

**CITY OF CORRIGAN, TEXAS**  
**BASIC FINANCIAL STATEMENTS**  
**&**  
**REQUIRED SUPPLEMENTARY**  
**& OTHER INFORMATION**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Gollob Morgan Peddy PC**  
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**CITY OF CORRIGAN, TEXAS  
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FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Corrigan, Texas

### Report on the Financial Statements

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 Corrigan, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Corrigan, Texas' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Corrigan, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, and schedule of changes in net pension liability and related ratios and schedule of contributions on pages 3-8 and 38-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corrigan, Texas' basic financial statements. The supplemental schedule at page 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budget and actual schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017 on our consideration of the City of Corrigan, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Corrigan, Texas' internal control over financial reporting and compliance.



Certified Public Accountants  
Tyler, Texas  
February 28, 2017

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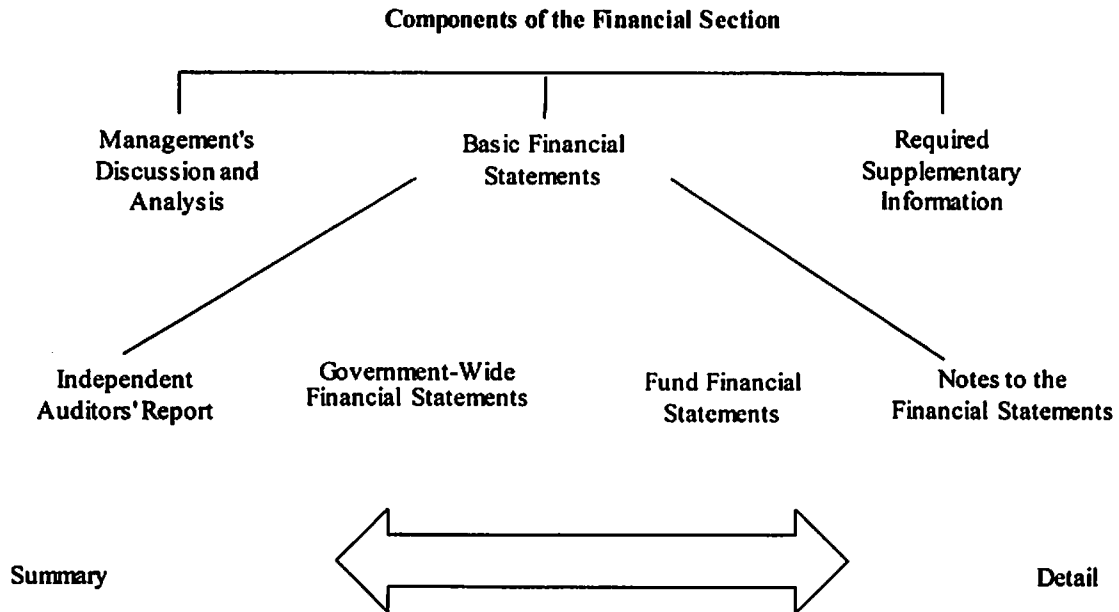
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**MANAGEMENTS'S DISCUSSION AND ANALYSIS**

**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Corrigan, Texas (the "City") for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, and economic conditions. It presents short and long term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

**THE STRUCTURE OF OUR ANNUAL REPORT**



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-Wide Statements**

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about costs of service, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Government-Wide Statements - Continued**

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety (police and fire protection), general government (municipal court, library, and general administrative services), and public works. Interest payments on the City's debts are also reported here. Sales tax, property tax, franchise tax, municipal court fines, and charges for services finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water and sewer services, as well as solid waste collection.

The government-wide financial statements can be found after the MD&A.

**FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds. While the debt service fund did not technically meet the criteria to be presented as a major fund, management elected to present it as major due to its significance.

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Proprietary Funds**

The City maintains one type of proprietary fund, an enterprise fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water distribution, wastewater collection/treatment, and solid waste operations. The proprietary fund financial statements provide more detailed information for the water distribution, wastewater collection/treatment, and solid waste fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liability by \$3,907,861 as of September 30, 2016. This compares with \$3,394,192 from the prior fiscal year. The largest portion of the City's net position, 65%, reflects its investments in capital assets (e.g., land, building, equipment, improvements, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current and other assets	\$ 918,611	\$ 898,118	\$ 259,942	\$ 195,282	\$ 1,178,553	\$ 1,093,400
Restricted Assets	274,946	253,597	30,000	30,000	\$ 304,946	283,597
Capital assets, net	2,260,799	2,073,073	1,586,109	1,544,932	\$ 3,846,908	3,618,005
<b>Total Assets</b>	<b>3,454,356</b>	<b>3,224,788</b>	<b>1,876,051</b>	<b>1,770,214</b>	<b>5,330,407</b>	<b>4,995,002</b>
Deferred outflows	122,367	25,441	18,725	4,159	141,092	29,600
Long-term liabilities	1,160,101	1,130,476	3,444	65,472	1,163,545	1,195,948
Other liabilities	358,885	366,452	41,208	66,277	400,093	432,729
<b>Total Liabilities</b>	<b>1,518,986</b>	<b>1,496,928</b>	<b>44,652</b>	<b>131,749</b>	<b>1,563,638</b>	<b>1,628,677</b>
Deferred inflows	-	1,490	-	243	-	1,733
<b>Net Position:</b>						
Net investment in capital assets	940,977	784,202	1,586,109	1,448,546	2,527,086	2,232,748
Restricted	359,344	281,173	-	-	359,344	281,173
Unrestricted	757,416	686,436	264,015	193,835	1,021,431	880,271
<b>Total Net Position</b>	<b>\$ 2,057,737</b>	<b>\$ 1,751,811</b>	<b>\$ 1,850,124</b>	<b>\$ 1,642,381</b>	<b>\$ 3,907,861</b>	<b>\$ 3,394,192</b>

A portion of the City's net position, \$359,344 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$1,021,431, may be used to meet the City's ongoing obligation to citizens or creditors.

