,000	-	2,810,000	-	-
2008 Refunding Bond	3.099%	2,460,000	-	2,460,000	-	2,460,000	470,000
Series 2003-W/S	4% - 4.4%	1,000,000	828,653	-	48,328	780,325	50,000
ANB Notes	5.50%	195,133	80,190	-	32,862	47,328	27,975
		<u>\$ 9,555,133</u>	<u>\$ 3,718,843</u>	<u>\$ 4,360,000</u>	<u>\$ 2,961,190</u>	<u>\$ 5,117,653</u>	<u>\$ 627,144</u>

\$1,330,000 Series 2007 Certificates of Obligation bonds were issued September, 2008 for the purpose of constructing, improving & repairing streets.

\$500,000 Limited Tax Note was issued in November, 2008 for the purpose of purchasing land and construction of improvements for police department, public works office and other city offices.

\$2,460,000 Refunding Bonds were issued in July, 2008 for the purpose of refinancing the 1995 Combination Tax and Revenue bonds.

\$1,000,000 Series 2003 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of street improvements, water/sewer improvements, water treatment plant improvements, ground storage tank and expansion of wastewater treatment plant.

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

G. Long-Term Obligations (continued)

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Water & Sewer					
Certificate of Obligations	\$ 1,656,347	\$ -	\$ (96,671)	\$ 1,559,676	\$ 100,000
Refunding Bonds	725,000	-	(150,000)	575,000	155,000
Total Bonds Payable	2,381,347	-	(246,671)	2,134,676	255,000
Compensated absences	39,047	6,131	(2,562)	42,616	854
Total Water & Sewer	2,420,394	6,131	(249,233)	2,177,292	255,854
First Monday					
Notes Payable	314,449	-	(124,442)	190,007	132,437
Compensated absences	25,466	43,151	(2,040)	66,577	3,946
Total First Monday	339,915	43,151	(126,482)	256,584	136,383
Business-type activity					
Long-term debt	\$ 2,760,309	\$ 49,282	\$ (375,715)	\$ 2,433,876	\$ 392,237

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2009	\$ 387,437	\$ 87,427	\$ 474,864
2010	320,903	75,543	396,446
2011	275,000	65,617	340,617
2012	231,343	55,442	286,785
Thereafter	1,110,000	171,958	1,281,958
Totals	\$ 2,324,683	\$ 455,987	\$ 2,780,670

Changes in Water Sewer Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30		Retired	Amounts Outstanding September 30 2008	Due Within One Year
			2007	Issued			
Series 2003- Refunding	2.5% - 3.5%	\$ 2,230,000	\$ 725,000	\$ -	\$ 150,000	\$ 575,000	\$ 155,000
Series 2003-W/S	4% - 4.4%	2,000,000	1,656,347		96,671	1,559,676	100,000
		\$ 4,230,000	\$ 2,381,347	\$ -	\$ 246,671	\$ 2,134,676	\$ 255,000

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2009	\$ 255,000	\$ 83,600	\$ 338,600
2010	263,333	74,950	338,283
2011	275,000	65,617	340,617
2012	231,667	55,442	287,109
2013	160,000	46,650	206,650
2014-2018	949,676	125,308	1,074,984
Totals	\$ 2,134,676	\$ 451,567	\$ 2,586,243

\$2,230,000 Series 2003 Refunding Bonds were issued for the purpose of refinancing 1992 and 1994 bonds.

\$2,000,000 Series 2003 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of street improvements, water/sewer improvements, water treatment plant improvements, ground storage tank and expansion of wastewater treatment plant.

CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

G. Long-Term Obligations (continued)

Changes in First Monday Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding		Retired	Amounts Outstanding	
			September 30 2007	Issued		September 30 2008	Due Within One Year
Pavilion #4	3.95%	\$ 528,000	\$ 231,438	\$ -	\$ 100,130	\$ 131,308	\$ 104,752
American National Bank	4.00%	133,000	83,011	-	24,312	58,699	27,685
		<u>\$ 661,000</u>	<u>\$ 314,449</u>	<u>\$ -</u>	<u>\$ 124,442</u>	<u>\$ 190,007</u>	<u>\$ 132,437</u>

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	Requirements
2009	\$ 132,437	\$ 3,827	\$ 136,264
2010	57,570	593	58,163
Totals	<u>\$ 190,007</u>	<u>\$ 4,420</u>	<u>\$ 194,427</u>

H. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits depend upon the sum of the employee contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employees accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employees accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current contribution rate and city matching percent had been in existence and if the employees salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows:

Deposit Rate: 7%
 Matching Ratio (City to Employee): 2 to 1
 A member is vested after 5 yrs

Members can retire at certain ages, based on the years of service with the City.
 The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age.

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

H. Pension Plan (continued)

2. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employees contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarially liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuations effective for rates beginning January 2009).

**City of Canton
Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>
Actuarial Value of Assets	\$ 1,784,362	\$ 2,133,962	\$ 2,523,956
Actuarial Accrued Liability	3,111,695	3,506,012	3,958,624
Percentage Funded	57.30%	60.87%	63.80%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	1,327,333	1,372,050	1,434,668
Annual Covered Payroll	1,612,817	1,869,660	2,024,862
UAAL as a Percentage of Covered Payroll	82.30%	73.39%	70.90%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	Plus 229,113	265,048	290,177
Contributions Made	Less (229,113)	(265,048)	(290,177)
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit
Amortization method	Level %	Level %	Level %
Asset Valuation method	Amortized	Amortized	Amortized
	Cost	Cost	Cost
Amortization period	25-years open	25-years open	25-years open
Actuarial assumptions:			
Investment rate of return	7%	7%	7%
Inflation rate	3.5%	3.5%	3.5%
Projected salary increase	N/A	N/A	N/A

I. Health Care Coverage

During the year ended September 30, 2008, employees of the City were covered by a health insurance plan (the Plan). The City contributed \$359.63 per month per employee and \$100 of the cost for dependents. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to a third party administrator, acting on behalf of the self-funded pool. The Plan was authorized by article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

**CITY OF CANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

J. Insurance Coverage

Below is a schedule of insurance in force.

