

CITY OF CORRIGAN, TEXAS

**BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and
OTHER INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2017

Gollob Morgan Peddy PC
CERTIFIED PUBLIC ACCOUNTANTS

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FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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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, 2017, 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, 2017, 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 40-41 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2018 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
July 5, 2018

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CITY OF CORRIGAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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. A budgetary comparison schedule have been provided for this fund to demonstrate compliance with this budget.

**CITY OF CORRIGAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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 \$3,455,850 as of September 30, 2017. This compares with \$3,907,861 from the prior fiscal year. The largest portion of the City's net position, 76%, 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:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 755,669	\$ 918,611	\$ 104,864	\$ 259,942	\$ 860,533	\$ 1,178,553
Restricted assets	214,993	274,946	50,000	30,000	264,993	304,946
Capital assets, net	2,175,216	2,260,799	1,600,909	1,586,109	3,776,125	3,846,908
Total Assets	3,145,878	3,454,356	1,755,773	1,876,051	4,901,651	5,330,407
Deferred outflows	93,895	122,367	18,620	18,725	112,515	141,092
Long-term liabilities	1,203,538	1,160,101	6,009	3,444	1,209,547	1,163,545
Other liabilities	284,054	358,885	64,715	41,208	348,769	400,093
Total Liabilities	1,487,592	1,518,986	70,724	44,652	1,558,316	1,563,638
Net Position:						
Net investment in capital assets	1,016,185	940,977	1,600,909	1,586,109	2,617,094	2,527,086
Restricted	158,360	359,344	50,000	-	208,360	359,344
Unrestricted	577,636	757,416	52,760	264,015	630,396	1,021,431
Total Net Position	\$ 1,752,181	\$ 2,057,737	\$ 1,703,669	\$ 1,850,124	\$ 3,455,850	\$ 3,907,861

A portion of the City's net position, \$208,360 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$630,396, may be used to meet the City's ongoing obligation to citizens or creditors.

The City's total net position decreased by \$452,011 during the current fiscal year, as compared to an overall increase of \$513,669 in the prior year.

**CITY OF CORRIGAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,511,794	\$ 1,783,331	\$ 879,207	\$ 1,012,588	\$ 2,391,001	\$ 2,795,919
Grant revenue	72,657	-	-	-	72,657	-
General revenues:						
Property taxes	295,259	306,825	-	-	295,259	306,825
Sales tax	444,798	396,989	-	-	444,798	396,989
Franchise fees	158,967	151,934	-	-	158,967	151,934
Interest revenue	303	97	-	-	303	97
Library	5,700	3,544	-	-	5,700	3,544
Other	316,896	906,781	-	-	316,896	906,781
Total Revenues	<u>2,806,374</u>	<u>3,549,501</u>	<u>879,207</u>	<u>1,012,588</u>	<u>3,685,581</u>	<u>4,562,089</u>
Expenses						
General government	870,623	788,294	-	-	870,623	788,294
Public safety	2,019,401	2,073,837	-	-	2,019,401	2,073,837
Public works	259,096	378,584	-	-	259,096	378,584
Interest on long-term debt	33,814	33,357	-	-	33,814	33,357
Water, sewer, and sanitation	-	-	954,658	774,348	954,658	774,348
Total Expenses	<u>3,182,934</u>	<u>3,274,072</u>	<u>954,658</u>	<u>774,348</u>	<u>4,137,592</u>	<u>4,048,420</u>
Increase (Decrease) in Net Position Before Transfers	(376,560)	275,429	(75,451)	238,240	(452,011)	513,669
Transfers in (out)	71,004	30,497	(71,004)	(30,497)	-	-
Change in Net Position	(305,556)	305,926	(146,455)	207,743	(452,011)	513,669
Net position beginning	2,057,737	1,751,811	1,850,124	1,642,381	3,907,861	3,394,192
Ending Net Position	<u>\$ 1,752,181</u>	<u>\$ 2,057,737</u>	<u>\$ 1,703,669</u>	<u>\$ 1,850,124</u>	<u>\$ 3,455,850</u>	<u>\$ 3,907,861</u>

For the year ended September 30, 2017, revenues from governmental activities totaled \$2,806,374. Overall governmental revenues decreased by 21%. This decrease is mainly due to a decrease in charges for services and other income.

For the year ended September 30, 2017, expenses for governmental activities totaled \$3,182,934, which is a decrease of \$91,138 from the prior year. This decrease can be attributed primarily to decreases in capital outlay.