The City's total net position increased by \$513,669 during the current fiscal year, an increase of 15% in comparison to the prior year.



**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Statement of Activities**

The following table provides a summary of the City's changes in net position:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,783,331	\$ 1,222,664	\$ 1,012,588	\$ 1,080,014	\$ 2,795,919	\$ 2,302,678
General revenues:						
Property taxes	306,825	306,420	-	-	306,825	306,420
Sales tax	396,989	372,735	-	-	396,989	372,735
Franchise fees	151,934	168,391	-	-	151,934	168,391
Interest revenue	97	1,155	-	-	97	1,155
Library	3,544	5,579	-	-	3,544	5,579
Other	906,781	71,600	-	-	906,781	71,600
<b>Total Revenues</b>	<b>3,549,501</b>	<b>2,148,544</b>	<b>1,012,588</b>	<b>1,080,014</b>	<b>4,562,089</b>	<b>3,228,558</b>
<b>Expenses</b>						
General government	788,294	630,037	-	-	788,294	630,037
Public safety	2,073,837	1,503,039	-	-	2,073,837	1,503,039
Public works	378,584	375,429	-	-	378,584	375,429
Community Center	-	13,599	-	-	-	13,599
Interest on long-term debt	33,357	28,078	-	-	33,357	28,078
Water, sewer, and sanitation	-	-	774,348	583,998	774,348	583,998
<b>Total Expenses</b>	<b>3,274,072</b>	<b>2,550,182</b>	<b>774,348</b>	<b>583,998</b>	<b>4,048,420</b>	<b>3,134,180</b>
<b>Increase (Decrease) in Net Position Before Transfers</b>	<b>275,429</b>	<b>(401,638)</b>	<b>238,240</b>	<b>496,016</b>	<b>513,669</b>	<b>94,378</b>
Transfers in (out)	30,497	527,427	(30,497)	(527,427)	-	-
<b>Change in Net Position</b>	<b>305,926</b>	<b>125,789</b>	<b>207,743</b>	<b>(31,411)</b>	<b>513,669</b>	<b>94,378</b>
Net position beginning	1,751,811	1,626,022	1,642,381	1,673,792	3,394,192	3,299,814
<b>Ending Net Position</b>	<b>\$ 2,057,737</b>	<b>\$ 1,751,811</b>	<b>\$ 1,850,124</b>	<b>\$ 1,642,381</b>	<b>\$ 3,907,861</b>	<b>\$ 3,394,192</b>

For the year ended September 30, 2016, revenues from governmental activities totaled \$3,549,501. Overall governmental revenues increased by 65%. This increase is mainly due to an increase in charges for services and other income.

For the year ended September 30, 2016, expenses for governmental activities totaled \$3,274,072, which is an increase of \$723,890 from the prior year. This increase can be attributed primarily to increases in general government and public safety expenses due to an increase in salaries and fees paid to the state.

For the year ended September 30, 2016, revenues for business-type activities decreased by \$67,426 which comes from a decrease in water usage due to increased rainfall during the current fiscal year. Overall expenses increased slightly by \$190,350, which can be attributed to an increase in utilities and maintenance of the City equipment.

**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources, such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combine balance of \$1,028,503, of which \$359,344 is restricted for various purposes. There was an increase in the combined fund balances of \$159,563 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$669,159, while total fund balances reached \$945,879. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balances and total fund balances to total fund expenditures. Unassigned fund balance represents 20% of total general fund expenditures, while total fund balance represents 28%. The general fund demonstrated an overall increase primarily due to a planned use of funds for capital projects to improve the City's infrastructure.

The debt service fund has a total fund balance of \$82,624, all of which is restricted for the payment of debt service. The net increase in fund balance for the current year was \$12,273 which was due to a decrease in principal and interest payments.

**Proprietary Funds** – The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There had been a planned decrease in budgeted fund balance in the amount of \$414,515 in the general fund. However, the net change in fund balance increased by \$147,290, resulting in a positive variance of \$561,805 from budget to actual.

Actual general fund revenues were more than budgeted revenues by for the year. This increase includes a positive variance of fines and in other revenues.

There was a net variance in actual governmental expenditures to budgeted expenditures of (\$1,163,296).

**CAPITAL ASSETS**

At the end of fiscal year 2016, the City's governmental activities and business-type activities had invested 2,260,799 and \$1,586,109, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$228,903 from the 2015 fiscal year.

More detailed information about the City's capital assistance is presented in note III.C. to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City had general obligation bonds outstanding of \$979,000.

During the year, the City had a net decrease in governmental and business-type activity long-term debt of \$65,441.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

**CITY OF CORRIGAN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

During the fiscal year ended September 30, 2016, the City decided to outsource its garbage collection services with a third party. Also, the City entered into a separate agreement to extend water and sewer services to a plant site that was built just outside the City's distribution system. This new agreement will increase the City's water and sewer revenues at no cost to the City as the customer is paying for the extension of the lines for services. The budget for fiscal year 2017 will allow the City to maintain services and employee compensation and maintain its tax rate of \$0.4354/\$100 valuation.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Darrian Hudman, City Manager, 101 West Ben Franklin, Corrigan, TX, 75939; telephone 939-398-4126.