Company	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Liability Coverage:						
TX Municipal League	4477	General	1,000,000 per occurrence	10/01/07 to 10/01/08	\$ 13,439	\$ -
TX Municipal League	4477	Errors & Omissions	1,000,000 per occurrence	10/01/07 to 10/01/08	19,360	1,000
TX Municipal League	4477	Automobile	1,000,000 per claim	10/01/07 to 10/01/08	20,789	-
TX Municipal League	4477	Law Enforcement	1,000,000 per occurrence	10/01/07 to 10/01/08	10,398	5,000
Property Coverage:						
TX Municipal League	4477	Real and Personal	1,000,000 per accident	10/01/07 to 10/01/08	19,211	1,000
TX Municipal League	4477	Airport	1,000,000 per occurrence	10/01/07 to 10/01/08	1,684	-
TX Municipal League	4477	Mobile Equipment	391,300	10/01/07 to 10/01/08	1,800	500
TX Municipal League	4477	Boiler	1,000,000	10/01/07 to 10/01/08	included	1,000
TX Municipal League	4477	Automobile-Phys. Dm.	Comprehensive Scheduled	10/01/07 to 10/01/08	5,641	10,000

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims up to \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2007, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

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

L. Litigation

Currently, management is unaware of significant pending litigation against the City of Canton, Texas.

M. Additional Water and Sewer Information

The following information is included at the request of the Texas Water Development Board for the year under audit. Water Accountability Report:

Gallons Pumped	256,483,000
Gallons Billed	228,136,300

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

N. Prior Period Adjustments

Prior period adjustments were made in the governmental type funds largely due to writing off outstanding journal entries in the bank reconciliation and to add capital assets purchased in prior years. Prior period adjustments were made in the business type funds in large part to reverse prior year accruals.

O. Interfund Transfers

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ -	\$ 18,423
Debt Service Fund	53,422	-
Capital Improvements/Grants Funds	330,391	-
Water/Sewer Funds	-	623,892
Sanitation Fund	-	21,900
First Monday Fund	280,402	-
Total Transfers	<u>\$ 664,215</u>	<u>\$ 664,215</u>

P. New Accounting Pronouncements

In May 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 43 addressed the financial reporting for other postemployment benefits plans. This statement is effective for the City's financial statements for period beginning after December 15, 2008. The City is in the process of reviewing and evaluating this statement and its potential impact on the City's financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB No. 47 gives accounting and reporting guidance for early retirement incentives, severance payments for involuntary terminations and termination benefits affecting defined benefit postemployment benefits. The adoption of this statement has no impact on the City's financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City is in the process of reviewing and evaluating this statement and its potential impact on the City's financial statements.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investment by Endowments*, requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The requirements of the new statements become effective for fiscal period beginning after June 15, 2008. The adoption of this statement has no impact on the City's financial statements.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirements of the statement are effective for financial statements for reporting periods beginning after June 15, 2009. The adoption of this statements has no impact on the financial statements.

Q. Subsequent Events

Grant monies in the amount of \$294,052 were received in July of 2009 for grant expenditures made in fiscal year 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CANTON, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE OF PENSION TRUST - TMRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST THREE FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Unit Credit	(Over-funded)		Funded Percent	Covered Payroll	UAAL as Percent of Covered Payroll	Annual Required Contributions	Actual Contributions	Percent Contributed
				Actuarial Accrued Liability UAAL	Actuarial Accrued Liability UAAL						
2005	12/31/2004	\$ 1,620,561	\$ 2,392,511	\$ 771,950	\$ 1,333,351	67.70%	\$ 1,333,351	57.90%	\$ 149,048	\$ 149,048	100%
2006	12/31/2005	1,784,362	3,111,695	1,327,333	1,612,817	57.30%	1,612,817	82.30%	229,113	229,113	100%
2007	12/31/2006	2,133,962	3,506,012	1,372,050	1,869,660	60.87%	1,869,660	73.39%	265,048	265,048	100%
2008	12/31/2007	2,523,956	3,958,624	1,434,668	2,024,862	63.80%	2,024,862	70.90%	290,177	290,177	100%

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

CITY OF CANTON, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Original Budget	Final Budget	Actual	Difference
REVENUE				
Mixed Drink Tax	\$ 7,000	\$ 7,000	\$ 6,354	\$ (646)
Property Tax	575,790	575,790	559,302	(16,488)
Fines and Forfeitures	176,750	176,750	178,711	1,961
Licenses and Permits	58,200	58,200	90,420	32,220
Sales Tax Collected	2,043,000	2,043,000	2,157,257	114,257
Franchise Fees	274,000	274,000	258,808	(15,192)
Charge for Services	68,000	68,000	23,693	(44,307)
Rental Income	30,600	30,600	39,095	8,495
Donations	18,000	18,000	169,654	151,654
Investment Income	25,000	25,000	21,699	(3,301)
Total Revenues	<u>3,276,340</u>	<u>3,276,340</u>	<u>3,504,993</u>	<u>228,653</u>
EXPENDITURES				
Administrative Services	788,900	788,900	841,262	(52,362)
Public Safety - Police	1,071,795	1,143,280	1,114,407	28,873
Public Safety - Fire	309,020	328,780	331,685	(2,905)
Municipal Court	139,395	146,555	167,505	(20,950)
Streets	463,930	463,930	435,615	28,315
Parks and Recreation	429,420	429,420	317,861	111,559
Animal Shelter	144,395	144,395	124,836	19,559
Total Expenditures	<u>3,346,855</u>	<u>3,445,260</u>	<u>3,333,171</u>	<u>112,089</u>
Excess (deficiency) of revenues over (under) expenditures	(70,515)	(168,920)	171,822	340,742
Other Revenues and Financing Sources (uses)				
Operating Transfers In	(61,035)	(61,035)	18,423	79,458
Insurance Reimbursement	-	-	8,776	8,776
FEMA Reimbursement	-	-	56,873	56,873
Intergovernmental Revenues	52,500	52,500	-	(52,500)
Miscellaneous	7,100	7,100	16,605	9,505
Total Other Financing Sources (uses)	<u>(1,435)</u>	<u>(1,435)</u>	<u>100,677</u>	<u>102,112</u>
Excess of revenues and other financing sources over (under) expenditures and other financing u:	(71,950)	(170,355)	272,499	442,854
Fund Balances/Equity, October 1	960,636	960,636	960,636	
Prior Period Adjustment	-	-	(40,503)	
Fund Balances/Equity, September 30	<u>\$ 888,686</u>	<u>\$ 790,281</u>	<u>\$ 1,192,632</u>	