For the year ended September 30, 2017, revenues for business-type activities decreased by \$133,381 which comes from a decrease in water usage due to increased rainfall during the current fiscal year, primarily in the summer months of 2017. Overall, expenses increased slightly by \$180,310, 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, 2017**

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 combined balance of \$660,964, of which \$158,360 is restricted for various purposes. There was a decrease in the combined fund balances of \$367,539 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 \$502,604, while total fund balances reached \$620,020. 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 16% of total general fund expenditures, while total fund balance represents 20%. The general fund had an overall decrease \$325,859 during the year primarily due to a decrease in charges for services.

The debt service fund has a total fund balance of \$40,944, all of which is restricted for the payment of debt service. The net decrease in fund balance for the current year was \$41,680 which was due to increased transfers to the general fund.

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 increase in budgeted fund balance in the amount of \$137,234 in the general fund. However, the net change in fund balance decreased by \$325,859, resulting in a negative variance of \$463,093 from budget to actual.

Actual general fund revenues were more than budgeted revenues by \$469,249 for the year. This increase includes a positive variance of \$543,607 in court fines and \$72,657 in grant revenue.

There was a net variance in actual governmental expenditures to budgeted expenditures of (\$1,072,352).

CAPITAL ASSETS

At the end of fiscal year 2017, the City's governmental activities and business-type activities had invested \$2,175,216 and \$1,600,909, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of \$70,783 from the 2016 fiscal year.

The City's major purchase/construction for capital assets during the fiscal year were as follows:

- Completion of construction on infrastructure	\$262,952
- 2017 Chevy Tahoe	27,415
- Water and sewer improvements	41,796
- Dispatch computers	7,290
- Fire pump	8,900
- Building improvements	6,306

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

**CITY OF CORRIGAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

LONG-TERM DEBT

At the end of the current year, the City had general obligation bonds outstanding of \$880,000.

During the year, the City had a net decrease in governmental and business-type activity long-term debt of \$177,457.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for fiscal year 2018 will allow the City to maintain services and employee compensation and increase its tax rate to \$0.406107/\$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.

CITY OF CORRIGAN, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
ASSETS			
Cash and cash equivalents	\$ 562,664	\$ 48,283	\$ 610,947
Receivables (net of allowance for doubtful accounts)	116,662	104,854	221,516
Internal balances	76,343	(76,343)	-
Inventory	-	28,070	28,070
Restricted Assets:			
Cash and cash equivalents	137,416	-	137,416
Investments	77,577	50,000	127,577
Capital Assets (net of accumulated depreciation):			
Land	245,760	31,000	276,760
Buildings and improvements	475,611	-	475,611
Infrastructure	1,152,731	-	1,152,731
Machinery and equipment	301,114	190,391	491,505
Water and sewer system	-	1,379,518	1,379,518
Total Assets	3,145,878	1,755,773	4,901,651
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on TMRS pension	93,895	18,620	112,515
Total Deferred Outflows of Resources	93,895	18,620	112,515
LIABILITIES			
Accounts payable and accrued liabilities	284,054	29,373	313,427
Customer deposits	-	35,342	35,342
Non-current liabilities:			
Due within one year	203,500	-	203,500
Due in more than one year	986,770	3,984	990,754
Net pension liability	13,268	2,025	15,293
Total Liabilities	1,487,592	70,724	1,558,316
NET POSITION			
Investment in capital assets, net of related debt	1,016,185	1,600,909	2,617,094
Restricted for:			
Community center and parks	9,770	-	9,770
Police	26,407	-	26,407
Court	66,675	-	66,675
Debt	54,793	-	54,793
Fire	686	-	686
Capital projects	29	-	29
Customer deposits	-	50,000	50,000
Unrestricted	577,636	52,760	630,396
Total Net Position	\$ 1,752,181	\$ 1,703,669	\$ 3,455,850

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

CITY OF CORRIGAN, TEXAS
 STATEMENT OF ACTIVITIES
 FISCAL YEAR ENDED SEPTEMBER 30, 2017

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		PROGRAM REVENUES		PRIMARY GOVERNMENT:	
TOTAL	BUSINESS-TYPE ACTIVITIES	GOVERNMENTAL ACTIVITIES	OPERATING GRANTS AND CONTRIBUTIONS	CHARGES FOR SERVICES	EXPENSES
					Governmental activities: General government Public safety Public works Interest on debt Total governmental activities
					Business-type activities: Water and sewer Total business-type activities
					Total primary government
					General revenues: Property taxes Sales tax Franchise fees Interest revenue Library Other Transfers
					Total general revenues and transfers
					Change in net position
					Net position - beginning of year
					Net position - end of year