**BASIC FINANCIAL STATEMENTS**

**CITY OF CORRIGAN, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>Assets</b>			
Cash and cash equivalents	\$ 667,879	\$ 11,512	\$ 679,391
Investments	97,577	20,000	117,577
Receivables, net	153,155	200,360	353,515
Inventory	-	28,070	28,070
Restricted assets	274,946	30,000	304,946
<b>Noncurrent assets:</b>			
Capital assets:			
Non-depreciable capital assets	424,377	31,000	455,377
Depreciable capital assets, net	1,836,422	1,555,109	3,391,531
<b>Total Assets</b>	<b>3,454,356</b>	<b>1,876,051</b>	<b>5,330,407</b>
<b>Deferred Outflows of Resources</b>			
Deferred Outflows Related to TMRS Pension	122,367	18,725	141,092
Total Deferred Outflows of Resources	122,367	18,725	141,092
<b>Liabilities</b>			
Accounts payable and accrued liabilities	139,410	1,882	141,292
Customer deposits	-	35,342	35,342
Due within one year	219,475	3,984	223,459
	358,885	41,208	400,093
Noncurrent liabilities:			
Net pension liability	28,486	3,444	31,930
Due in more than one year	1,131,615	-	1,131,615
	1,160,101	3,444	1,163,545
<b>Total Liabilities</b>	<b>1,518,986</b>	<b>44,652</b>	<b>1,563,638</b>
<b>Net Position</b>			
Net investment in capital assets	940,977	1,586,109	2,527,086
Restricted	359,344	-	359,344
Unrestricted	757,416	264,015	1,021,431
<b>Total Net Position</b>	<b>\$ 2,057,737</b>	<b>\$ 1,850,124</b>	<b>\$ 3,907,861</b>

**CITY OF CORRIGAN, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Functions/Programs	Expenses	Program Revenues	Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Primary Government		Total
			Governmental Activities	Business-Type Activities	
<b>Primary Government</b>					
<b>Governmental Activities:</b>					
General government	\$ 788,294	\$ -	\$ (788,294)	\$ -	\$ (788,294)
Public safety	2,073,837	1,783,331	(290,506)	-	(290,506)
Public works	378,584	-	(378,584)	-	(378,584)
Interest on long-term debt	33,357	-	(33,357)	-	(33,357)
<b>Total Government Activities</b>	<b>3,274,072</b>	<b>1,783,331</b>	<b>(1,490,741)</b>	<b>-</b>	<b>(1,490,741)</b>
<b>Business-Type Activities:</b>					
Water, sewer, and sanitation	774,348	1,012,588	-	238,240	238,240
<b>Total Business-Type Activities</b>	<b>774,348</b>	<b>1,012,588</b>	<b>-</b>	<b>238,240</b>	<b>238,240</b>
<b>Total Primary Government</b>	<b>\$ 4,048,420</b>	<b>\$ 2,795,919</b>	<b>(1,490,741)</b>	<b>238,240</b>	<b>(1,252,501)</b>
<b>General Revenues:</b>					
Property taxes, penalties and interest			306,825	-	306,825
Sales tax			396,989	-	396,989
Franchise fees			151,934	-	151,934
Interest revenue			97	-	97
Library			3,544	-	3,544
Other			906,781	-	906,781
Transfers			30,497	(30,497)	-
<b>Total General Revenues and Transfers</b>			<b>1,796,667</b>	<b>(30,497)</b>	<b>1,766,170</b>
<b>Changes in Net Position</b>			<b>305,926</b>	<b>207,743</b>	<b>513,669</b>
Net position beginning			1,751,811	1,642,381	3,394,192
<b>Ending Net Position</b>	<b>\$</b>	<b>\$</b>	<b>2,057,737</b>	<b>1,850,124</b>	<b>\$ 3,907,861</b>

**CITY OF CORRIGAN, TEXAS  
BALANCE SHEET  
SEPTEMBER 30, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 605,255	\$ 62,624	\$ 667,879
Receivables, net	135,853	17,302	153,155
<b>Total Current Assets</b>	<b>741,108</b>	<b>79,926</b>	<b>821,034</b>
Restricted assets:			
Restricted cash and cash equivalents	274,946	-	274,946
Restricted investments	77,577	20,000	97,577
<b>Total Restricted Assets</b>	<b>352,523</b>	<b>20,000</b>	<b>372,523</b>
<b>Total Assets</b>	<b>\$ 1,093,631</b>	<b>\$ 99,926</b>	<b>\$ 1,193,557</b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 139,410	\$ -	\$ 139,410
<b>Total Liabilities</b>	<b>139,410</b>	<b>-</b>	<b>139,410</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenue - property taxes	8,342	17,302	25,644
<b>Fund Balances:</b>			
Restricted for:			
Community center and parks	13,758	-	13,758
Library	27,577	-	27,577
Police	105,715	-	105,715
Court	129,641	-	129,641
Debt	-	82,624	82,624
Capital projects	29	-	29
Unassigned	669,159	-	669,159
<b>Total Fund Balances</b>	<b>945,879</b>	<b>82,624</b>	<b>1,028,503</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 1,093,631</b>	<b>\$ 99,926</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	2,260,799
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	25,644
Deferred outflows represent the consumption of net position that are applicable to a future reporting period	122,367
Deferred inflows is an acquisition of net position that are applicable to a future reporting period	(28,486)
Other liabilities, including net pension liabilities, that are not recognized in the current period, therefore, are not reported in the governmental funds balance sheet	-
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term debt	<u>(1,351,090)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 2,057,737</u></b>