The notes to the financial statements are an integral part of these financial statements

SUPPLEMENTARY INFORMATION

CITY OF CANTON, TEXAS
GENERAL FUND
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
<u>Administrative Services</u>				
Payroll Costs	\$ 526,890	\$ 526,890	\$ 460,001	\$ 66,889
Supplies	26,400	26,400	23,923	2,477
Contract Services	127,305	127,305	140,574	(13,269)
Maintenance	70,255	70,255	24,403	45,852
Sundry	20,550	20,550	33,914	(13,364)
Capital Outlay	17,500	17,500	158,447	(140,947)
Other Disbursements	61,035	61,035	-	61,035
Total Expenditures	<u>849,935</u>	<u>849,935</u>	<u>841,262</u>	<u>8,673</u>
<u>Police</u>				
Payroll Costs	818,100	865,075	845,867	19,208
Supplies	67,200	67,200	69,028	(1,828)
Contract Services	124,035	148,545	152,164	(3,619)
Maintenance	24,000	24,000	18,232	5,768
Sundry	6,900	6,900	6,357	543
Capital Outlay	31,560	31,560	22,759	8,801
Total Expenditures	<u>1,071,795</u>	<u>1,143,280</u>	<u>1,114,407</u>	<u>28,873</u>
<u>Animal Control</u>				
Payroll Costs	80,565	80,565	70,123	10,442
Supplies	19,650	19,650	15,860	3,790
Contract Services	31,530	31,530	30,695	835
Maintenance	4,500	4,500	3,165	1,335
Sundry	250	250	182	68
Capital Outlay	7,900	7,900	4,811	3,089
Total Expenditures	<u>144,395</u>	<u>144,395</u>	<u>124,836</u>	<u>19,559</u>
<u>Municipal Court</u>				
Payroll Costs	64,100	64,100	59,626	4,474
Supplies	8,900	11,010	14,075	(3,065)
Contract Services	8,930	8,930	8,550	380
Maintenance	1,665	1,665	799	866
Sundry	800	800	92	708
Other Disbursements	55,000	60,050	84,363	(24,313)
Total Expenditures	<u>139,395</u>	<u>146,555</u>	<u>167,505</u>	<u>(20,950)</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
GENERAL FUND
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Original Budget	Final Budget	Actual	Difference
<u>Fire</u>				
Payroll Costs	202,150	202,150	190,790	11,360
Supplies	33,900	40,960	52,064	(11,104)
Contract Services	40,720	45,395	42,751	2,644
Maintenance	27,600	27,600	26,901	699
Sundry	1,700	1,700	626	1,074
Capital Outlay	2,950	10,975	18,553	(7,578)
Total Expenditures	309,020	328,780	331,685	(2,905)
<u>Street</u>				
Payroll Costs	183,180	183,180	159,241	23,939
Supplies	21,175	21,175	20,828	347
Contract Services	166,275	166,275	157,932	8,343
Maintenance	58,500	58,500	93,536	(35,036)
Sundry	2,100	2,100	747	1,353
Capital Outlay	32,700	32,700	3,331	29,369
Total Expenditures	463,930	463,930	435,615	28,315
<u>Parks and Recreation</u>				
Payroll Costs	144,150	144,150	104,974	39,176
Supplies	17,095	17,095	8,437	8,658
Contract Services	64,725	64,725	50,203	14,522
Maintenance	119,500	119,500	86,687	32,813
Sundry	1,450	1,450	343	1,107
Capital Outlay	82,500	82,500	67,217	15,283
Total Expenditures	429,420	429,420	317,861	111,559
Total Expenditures	\$3,407,890	\$3,506,295	\$3,333,171	\$ 173,124

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
WATER SEWER FUND
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
<u>Water</u>				
Payroll Costs	\$ 396,790	\$ 396,790	\$ 404,833	\$ (8,043)
Supplies	142,225	199,295	200,870	(1,575)
Contract Services	326,445	326,445	295,085	31,360
Maintenance	79,550	79,550	94,868	(15,318)
Sundry	9,550	9,550	5,010	4,540
Capital Outlay	193,600	193,600	-	193,600
Other Disbursements	376,290	376,290	-	376,290
Total Expenditures	<u>1,524,450</u>	<u>1,581,520</u>	<u>1,000,666</u>	<u>580,854</u>
<u>Sewer</u>				
Payroll Costs	169,220	169,220	129,750	39,470
Supplies	54,390	54,390	48,059	6,331
Contract Services	170,745	170,745	153,657	17,088
Maintenance	79,000	79,000	73,274	5,726
Sundry	10,500	10,500	8,564	1,936
Capital Outlay	257,700	257,700	-	257,700
Total Expenditures	<u>741,555</u>	<u>741,555</u>	<u>413,304</u>	<u>328,251</u>
Total Expenditures	<u>\$2,266,005</u>	<u>\$2,323,075</u>	<u>\$1,413,970</u>	<u>\$ 909,105</u>

Note: The City of Canton, Texas, prepares the Water and Sewer Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

Adjustments necessary to convert the Water and Sewer Fund's expenditures on the modified accrual basis to a GAAP basis are provided below:

Expenditures - Modified Accrual Basis	\$1,413,970
Expenditures recognized for GAAP:	
Depreciation	328,558
Interest Expense	109,012
Operating Expenditures - GAAP Basis	<u>\$1,851,540</u>

CITY OF CANTON, TEXAS
 FIRST MONDAY FUND
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Payroll Costs	\$ 813,225	\$ 813,225	\$ 699,833	\$ 113,392
Supplies	115,745	115,745	126,866	(11,121)
Contract Services	907,180	907,180	966,117	(58,937)
Maintenance	86,700	86,700	170,141	(83,441)
Other Disbursements	1,156,095	1,156,095	721,775	434,320
Sundry	8,500	8,500	11,237	(2,737)
Capital Outlay	167,400	167,400	-	167,400
Total Expenditures	<u><u>\$3,254,845</u></u>	<u><u>\$3,254,845</u></u>	<u><u>\$2,695,969</u></u>	<u><u>\$ 558,876</u></u>