**CITY OF CORRIGAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 189,769	\$ 132,573	\$ 322,342
Sales tax	396,989	-	396,989
Franchise fees	151,934	-	151,934
Fines and forfeitures	1,577,860	-	1,577,860
Library	3,544	-	3,544
Interest revenue	-	97	97
Charges for services	5,471	-	5,471
Other revenue	906,781	-	906,781
<b>Total Revenues</b>	<b>3,232,348</b>	<b>132,670</b>	<b>3,365,018</b>
<b>Expenditures</b>			
General government	738,675	-	738,675
Public Safety	1,813,845	-	1,813,845
Public works	357,641	-	357,641
Capital outlay	323,385	-	323,385
Debt:			
Principal payments	93,536	97,000	190,536
Interest and fiscal agent fees	7,571	25,786	33,357
<b>Total Expenditures</b>	<b>3,334,653</b>	<b>122,786</b>	<b>3,457,439</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(102,305)</b>	<b>9,884</b>	<b>(92,421)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	28,108	2,389	30,497
Debt issued	221,487	-	221,487
<b>Total Other Financing Sources</b>	<b>249,595</b>	<b>2,389</b>	<b>251,984</b>
<b>Net Change in Fund Balances</b>	<b>147,290</b>	<b>12,273</b>	<b>159,563</b>
Beginning fund balances	798,589	70,351	868,940
<b>Ending Fund Balances</b>	<b>\$ 945,879</b>	<b>\$ 82,624</b>	<b>\$ 1,028,503</b>



**CITY OF CORRIGAN, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Net changes in fund balances - total governmental funds	\$ 159,563
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 outlay exceeded depreciation in the current period.	187,726
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	(15,517)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) 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 position. Also, governmental funds report the effect of 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.	(30,951)
Changes in GASB 68 pension expense due to changes in the current period Deferred Outflow of Resources and the Deferred Inflow of Resources.	<u>5,105</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u><u>305,926</u></u></b>

**CITY OF CORRIGAN, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Property taxes	\$ 180,962	\$ 189,769	\$ 8,807
Sales tax	395,000	396,989	1,989
Franchise fees	180,000	151,934	(28,066)
Fines and forfeitures	920,000	1,577,860	657,860
Library	6,500	3,544	(2,956)
Interest revenue	500	0	(500)
Charges for service	48,094	5,471	(42,623)
Other revenue	25,786	906,781	880,995
<b>Total Revenues</b>	<u>1,756,842</u>	<u>3,232,348</u>	<u>1,475,506</u>
<b>Expenditures</b>			
General government			
Administration	260,856	390,831	(129,975)
Library	111,673	124,189	(12,516)
Court	162,336	223,655	(61,319)
Public safety:			-
Police	1,177,027	1,775,121	(598,094)
Fire	32,300	38,724	(6,424)
Public works	177,259	357,641	(180,382)
Capital outlay	126,547	323,385	(196,838)
Debt:			-
Principal payments	115,788	93,536	22,252
Interest and fiscal agent charges	7,571	7,571	-
<b>Total Expenditures</b>	<u>2,171,357</u>	<u>3,334,653</u>	<u>(1,163,296)</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(414,515)</u>	<u>(102,305)</u>	<u>312,210</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	28,108	28,108
Capital lease proceeds	-	221,487	221,487
<b>Total Other Financing Sources</b>	<u>-</u>	<u>249,595</u>	<u>249,595</u>
<b>Net Change in Fund Balance</b>	<u>\$ (414,515)</u>	<u>147,290</u>	<u>\$ 561,805</u>
Beginning fund balance		<u>798,589</u>	
<b>Ending Fund Balance</b>		<u>\$ 945,879</u>	

**CITY OF CORRIGAN, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
SEPTEMBER 30, 2016**

	<b>Business-Type</b>
	<b>Water and Sewer</b>
<b><u>Assets</u></b>	
Current assets:	
Cash and cash equivalents	\$ 11,512
Investments	20,000
Accounts receivable, net	200,360
Inventory	28,070
<b>Total Current Assets</b>	<b>259,942</b>
Noncurrent assets:	
Restricted assets:	
Restricted investments	30,000
<b>Total Restricted Assets</b>	<b>30,000</b>
Capital Assets:	
Non-depreciable capital assets	31,000
Depreciable capital assets, net	1,555,109
<b>Total Capital Assets (Net)</b>	<b>1,586,109</b>
<b>Total Noncurrent Assets</b>	<b>1,616,109</b>
<b>Total Assets</b>	<b>\$ 1,876,051</b>
 <b><u>Deferred Outflows of Resources</u></b>	
Deferred Outflows Related to TMRS Pension	18,725
<b>Total Deferred Outflows of Resources</b>	<b>18,725</b>

**CITY OF CORRIGAN, TEXAS  
STATEMENT OF NET POSITION (CONTINUED)  
PROPRIETARY FUND  
SEPTEMBER 30, 2016**

	<b>Business-Type</b>
	<b>Water and Sewer</b>
<b><u>Liabilities</u></b>	
Current liabilities:	
Accounts payable and accrued liabilities	1,882
Customer deposits	35,342
Due within one year	3,984
<b>Total Current Liabilities</b>	<b>41,208</b>
Noncurrent liabilities:	
Net pension liability	3,444
<b>Total Noncurrent Liabilities</b>	<b>3,444</b>
<b>Total Liabilities</b>	<b>44,652</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	1,586,109
Unrestricted	264,015
<b>Total Net Position</b>	<b>\$ 1,850,124</b>

**CITY OF CORRIGAN, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<b>Business-Type</b>
	<b>Water and</b>
	<b>Sewer</b>
<b><u>Operating Revenues</u></b>	
Charges for services	1,012,588
<b>Total Operating Revenues</b>	<b>1,012,588</b>
<b><u>Operating Expenses</u></b>	
Water	235,535
Sewer	275,487
Sanitation	170,411
Depreciation	89,542
<b>Total Operating Expenses</b>	<b>770,975</b>
<b>Operating Income</b>	<b>241,613</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Interest expense	(3,373)
<b>Total Nonoperating (Expenses)</b>	<b>(3,373)</b>
<b>Income Before Transfers</b>	<b>238,240</b>
Transfers out	(30,497)
<b>Change in Net Position</b>	<b>207,743</b>
Net position, October 1, 2015	1,642,381
<b>Ending Net Position</b>	<b>\$ 1,850,124</b>

**CITY OF CORRIGAN, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<b>Business-Type Water and Sewer</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers and users	\$ 949,537
Payments for goods and services	(430,070)
Payments for employees	(253,913)
	<b>265,554</b>
<b><u>Net Cash Provided by Operating Activities</u></b>	
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers to other funds	(30,497)
	<b>(30,497)</b>
<b><u>Net Cash (Used) by Noncapital Financing Activities</u></b>	
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Purchases of capital assets	(134,289)
Proceeds from sale of assets	3,570
Principal paid on capital lease	(96,386)
Interest paid	(3,373)
	<b>(230,478)</b>
<b><u>Net Cash (Used) by Capital and Related Financing Activities</u></b>	
	<b>4,579</b>
<b><u>Net (Decrease) in Cash and Cash Equivalents</u></b>	
Beginning cash and cash equivalents	6,933
	<b>11,512</b>
<b><u>Ending Cash and Cash Equivalents</u></b>	
Unrestricted cash and cash equivalents	\$ 11,512
Restricted cash and cash equivalents	-
	<b>11,512</b>
<b><u>Total Cash and Cash Equivalents</u></b>	
	<b>\$ 11,512</b>

**CITY OF CORRIGAN, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<b>Business-Type</b>
	<b>Water and</b>
	<b>Sewer</b>
<b>Reconciliation of Operating Income (Loss)</b>	
<b>to Net Cash Provided (Used) by Operating Activities</b>	
Operating income	\$ 241,613
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	89,542
<b>Changes in Operating Assets and Liabilities:</b>	
(Increase) Decrease in Assets:	
Receivables	(70,678)
Net pension asset	10,597
Deferred outflows	(14,566)
Increase (Decrease) in Liabilities:	
Payables	(1,782)
Deferred inflows	(243)
Net pension liability	3,444
Customer deposits	7,627
	<u>265,554</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ <u>265,554</u></b>

**CITY OF CORRIGAN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Corrigan, Texas (the City) was incorporated on November 5, 1938 and adopted a "General Law" charter by resolution for a council-manager form of government. The Council is composed of a mayor and five Council members, all of whom are elected at large and serve two-year terms.

The Mayor is the chief executive officer of the City, presides at Council meetings, and votes on all matters considered by the Council that end in a split vote. All powers of the City are vested in the Council. Such powers include appointment of the City manager, boards and commissions; adoption of the budget; authorization of bond issues; and adoption of ordinances and resolutions as deemed necessary, desirable, and beneficial to the City.

The City provides the following services: general government, public safety, and public works.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities, organizations, or functions have been included as part of the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other government or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**C. Basis of Presentation – Government-Wide Financial Statement**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's proprietary funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. While the debt service fund did not meet the criteria to be presented as a major fund, management elected to present it as major due to its significance.

The City reports the following proprietary fund:

The *proprietary fund* is used to account for and report the operations that provide water and wastewater collection, wastewater treatment operations, and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) for providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

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

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

**E. Measurement Focus and Basis of Accounting**

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

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

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**E. Measurement Focus and Basis of Accounting - Continued**

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of the year end). Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of the year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

**Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary fund types consider temporary investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term, highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported as amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

**CITY OF CORRIGAN, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**2. Investments – Continued**

In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S government and the State of Texas
- Certificates of deposit
- Statewide investment pools

**Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

**Restricted Assets**

Funds set aside for the payment of proprietary fund customer deposits and debt service are classified as restricted.

**Capital Assets**

Capital assets, including: property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with initial, individual costs of more than \$5,000 and an estimated useful life in excess of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of proprietary fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The cost of normal maintenance and repairs that do not add value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	50 years
System improvements	50 years
Machinery and equipment	3-15 years
Infrastructure	50 years

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a deferred charge on the TMRS pension. The TMRS pension expense and net pension liability are reported as of the date of the last actuarial study, which was December 31, 2015. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2015 and September 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. *Unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second is reported in the government-wide statement of net position. It is a deferred charge related to the TMRS retirement pension. This represents the differences between expected and actual actuarial gains and losses, and projected and actual pension plan investment gains and losses. This amount will be amortized in future periods.

**Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the government fund that will pay it when it matures or becomes due. Amounts vested or accumulated vacation time that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. Employees are paid unused vacation time to a maximum of 15 days upon voluntary termination but may not otherwise elect to be paid in lieu of vacation. Vacation pay is as follows: one through two years of service – one week; three thru eight years of service – two weeks; and after eight years, three weeks.