Note: The City of Canton, Texas, prepares the First Monday Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

Adjustments necessary to convert the First Monday Fund's expenditures on the modified accrual basis to a GAAP basis are provided below:

Expenditures - Modified Accrual Basis	\$2,695,969
Expenditures recognized for GAAP:	
Depreciation	204,184
Interest Expense	11,250
Operating Expenditures - GAAP Basis	<u><u>\$2,911,403</u></u>

CITY OF CANTON, TEXAS
 SANITATION
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Payroll Costs	\$ 30,850	\$ 30,850	\$ 35,684	\$ (4,834)
Supplies	1,900	1,900	728	1,172
Contract Services	520,050	520,050	530,147	(10,097)
Maintenance	9,000	9,000	10,738	(1,738)
Sundry	100	100	30	70
Total Expenditures	<u>\$ 561,900</u>	<u>\$ 561,900</u>	<u>\$ 577,327</u>	<u>\$ (15,427)</u>

Note: The City of Canton, Texas, prepares the Sanitation Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

No adjustments were necessary to convert the Sanitation Fund's expenditures on the modified accrual basis to a GAAP basis.

CITY OF CANTON, TEXAS
 ECONOMIC DEVELOPMENT CORPORATION
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Original Budget	Final Budget	Actual	Difference
REVENUE				
Sales Tax	\$ 681,000	\$ 681,000	\$ 717,048	\$ 36,048
Investment Income	-	-	22,838	22,838
Miscellaneous	2,500	2,500	2,427	(73)
Total Revenues	<u>683,500</u>	<u>683,500</u>	<u>742,313</u>	<u>58,813</u>
EXPENDITURES				
Current:				
Development	899,230	899,230	376,487	522,743
Personal Services	43,860	43,860	35,718	8,142
Contractual Services	27,600	27,600	26,712	888
Supplies	2,200	2,200	1,392	808
Association Dues	-	-	695	(695)
Debt Service				
Principal	49,100	49,100	25,580	23,520
Interest	-	-	23,505	(23,505)
Total Expenditures	<u>1,021,990</u>	<u>1,021,990</u>	<u>490,089</u>	<u>531,901</u>
Excess (deficiency) of revenues over (under) expenditures	(338,490)	(338,490)	252,224	590,714
Other Revenues and Financing Sources (uses)				
Intergovernmental	(60,000)	(60,000)	(195,000)	(135,000)
Total Other Financing Sources (uses)	<u>(60,000)</u>	<u>(60,000)</u>	<u>(195,000)</u>	<u>(135,000)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(398,490)	(398,490)	57,224	455,714
Fund Balances/Equity, October 1	859,992	859,992	859,991	
Fund Balances/Equity, September 30	<u>\$ 461,502</u>	<u>\$ 461,502</u>	<u>\$ 917,215</u>	

The notes to the financial statements are an integral part of these financial statements

**STATISTICAL SECTION
(UNAUDITED)**

STATISTICAL SECTION

This part of the City of Canton's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, notes, disclosures, and required supplementary information says about the City's overall financial health. This information has not been audited by the independent auditor.

<u>Contents</u>	Table #s
Financial Trends These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	1,2,3,4,5
Revenue Capacity These tables contain information to help the reader assess the City's two most significant local revenue sources, the property, and sales taxes.	6,7,8,9
Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	10,11,12,13,14
Economic and Demographic Information These tables offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	15,16
Operating Information These tables contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides.	17,18,19

Source: Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2004: tables presenting government-wide information include information beginning that year.

**CITY OF CANTON, TEXAS
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(accrual basis of accounting)**

Table 1

	FISCAL YEAR				
	2004	2005	2006	2007	2008
Governmental activities					
Invested in capital assets, net of related debt	\$ 3,239,307	\$ 3,392,419	\$ 4,052,709	\$ 4,780,990	\$ 8,917,364
Restricted	3,149,064	2,564,366	1,749,141	1,068,338	1,439,063
Unrestricted	874,067	394,235	773,952	1,228,978	(2,628,049)
Total governmental activities net assets	<u>7,262,438</u>	<u>6,351,020</u>	<u>6,575,802</u>	<u>7,078,306</u>	<u>7,728,378</u>
Business-type activities					
Invested in capital assets, net of related debt	3,593,216	5,099,501	7,246,782	8,049,798	8,847,997
Restricted	-	-	-	-	-
Unrestricted	869,072	1,368,354	1,057,221	1,182,662	1,722,995
Total business-type activities net assets	<u>4,462,288</u>	<u>6,467,855</u>	<u>8,304,003</u>	<u>9,232,460</u>	<u>10,570,992</u>
Primary government					
Invested in capital assets, net of related debt	6,832,523	8,491,920	11,299,491	12,830,788	17,765,361
Restricted	3,149,064	2,564,366	1,749,141	1,068,338	1,439,063
Unrestricted	1,743,139	1,762,589	1,831,173	2,411,640	(905,054)
Total primary government net assets	<u>\$ 11,724,726</u>	<u>\$ 12,818,875</u>	<u>\$ 14,879,805</u>	<u>\$ 16,310,766</u>	<u>\$ 18,299,370</u>

Note: Accrual-basis financial information for the city as a whole is only available back to 2004, the year GASB Statement 34 was implemented