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

**CITY OF CORRIGAN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**8. Long-Term Obligations – Continued**

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**Net Position Flow Assumption**

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

**Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as non-spendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision making authority for the City that can, by adoption of a resolution prior to the end of fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitations.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Estimates

The preparation of financial statements, in conformity with the generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For the year ended September 30, 2016, the City followed the provisions of GASB Statement 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The fiduciary net position of the Texas Municipal Retirement System of Texas (TMRS) has been determined based on the flow of economic resource measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability: deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, and liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value.

**G. Revenues and Expenditures/Expenses**

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent and considered past due on February 1<sup>st</sup> of the following year. On July 1<sup>st</sup> of the following year, liens, penalties, and interest are assessed.

Proprietary Funds Operating and Non-operating Revenues and Expenses

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 operation. The principal operating revenues of the proprietary fund are charges to customers for sales and services. The proprietary fund also recognizes as operating revenue the portion of tap fees intended to recover the costs of connecting new customers to the system. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation in capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF CORRIGAN, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the fund where the City Council's approval is required. The City Council may transfer unencumbered appropriations for the use of a department, division, or purpose without public notice and public hearing except when such transfer shall be made of revenue or earnings of any non-tax supported public utility to any other purpose. No amendment is necessary if department expenditures exceed budget, as long as fund expenditures do not exceed the fund budget.

**A. Expenditures in Excess of Appropriations**

The general fund had expenditures in excess of appropriations in the amount of \$1,163,296 at September 30, 2016.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	<u>\$ 117,577</u>	1.29

As of September 30, 2016, the carrying amount of the City's deposits was \$941,525 and the total bank balance was \$927,028. The total bank balance was covered by FDIC insurance or pledged securities held in the City's name.

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's investment policy requires funds on deposits at the depository bank to be collateralized by securities. As of September 30, 2016, market values of pledged securities and FDIC coverage exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**B. Receivables**

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	<u>Total</u>
Property taxes	\$ 27,566	\$ 17,989	\$ -	\$ 45,555
Sales tax	81,104	-	-	81,104
Roy O' Martin	43,676	-	-	43,676
Water and Sewer	-	-	263,471	263,471
Less: Allowances	(16,493)	(687)	(63,111)	(80,291)
	<u>\$ 135,853</u>	<u>\$ 17,302</u>	<u>\$ 200,360</u>	<u>\$ 353,515</u>

**C. Capital Assets**

A summary of changes in capital assets for governmental activities for the year end is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassification</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 245,760	\$ -	\$ -	\$ 245,760
Construction in Progress	-	178,617	-	178,617
<b>Total Capital Assets Not Being Depreciated</b>	<u>245,760</u>	<u>178,617</u>	<u>-</u>	<u>424,377</u>
<b>Other capital assets:</b>				
Buildings and Improvements	955,255	-	-	955,255
Machinery and equipment	972,808	144,768	(14,595)	1,102,981
Infrastructure	1,804,400	-	-	1,804,400
<b>Total Other Capital Assets</b>	<u>3,732,463</u>	<u>144,768</u>	<u>(14,595)</u>	<u>3,862,636</u>
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	(448,825)	(18,531)	-	(467,356)
Machinery and equipment	(659,841)	(96,040)	14,595	(741,286)
Infrastructure	(796,484)	(21,088)	-	(817,572)
<b>Total Accumulated Depreciation</b>	<u>(1,905,150)</u>	<u>(135,659)</u>	<u>14,595</u>	<u>(2,026,214)</u>
<b>Other Capital Assets, Net</b>	<u>1,827,313</u>	<u>9,109</u>	<u>-</u>	<u>1,836,422</u>
<b>Governmental Activities- Capital Assets, Net</b>	<u>\$ 2,073,073</u>	<u>\$ 187,726</u>	<u>\$ -</u>	<u>2,260,799</u>
			Plus unspent bond proceeds	29
			Less associated debt	<u>(1,319,851)</u>
			<b>Net Investment in Capital Assets</b>	<u>\$ 940,977</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 50,861
Public Safety	63,259
Public Works	21,539
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 135,659</u>



**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**C. Capital Assets - Continued**

The following is a summary of changes in capital assets for business-type activities for the year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 31,000	\$ -	\$ -	31,000
<b>Total Capital Assets Not Being Depreciated</b>	<u>31,000</u>	<u>-</u>	<u>-</u>	<u>31,000</u>
Other capital assets:				
Buildings and facilities	1,663,796	69,534	-	1,733,330
Equipment	925,304	64,755	(12,600)	977,459
<b>Total Other Capital Assets</b>	<u>2,589,100</u>	<u>134,289</u>	<u>(12,600)</u>	<u>2,710,789</u>
Less accumulated depreciation for:				
Buildings and facilities	(356,600)	(34,144)	-	(390,744)
Equipment	(718,568)	(55,398)	9,030	(764,936)
<b>Total Accumulated Depreciation</b>	<u>(1,075,168)</u>	<u>(89,542)</u>	<u>9,030</u>	<u>(1,155,680)</u>
<b>Other Capital Assets, Net</b>	<u>1,513,932</u>	<u>44,747</u>	<u>(3,570)</u>	<u>1,555,109</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 1,544,932</u>	<u>\$ 44,747</u>	<u>\$ (3,570)</u>	<u>1,586,109</u>

Depreciation was charged to business-type functions as follows:

Water, sewer, and sanitation	<u>89,542</u>
<b>Total Business-Type Activities Depreciation Expense</b>	<u>\$ 89,542</u>