**CITY OF CANTON, TEXAS
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting)**

	2004	2005	2006	2007	2008
EXPENSES					
Government activities:					
General government	\$ 770,401	\$ 621,221	\$ 834,783	\$ 695,308	\$ 706,877
Public Safety	1,056,838	921,820	1,124,601	1,297,739	1,473,409
Public Works	271,479	260,624	311,485	466,698	596,873
Public Services and Operations	124,044	122,250	164,485	215,320	344,222
Cultural and Recreation	74,091	111,339	197,652	171,891	293,487
Interest Expense	119,474	238,810	266,110	210,684	298,690
Unallocated Depreciation	187,717	256,612	263,996	272,261	-
Total governmental activities expenses	2,604,044	2,532,676	3,163,112	3,329,901	3,713,558
Business-type activities:					
Water and Sewer	2,095,020	2,154,148	2,260,908	2,231,605	1,851,540
Sanitation	-	-	-	-	577,327
First Monday	2,284,470	2,420,318	2,769,036	2,884,669	2,911,402
Total business-type activities expenses	4,379,490	4,574,466	5,029,944	5,116,274	5,340,269
Total primary government expenses	6,983,534	7,107,142	8,193,056	8,446,175	9,053,827
PROGRAM REVENUES					
Governmental activities:					
Charge for services:					
General government	190,378	259,736	245,698	121,906	129,515
Public Safety	194,064	140,869	188,708	294,643	-
Public Works	222,459	243,319	5,071	2,055	-
Public Services and Operations	36,160	27,209	61,016	61,591	202,404
Total governmental activities program revenues	643,061	671,133	500,493	480,195	331,919
Business-type activities					
Charge for services:					
Water and Sewer	1,575,445	1,900,319	2,102,690	2,036,062	1,747,927
Sanitation	-	-	-	-	602,820
First Monday	3,375,221	3,281,485	3,385,051	3,515,950	3,332,549
Total business-type activities program revenues	4,950,666	5,181,804	5,487,741	5,552,012	5,683,296
Total primary government program revenues	5,593,727	5,852,937	5,988,234	6,032,207	6,015,215
NET (EXPENSE) REVENUES					
Governmental activities	(1,960,983)	(1,861,543)	(2,662,619)	(2,849,706)	(3,381,639)
Business-type activities	571,176	607,338	457,797	435,738	343,027
Total primary government program net expenses	\$ (1,389,807)	\$ (1,254,205)	\$ (2,204,822)	\$ (2,413,968)	\$ (3,038,612)

(continued)

CITY OF CANTON, TEXAS
 CHANGES IN NET ASSETS
 LAST FIVE FISCAL YEARS
 (accrual basis of accounting)

Table 2

	2004	2005	2006	2007	2008
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Government activities:					
Taxes:					
Property	\$ -	\$ -	\$ 847,126	\$ 961,661	\$ 1,055,951
Sales	1,258,338	1,230,662	1,937,551	1,994,083	2,157,257
Franchise	588,183		264,934	313,342	258,808
Beverage	-	6,112	6,908	6,766	6,354
Hotel/Motel	8,528	3,273	-	-	-
Investment Income	43,060	95,892	115,021	78,512	111,716
Insurance Reimbursement			126,660	322	8,776
FEMA Reimbursement	-	-	-	-	56,873
Donations	-	-	-	-	169,654
Miscellaneous	86,980	669,834	78,581	39,750	20,862
Extraordinary Loss				(300,000)	-
Operating & Capital Grants				312,144	446,870
Intragovernmental	(44,870)	11,772	86,744	-	115,000
Transfers	427,996	(1,115,968)	(793,876)	(43,517)	(365,390)
Total governmental activities	<u>2,368,215</u>	<u>901,577</u>	<u>2,669,649</u>	<u>3,363,063</u>	<u>4,042,731</u>
Business-type activities:					
Investment Income	-	12,295	41,829	94,252	46,819
Hotel/Motel	125,425	207,757	131,989	157,477	183,557
Miscellaneous	-	18,559	-	-	74,567
Sale of Assets	-	-	12,646	-	(205)
Operating Grants				28,000	-
Intragovernmental	-	50,000	386,214	125,000	80,000
Transfers	(427,996)	1,115,968	793,876	43,517	365,390
Total business-type activities	<u>(302,571)</u>	<u>1,404,579</u>	<u>1,366,554</u>	<u>448,246</u>	<u>750,128</u>
Total primary government revenues	<u>2,065,644</u>	<u>2,306,156</u>	<u>4,036,203</u>	<u>3,811,309</u>	<u>4,792,859</u>
CHANGE IN NET ASSETS					
Governmental activities	407,232	(959,966)	7,030	513,357	661,092
Business-type activities	268,605	2,011,917	1,824,351	883,984	1,093,155
Total primary government program net expenses	<u>\$ 675,837</u>	<u>\$ 1,051,951</u>	<u>\$ 1,831,381</u>	<u>\$ 1,397,341</u>	<u>\$ 1,754,247</u>

Note: Accrual-basis financial information for the city as a whole is only available back to 2004, the year GASB Statement 34 was implemented

**CITY OF CANTON, TEXAS
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 LAST FIVE FISCAL YEARS
 (accrual basis of accounting)**

Table 3

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Hotel/Motel	Total
2004	\$ -	\$ 1,258,338	\$ 207,599	\$ 125,425	1,591,362
2005	-	1,230,662	241,779	136,507	1,608,948
2006	847,126	1,937,551	264,934	131,989	3,181,600
2007	961,661	1,994,083	313,342	157,477	3,426,563
2008	1,055,951	2,157,257	258,808	183,557	3,655,573

Note: 2006 was the first year to collect property taxes since 1992

CITY OF CANTON, TEXAS
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST FIVE FISCAL YEARS
 (modified accrual basis of accounting)

Table 4

	FISCAL YEAR				
	2004	2005	2006	2007	2008
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	1,073,842	1,425,190	1,148,056	960,626	1,192,632
	<u>\$ 1,073,842</u>	<u>\$ 1,425,190</u>	<u>\$ 1,148,056</u>	<u>\$ 960,626</u>	<u>\$ 1,192,632</u>
All Other Government Funds					
Reserved					
Capital Improvements	\$ 3,149,064	\$ 1,319,582	\$ 1,068,340	\$ -	\$ 991,143
Debt Service	50,272	429,560	394,909	1,466,971	447,920
	<u>\$ 3,199,336</u>	<u>\$ 1,749,142</u>	<u>\$ 1,463,249</u>	<u>\$ 1,466,971</u>	<u>\$ 1,439,063</u>

CITY OF CANTON, TEXAS
 CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 LAST FIVE FISCAL YEARS
 (modified accrual basis of accounting)

Table 5

	2004	2005	2006	2007	2008
REVENUES					
Property Taxes	\$ -	\$ -	\$ 847,126	\$ 961,660	\$ 1,055,951
Non-Property Taxes	1,855,049	1,851,396	2,209,393	2,314,191	2,422,419
License and permits	287,705	283,359	65,757	33,114	90,420
Charge for Services	62,042	70,676	12,556	17,321	23,693
Fines/Court	125,673	111,274	129,011	275,099	178,711
Capital & Operatings Grants	-	127,143	29,679	312,144	446,870
Rental Income	-	-	43,145	32,755	39,095
Donations	-	-	-	-	169,654
Investment Income	6,851	95,893	115,022	78,511	111,715
Total Revenues	2,337,320	2,539,741	3,451,689	4,024,795	4,538,528
EXPENDITURES					
General government	773,383	610,816	1,117,052	993,892	891,451
Public Safety	1,125,963	1,023,107	1,072,538	1,348,594	2,038,530
Public Works	271,479	316,410	350,402	715,880	1,589,888
Public Services and Operations	129,677	122,250	285,309	269,968	292,341
Parks and Cultural	125,285	159,035	287,619	246,987	319,171
Capital Outlay	695,160	67,491	29,548	-	-
Debt Service					
Principal	216,070	230,885	244,663	253,142	556,193
Interest and other charges	119,474	238,810	265,990	208,712	329,062
Total Expenditures	3,456,491	2,768,804	3,653,121	4,037,175	6,016,636
OTHER FINANCING SOURCES (USES):					
Sale of Assets	36,209	-	-	-	-
Debt Proceeds	-	-	-	-	1,900,000
Intergovernmental	93,639	11,772	-	-	195,000
FEMA Reimbursements	-	-	-	-	56,873
Insurance Reimbursement	-	-	126,660	322	8,776
Extraordinary Loss	-	-	-	(300,000)	-
Miscellaneous	227,143	264,305	328,603	189,355	20,863
Transfers	427,996	(1,115,969)	(793,876)	(71,220)	(445,390)
Total other financing sources (uses)	784,987	(839,892)	(338,613)	(181,543)	1,736,122
NET CHANGE IN FUND BALANCES	\$ (334,184)	\$ (1,068,955)	\$ (540,045)	\$ (193,923)	\$ 258,014
Debt service as a percentage of noncapital expenditures	13.83%	21.05%	16.40%	12.92%	17.25%

CITY OF CANTON, TEXAS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 SEPTEMBER 30, 2008

Table 6

Fiscal Year Ended Sept. 30	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value ^a as a Percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2007	132,898,480	129,840,220	439,170	332,694,570	35,614,780	560,257,660	0.3900	240,735,720	84.46%
2008	134,823,670	102,566,320	-	33,206,420	27,361,518	243,234,892	0.42523	287,515,190	84.60%

Source: Van Zandt County Appraisal District

Note: Property is reassessed annually. Property is assessed at actual value; therefore, the assessed values are equal to actual value.
 Tax rates are per \$1,000 of assessed value.

Residential: includes single family, vacant lots, acreage, farm and ranch
 Commercial: includes real property, industrial and utilities

^a Includes tax-exempt property

**CITY OF CANTON, TEXAS
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 SEPTEMBER 30, 2008
 (PER \$100 OF ASSESSED VALUE)**

Table 7

Fiscal Year Ended Sept. 30	City Direct Rates			Canton Independent School District	Van Zandt County
	Operating/ General Rate	General Obligation Debt Service	Total Direct		
2007	0.18514	0.20486	0.3900	1.471	0.35533
2008	0.22523	0.20000	0.42523	1.471	0.38689

Source: Van Zandt County Appraisal District

Note: The City's basic property tax rate may be increased over the rollback tax rate only by a majority vote of the City's residents. Rates for debt service are set based on each year's requirements.

* Overlapping rates are those of local and county governments that apply to property owners within the City of Canton

CITY OF CANTON, TEXAS
 PRINCIPAL TAXPAYERS
 SEPTEMBER 30, 2008

Table 8

Taxpayer	Assessed Taxable Value 2008 Fiscal Year	Rank	Percentage of Assessed Taxable Value
Wal-Mart Real Est. Business Trust	\$ 6,474,670	1	17.92%
Wal-Mart Stores Texas LP #827	5,978,960	2	16.55%
Lewis Henry	4,155,898	3	11.50%
Minor Mary Harrington Trust	3,994,980	4	11.06%
Starship League City LP	3,449,920	5	9.55%
Michels Gary E.	2,722,700	6	7.54%
Kingdom Perspectives GP LTD	2,583,360	7	7.15%
Norrell Gary & Marcelyn Revocable Trust	2,423,290	8	6.71%
TXU Electric Delivery Co.	2,351,940	9	6.51%
Jensen Steven & Bobby Family LMT Partnership	1,994,280	10	5.52%
	<u>\$ 36,129,998</u>		<u>100.00%</u>
 Total Assessed Valuation	 <u>\$ 243,234,892</u>		

Source: Van Zandt County Appraisal District

**CITY OF CANTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
SEPTEMBER 30, 2008**

Table 9

Last Three Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2006	863,978	847,126	98.05%	2,288	849,414	98.31%
2007	938,869	921,761	98.18%	39,900	961,661	102.43%
2008	1,076,450	1,004,600	93.33%	20,499	1,025,099	95.23%

Note: First year property taxes collected was in FYE 9.30.2006 since 1992

CITY OF CANTON, TEXAS
RATIO OF OUTSTANDING DEBT BY TYPE
SEPTEMBER 30, 2008
LAST FIVE FISCAL YEARS

Table 10

FISCAL YEAR	Governmental Activities				Business-Type Activities			Total Primary Government	Per Capita (1)	
	Limited Tax Note	Certificates of Obligation	Other Obligations	Revenue Bonds	Limited Tax Note	Certificates of Obligation	Other Obligations			Refunding Bonds
2004	-	961,670	99,238	3,360,000	-	1,923,329	-	1,730,000	8,074,237	n/a
2005	-	920,321	84,603	3,185,000	-	1,839,680	580,048	1,405,000	8,014,652	n/a
2006	-	875,320	69,940	3,000,000	-	1,749,680	463,684	1,070,000	7,228,624	n/a
2007	-	828,623	80,684	2,810,000	-	1,656,347	314,449	725,000	6,415,103	1,246
2008	500,000	2,110,325	47,328	2,460,000	-	1,559,676	190,007	575,000	7,442,336	1,446

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(1) See Table 15 for personal income and population data.