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**D. Long-Term Debt**

The following is a summary of changes in the City's total governmental long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds, notes and other payables:</b>					
General obligation bonds	\$ 1,076,000	\$ -	\$ 97,000	\$ 979,000	\$ 99,000
Capital leases	212,900	221,487	93,536	340,851	89,236
	<u>1,288,900</u>	<u>221,487</u>	<u>190,536</u>	<u>1,319,851</u>	<u>188,236</u>
<b>Other Liabilities:</b>					
Compensated absences	31,239	-	-	31,239	31,239
<b>Total Governmental Activities</b>	<u>\$ 1,320,139</u>	<u>\$ 221,487</u>	<u>\$ 190,536</u>	<u>\$ 1,351,090</u>	<u>\$ 219,475</u>
				<u>\$ 1,131,615</u>	
				<u>\$ 1,319,851</u>	
<b>Business-Type Activities:</b>					
<b>Notes and other payables:</b>					
Capital leases	\$ 96,392	\$ -	\$ 96,392	\$ -	\$ -
<b>Other Liabilities:</b>					
Compensated absences	3,984	-	-	3,984	3,984
<b>Total Business-Type Activities</b>	<u>\$ 100,376</u>	<u>\$ -</u>	<u>\$ 96,392</u>	<u>\$ 3,984</u>	<u>\$ 3,984</u>

Long-term liabilities applicable to the City's governmental activities are due and payable in the current period and, accordingly, are not reported as fund liabilities in the government funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end is comprised of the following debt issues:

Description	Interest Rates	Balance
<b>Governmental Activities</b>		
<b>General Obligation Refunding Bonds</b>		
Series 2012	2.40%	\$ 979,000
		<u>979,000</u>
<b>Capital Leases</b>		
Government Capital Corporation	3.74%	\$ 67,231
Government Capital Corporation	3.72%	52,132
Government Capital Corporation	2.99%	221,488
		<u>340,851</u>
<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 1,319,851</u>

**CITY OF CORRIGAN, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**D. Long-Term Debt - Continued**

The annual requirements to amortize bond issues outstanding at year end were as follows:

Year Ending 30-Sep	Governmental Activities		
	Principal	Interest	Total
2017	\$ 99,000	\$ 23,496	\$ 122,496
2018	102,000	21,120	123,120
2019	104,000	18,672	122,672
2020	106,000	16,176	122,176
2021-2025	568,000	41,544	609,544
<b>Total</b>	<b>\$ 979,000</b>	<b>\$ 121,008</b>	<b>\$ 1,100,008</b>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending 30-Sep	Governmental Activities	
	Principal	Interest
2017	\$ 89,236	\$ 10,355
2018	91,583	8,008
2019	67,370	4,919
2020	45,443	2,739
2021	47,219	1,330
<b>Total</b>	<b>\$ 340,851</b>	<b>\$ 27,351</b>

Machinery and equipment acquired under current capital lease obligations totaled \$424,401 and accumulated depreciation totaled \$76,200.

**E. Interfund Transactions**

Transfers between the primary government funds during the year were as follows:

Transfer Out	Transfer In	Amounts
Water and Sewer	General	\$ 30,497

Transfers between funds were for administrative expenditures.

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**F. Restricted Assets**

The balance of the restricted cash and investment accounts in the general fund and water and sewer fund recognized by the City is as follows:

<u>General Fund</u>	
Restricted for community center and parks	\$ 13,758
Restricted for police	105,715
Restricted for court	129,642
Restricted for debt	23,922
Restricted for capital projects	<u>1,909</u>
<b>Total Restricted Cash and Investments</b>	<b><u>\$ 274,946</u></b>

<u>Enterprise Fund</u>	
Restricted for customer deposits	<u>30,000</u>
<b>Total Restricted Cash and Investments</b>	<b><u>\$ 30,000</u></b>

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

**B. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**CITY OF CORRIGAN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**V. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The City of Corrigan participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

**B. Benefits Provided**

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2016</u>	<u>2015</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/years of Service)	60/5, 0/25	60/5,0/25
Updated service credit	100% Repeating	100% Repeating
Annuity increase (to retirees)	0% of CPI	0% of CPI

**Employees Covered by Benefit Terms**

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	12/31/2014	12/31/2015
Inactive employees or beneficiaries currently receiving benefits	12	14
Inactive employees entitled to but not yet receiving benefits	25	29
Active employees	25	26
	<u>62</u>	<u>69</u>

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**C. Contributions**

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

Employees for the City of Corrigan were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Corrigan were .86% and 1.59% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$23,536, and satisfied the required contributions.

**D. Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

- Inflation at 2.5% per year
- Overall payroll growth at 3.0% per year
- Investment Rate of Return at 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF CORRIGAN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**D. Net Pension Liability – Continued**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
<b>Total</b>	<b>100.0%</b>	

**Discount Rate**

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

**Changes in the Net Pension Liability**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset (Liability)
	(a)	(b)	(b) - (a)
Balance at December 31, 2014	\$ 1,236,953	\$ 1,312,375	\$ 75,422
Changes for the year:			
Service cost	48,310	-	(48,310)
Interest	84,987	-	(84,987)
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,003	-	(2,003)
Changes of assumption	36,544	-	(36,544)
Contributions - employer	-	23,536	23,536
Contributions - employee	-	40,258	40,258
Net investment income	-	1,936	1,936
Benefit payments, including refunds of employee contributions	(94,023)	(94,023)	-
Administrative expense	-	(1,180)	(1,180)
Other changes	-	(58)	(58)
Net changes	77,821	(29,531)	(107,352)
Balance at December 31, 2015	\$ 1,314,774	\$ 1,282,844	\$ (31,930)

**CITY OF CORRIGAN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**D. Net Pension Liability – Continued**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

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

	<b>1% Decrease 5.75%</b>	<b>Current Single Rate Assumption 6.75%</b>	<b>1% Increase 7.75%</b>
City's net pension liability	\$193,468	\$31,930	\$(102,092)

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the city recognized pension expense of \$34,432.

At September 30, 2016, the city reported deferred outflows of resource and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between expected and actual economic experience	\$ 353	\$ -
Changes in actuarial assumptions	25,700	-
Difference between projected and actual investment earnings	81,764	-
Contributions subsequent to measurement date	33,275	-
<b>Total</b>	<u>\$141,092</u>	<u>\$ -</u>

\$33,275 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>Net deferred outflows (inflows) of resources</b>
2015	\$32,020
2016	32,319
2017	25,491
2018	17,986
2019	-
Thereafter	-
<b>Total</b>	<u>\$107,817</u>



**CITY OF CORRIGAN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**F. Commitments**

Effective April 1, 2016, the City entered into a contract with Piney Woods Sanitation Inc. for the collection of garbage for the City's residents. The contract period under the agreement ends March 31, 2023 and calls for a five year extension.

On February 25, 2016, the City executed a contract with Corrigan OSB, LLC to provide water and sewer services to a new plant located outside the City's distribution area. Under the contract, the customer will pay for all costs to extend the City's distribution system to its plant site. The contract, which is for an initial 5 year period, calls for five year renewal options and calls for a base rate fee of \$7,200 per month and usage costs as set forth in the agreement.

**G. Subsequent Event**

Subsequent events have been evaluated through February 28, 2017, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF CORRIGAN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>2014</u>	<u>2015</u>
<b>Total pension liability</b>		
Service Cost	\$ 42,005	\$ 48,310
Interest (on the Total Pension Liability)	82,808	84,987
Changes in benefit terms	-	-
Difference between expected and actual results	(2,410)	2,003
Change of assumptions	-	36,544
Benefit payments, including refunds of employee contributions	<u>(94,825)</u>	<u>(94,023)</u>
Net Change in Total Pension Liability	27,578	77,821
Total Pension Liability - Beginning	<u>1,209,375</u>	<u>1,236,953</u>
Total Pension Liability - Ending (a)	<u><u>\$1,236,953</u></u>	<u><u>\$1,314,774</u></u>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 16,447	\$ 23,536
Contributions - Employee	39,314	40,258
Net Investment Income	73,169	1,936
Benefit payments, including refunds of employee contributions	(94,825)	(94,023)
Administrative Expense	(764)	(1,180)
Other	<u>(63)</u>	<u>(58)</u>
Net Change in Plan Fiduciary Net Position	33,278	(29,531)
Plan Fiduciary Net Position - Beginning	<u>1,279,097</u>	<u>1,312,375</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$1,312,375</u></u>	<u><u>\$1,282,844</u></u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u><u>\$ (75,422)</u></u>	<u><u>\$ 31,930</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	106.10%	97.57%
Covered Employee Payroll	\$ 786,272	\$ 805,161
Net Pension Liability as a Percentage of Covered Employee Payroll	-9.59%	3.97%

**CITY OF CORRIGAN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 10,855	\$ 8,856	\$ 7,269
Contributions in relation to the actuarially determined contributions	<u>10,855</u>	<u>8,856</u>	<u>37,556</u>
Contribution deficiency (surplus)	\$ -	\$ -	\$ (30,287)
Covered employee payroll	\$ 798,196	\$ 819,981	\$ 845,243
Contributions as a percentage of covered employee payroll	1.36%	1.08%	4.44%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	There were no benefit changes during the year.

**SUPPLEMENTAL SCHEDULES**

**CITY OF CORRIGAN, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>Revenues</u></b>			
Property Taxes	\$ 123,359	\$ 132,573	\$ 9,214
Interest income	-	97	97
<b>Total Revenues</b>	<u>123,359</u>	<u>132,670</u>	<u>9,311</u>
<b><u>Expenditures</u></b>			
Debt service:			
Principal payments	97,000	97,000	-
Interest and fiscal agent fees	25,786	25,786	-
<b>Excess of Revenues over Expenditures</b>	<u>122,786</u>	<u>122,786</u>	<u>-</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	-	2,389	2,389
<b>Total Other Financing Sources</b>	<u>-</u>	<u>2,389</u>	<u>2,389</u>
<b>Net Change in Fund Balance</b>	<u>\$ 573</u>	<u>\$ 12,273</u>	<u>\$ 11,700</u>
Beginning fund balance		<u>\$ 70,351</u>	
<b>Ending Fund Balance</b>		<u>\$ 82,624</u>	

**COMPLIANCE AND INTERNAL CONTROL SECTION**

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

To the City Council  
City of Corrigan, Texas

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Corrigan, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Corrigan, Texas' basic financial statements, and have issued our report thereon dated February 28, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Accounting System**

The City's current accounting system is not adequate to allow for proper recording of the City's daily accounting activity. The system also does not lend itself to accurate reconciliations without many significant journal entries. This significant deficiency has been discussed with City management and the City has moved its accounting software to QuickBooks effective October 1, 2016 which with the proper training should rectify the problem.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corrigan, Texas' financial statements are free from 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 those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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



Certified Public Accountants  
Tyler, Texas  
February 28, 2017