CITY OF CANTON, TEXAS
 RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
 SEPTEMBER 30, 2008

Table 11

Fiscal Year	Estimated Population	Assessed Property Value (1)	Gross Bonded Debt (2)	Less Debt Service Funds (3)	Net Bonded Debt	% of Net Bonded Debt to Assessed Property Value	Net Bonded Debt per Capita
2007	5,147	283,276,940	3,719,337	487,252	3,232,085	1.14%	\$ 723
2008	5,147	253,145,298	3,041,076	447,920	2,593,156	1.02%	\$ 591

Source: City Staff
 (1) Van Zandt County Appraisal District
 (2) Schedule of Bonds Payable
 (3) Notes to the Financial Statement

CITY OF CANTON, TEXAS
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 SEPTEMBER 30, 2008

Table 12

Governmental Subdivision	Gross Bonded Debt	Percentage of Debt Applicable to Area	City Share of Overlapping Debt
Van Zandt County	\$ 7,595,000	11.32%	\$ 859,754
Canton Independent School District	<u>41,722,913</u>	41.03%	<u>17,118,911</u>
	<u>\$49,317,913</u>		17,978,665
City of Canton			<u>4,754,465</u>
			<u>\$22,733,130</u>
Ratio of overlapping bonded debt to taxable assessed valuation (valued at 100% of market value)			<u>9.02%</u>
Per capita overlapping bonded debt			<u>\$4,417</u>

Source: "Texas Municipal Report" as of September 30, 2008, prepared by the Municipal Advisory Council

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Canton. This process recognizes that, when considering the City of Canton's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using the taxable assessed property values. Applicable percentages were estimated by determining the portion of the overlapping government's taxable assessed value that is within the City of Canton's boundaries and dividing it by the overlapping government's total taxable assessed value.

**CITY OF CANTON, TEXAS
 LEGAL DEBT MARGIN INFORMATION
 LAST THREE FISCAL YEARS**

Table 13

	FISCAL YEAR		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Tax Rate Limit	\$ 1.50	\$ 1.50	\$ 1.50
Current Tax Rate	<u>0.4000</u>	<u>0.3900</u>	<u>0.42523</u>
Available Tax Rate	<u>\$ 1.1000</u>	<u>\$ 1.1100</u>	<u>\$ 1.0748</u>

Legal Debt Margin Calculation for Fiscal Year 2008

Assessed value	\$ 253,145,298
Add back exempt real property	45,556,942
	<u>\$ 298,702,240</u>
Debt limit (10% of total assessed value)	29,870,224
Debt applicable to limit:	
Bonded Debt	5,070,324
Less: Amount set aside for repayment of general obligation debt	432,181
	<u>4,638,143</u>
Legal debt margin	<u>15.53%</u>

NOTE: FYE 9.30.2006 was the first year for property tax

**CITY OF CANTON, TEXAS
 PLEDGED-REVENUE COVERAGE
 LAST FIVE FISCAL YEARS**

Table 14

Water and Sewer Revenue Bonds					
Fiscal Year	Total Revenues ^a	Less: Operating Expenses ^b	Net Available Revenue	Annual Requirement	Times Coverage
2004	\$ 1,575,445	\$ 2,095,020	(519,575)	\$ 391,671	(1.33)
2005	1,900,319	2,154,148	(253,829)	556,219	(0.46)
2006	2,102,690	2,260,908	(158,218)	557,584	(0.28)
2007	5,709,489	5,116,274	593,215	338,258	1.75
2008	5,866,853	5,340,270	526,583	155,000	3.40

Note: ^a Total Revenues does not include non-operating revenues
^b Operating Expenses only - not transfers or depreciation

**CITY OF CANTON, TEXAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 SEPTEMBER 30, 2008
 LAST TWO FISCAL YEARS**

Table 15

<u>Fiscal Year</u>	<u>Estimated Population ¹</u>	<u>Personal Income ²¹</u>	<u>Per Capita Income ²¹</u>	<u>Average Age ²</u>	<u>Grade School Enrollment ³</u>	<u>Unemployment Rate ⁴</u>
2007	5,147	41,626	20,153	42.4	908	8.20%
2008	5,147	37,510	20,950	43.4	956	7.20%

Sources:

- 1 City of Canton
- 2 Census Bureau
- 3 Claritas Inc
- 4 East Texas Workforce Solutions

**CITY OF CANTON, TEXAS
PRINCIPAL EMPLOYERS
SEPTEMBER 30, 2008**

Table 16

<u>Name of Employer</u>	<u>No. of Employees</u>
Wal-Mart Supercenter	350
Canton ISD	258
Van Zandt County	215
Brookshire's	105
Splash Kingdom	100
Winning Strategies	100
City of Canton	78
Homemade Gourmet	50
Mill Creek RV Park & Resort	42
Trinity Mother Frances Clinic	34

Source: Canton Economic Development Corporation Research

**CITY OF CANTON, TEXAS
 FULL-TIME EQUIVALENT CITY GOVERNMENT
 EMPLOYEES BY FUNCTION/PROGRAM
 SEPTEMBER 30, 2008**

Table 17

<u>Function / Program</u>	<u>2007</u>	<u>2008</u>
General Government	6.5	8.5
Public Safety		
Police	18	18.5
Municipal Court	1.5	3
Fire	3	4
Public Works	7.5	10
Streets	5.5	2
Parks and Recreation	2	5
Utility Administration	2	2
Water, Wastewater	11	9
First Monday	14	12

Source: City Staff

**CITY OF CANTON, TEXAS
OPERATING INDICATORS BY FUNCTION
SEPTEMBER 30, 2008**

Table 18

Function/Program	<u>2007</u>	<u>2008</u>
Police		
Number of police officers	13	13
Number of violations (citations)	1,731	1,505
Fire		
Number of firefighters	20	21
Number of fire suppression runs	96	164
Number of EMS runs	173	199
Development Services		
Construction permits issued ¹	170	206
Estimated valuation ¹	\$ 1,543,844	\$ 33,313,192
Public Works		
Streets paved (miles)	26	26
Parks and Recreation		
Park land and municipal acreage maintained	236	236
Water and Wastewater		
Number of water customers	1,983	2043
Average daily water consumption (millions of gallons)	0.607	0.702
Maximum storage capacity (millions of gallons)	1.39	1.39
Solid Waste		
Solid waste collected (tons)	5,000	5,000

Source: City Departments

¹Includes residential, commercials, and miscellaneous (e.g., pools, fences) permits

**CITY OF CANTON, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
SEPTEMBER 30, 2008**

Table 19

Function/Program	2007	2008
Police		
Stations	1	1
Patrol Units	10	10
Fire		
Stations	1	1
Public Works		
Streets-Paved (miles)	26	26
Street Lights	501	501
Parks and Recreation		
Park Acreage	150	150
Public Parks	3	3
Community Centers	1	1
Senior Centers	1	1
Tennis Courts	4	4
Soccer Fields	5	5
Baseball Fields	7	7
Library	1	1
Water and Wastewater		
Water Mains (miles)	47	47
Fire Hydrants	231	231
Storm Sewers (miles)	0.75	0.75
Sanitary Sewers (miles)	38.5	38.5
First Monday (acres)	100	100

Source: City Departments

OTHER SUPPLEMENTARY INFORMATION



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August 11, 2009

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

To the Honorable Mayor and the Members of the City Council
City of Canton, Texas

We have audited the financial statements of the governmental activities, business-type activities, and each major fund, and the aggregate remaining fund information of the City of Canton, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City of Canton, Texas' basic financial statements and have issued our report thereon dated August 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Canton, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Canton, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Canton, Texas' internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City's management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

CONWAY COMPANY CPAs, PC

Conway Company CPAs, P.C.



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August 11, 2009

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133**

To the Honorable Mayor and the Members of the City Council
City of Canton, Texas

Compliance

We have audited the compliance of the City of Canton, Texas (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City's major federal programs are indentified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

**Internal Control Over
Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Respectfully Submitted,

CONWAY COMPANY CPAs, PC

Conway Company CPAs, P.C.

CITY OF CANTON, TEXAS
Schedule of Findings and Questioned Costs
For the year ended September 30, 2008

Section I. Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued on the financial statements Unqualified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X No
3. Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

4. Internal controls over major program:
- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X No
5. Type of auditors' report compliance for major program Unqualified
6. Did the audit disclose findings that are required to be reported under Sec. 501(a)? _____ Yes X No

7. Major programs include:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
--------------------------------	--------------------

U.S. Department of Transportation

8. Dollar Threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as low-risk auditee: _____ Yes X No

Section II. Financial Statement Findings

None

Section III. Federal Award Findings and Questioned Costs:

None

**CITY OF CANTON, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2008**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management Explanation If Not Implemented</u>
None		

**CITY OF CANTON, TEXAS
CORRECTIVE ACTION PLAN
SEPTEMBER 30, 2008**

None

CITY OF CANTON, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 SEPTEMBER 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through the Texas Department of Transportation Sidewalk Improvements	20.215	0910-12-046	\$ 802,901
Total Passed Through Texas Department of Transportation			<u>802,901</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through the Texas Department of Agriculture Waterline Improvements	14.228	726222	297,682
Total Passed Through the Texas State Comptroller			<u>297,682</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,100,583</u></u>

**CITY OF CANTON
SCHEDULE OF U.S. DEPARTMENT OF TRANSPORTATION
YEAR ENDED SEPTEMBER 30, 2008**

Federal Financial Assistance
Federal Grantor: U.S. Department of Transportation
Pass Through Grantor: Texas Department of Transportation
CFDA Number: 20.215
Project Number: 0910-12-046
Sidewalk Improvements

	FEDERAL			LOCAL		
	Budget	Prior Year	Current Year	Prior Year	Current Year	Total
REVENUE:						
Federal	\$ 857,235	\$ 316,750	\$ 426,634	\$ -	\$ -	\$ 743,384
TOTAL REVENUE	<u>\$ 857,235</u>	<u>\$ 316,750</u>	<u>\$ 426,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 743,384</u>
EXPENSES						
Federal						
Administration	142,872	34,845	9,292	-	-	44,137
Engineering	85,833	71,403	5,906	-	-	77,309
Construction	628,530	213,301	468,154	-	-	681,455
Match						
Administration	35,718	-	-	8,981	2,323	11,304
Engineering	21,458	-	-	18,697	1,477	20,174
Construction	157,133	-	-	53,326	117,038	170,364
TOTAL EXPENSES	<u>\$ 1,071,544</u>	<u>\$ 319,549</u>	<u>\$ 483,352</u>	<u>\$ 81,004</u>	<u>\$ 120,838</u>	<u>\$ 1,004,743</u>
Excess Revenue over Expenditures	<u>\$ (214,309)</u>	<u>\$ (2,799)</u>	<u>\$ (56,718)</u>	<u>\$ (81,004)</u>	<u>\$ (120,838)</u>	<u>\$ (261,359)</u>

**CITY OF CANTON
 SCHEDULE OF U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 SEPTEMBER 30, 2008**

Federal Financial Assistance
 Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Texas Department of Agriculture
 CFDA Number: 14.228
 Project Number: 726222
 Waterline Improvements

	FEDERAL		LOCAL		Total
	Budget	Prior Year	Prior Year	Current Year	
REVENUE:					
Federal	\$ 374,900	\$ -	\$ -	\$ -	\$ 20,200
TOTAL REVENUE	<u>\$ 374,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,200</u>
EXPENSES					
Federal					
Construction	374,900	109,981	-	-	297,682
Match					
Administration	168,300	-	23,000	-	23,000
Engineering	50,000	-	17,500	22,500	40,000
Construction	72,000	-	57,950	12,700	70,650
Acquisition	30,000	-	2,646	-	2,646
TOTAL EXPENSES	<u>\$ 695,200</u>	<u>\$ 109,981</u>	<u>\$ 101,096</u>	<u>\$ 35,200</u>	<u>\$ 433,978</u>
Excess Revenue over Expenditures	<u>\$ (320,300)</u>	<u>\$ (109,981)</u>	<u>\$ (101,096)</u>	<u>\$ (35,200)</u>	<u>\$ (413,778)</u>