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

CITY OF CORRIGAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	GENERAL	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 541,720	\$ 20,944	\$ 562,664
Receivables, net	99,360	17,302	116,662
Restricted assets:			
Cash and cash equivalents	117,416	20,000	137,416
Investments	77,577	-	77,577
Due from other funds	76,343	-	76,343
Total Assets	912,416	58,246	970,662
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	284,054	-	284,054
Total Liabilities	284,054	-	284,054
Deferred Inflows of Resources:			
Unavailable revenue - property taxes	8,342	17,302	25,644
Total Deferred Inflows of Resources	8,342	17,302	25,644
Fund Balances:			
Restricted for:			
Community center and parks	9,770	-	9,770
Police	26,407	-	26,407
Court	66,675	-	66,675
Debt	13,849	40,944	54,793
Fire	686	-	686
Capital projects	29	-	29
Unassigned	502,604	-	502,604
Total Fund Balances	620,020	40,944	660,964
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 912,416	\$ 58,246	\$ 970,662

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

CITY OF CORRIGAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit 1)

	TOTAL GOVERNMENTAL FUNDS
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 660,964
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	2,175,216
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.	93,895
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(1,203,538)</u>
Net position of governmental activities	<u>\$ 1,752,181</u>

CITY OF CORRIGAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	GENERAL	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property taxes	\$ 198,534	\$ 122,369	\$ 320,903
Sales tax	419,154	-	419,154
Franchise fees	158,967	-	158,967
Fines and forfeitures	1,489,907	-	1,489,907
Library	5,700	-	5,700
Interest revenue	303	-	303
Charges for service	21,887	-	21,887
Grant revenue	72,657	-	72,657
Other revenue	316,896	-	316,896
	<u>2,684,005</u>	<u>122,369</u>	<u>2,806,374</u>
Total Revenues			
EXPENDITURES			
General government:			
Administration	464,902	-	464,902
Library	132,659	-	132,659
Court	218,807	-	218,807
Public safety:			
Police	1,886,191	-	1,886,191
Fire	42,535	-	42,535
Public works	243,089	-	243,089
Capital outlay	62,101	-	62,101
Debt:			
Principal payments	89,234	99,000	188,234
Interest and fiscal agent charges	10,356	23,458	33,814
	<u>3,149,874</u>	<u>122,458</u>	<u>3,272,332</u>
Total Expenditures			
Revenues Over (Under) Expenditures	(465,869)	(89)	(465,958)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,366,486	-	1,366,486
Transfers out	(1,253,891)	(41,591)	(1,295,482)
Capital lease proceeds	27,415	-	27,415
	<u>140,010</u>	<u>(41,591)</u>	<u>98,419</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(325,859)	(41,680)	(367,539)
Fund Balance, October 1, 2016	<u>945,879</u>	<u>82,624</u>	<u>1,028,503</u>
Fund Balance, September 30, 2017	<u>\$ 620,020</u>	<u>\$ 40,944</u>	<u>\$ 660,964</u>

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

**CITY OF CORRIGAN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$	(367,539)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
		(85,583)
<p>The issuance of long-term debt (e.g. bonds) 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 the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		160,820
<p>Changes in GASB 68 pension expense due to changes in the current period deferred outflow of resources and the deferred inflow of resources</p>		
		<u>(13,254)</u>
Change in net position of governmental activities	\$	<u>(305,556)</u>

CITY OF CORRIGAN, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FISCAL YEAR ENDED SEPTEMBER 30, 2017

	ORIGINAL AND FINAL BUDGET AMOUNTS	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES			
Property taxes	\$ 190,699	\$ 198,534	\$ 7,835
Sales tax	398,000	419,154	21,154
Franchise fees	183,000	158,967	(24,033)
Fines and forfeitures	946,300	1,489,907	543,607
Library	6,500	5,700	(800)
Interest revenue	500	303	(197)
Charges for service	19,894	21,887	1,993
Grant revenue	-	72,657	72,657
Other revenue	469,863	316,896	(152,967)
Total Revenues	2,214,756	2,684,005	469,249
EXPENDITURES			
General government:			
Administration	272,257	464,902	(192,645)
Library	112,534	132,659	(20,125)
Court	171,075	218,807	(47,732)
Public safety:			
Police	1,200,218	1,886,191	(685,973)
Fire	29,700	42,535	(12,835)
Public works	208,177	243,089	(34,912)
Capital outlay	83,561	62,101	21,460
Debt:			
Principal payments	-	89,234	(89,234)
Interest and fiscal agent charges	-	10,356	(10,356)
Total Expenditures	2,077,522	3,149,874	(1,072,352)
Revenues Over (Under) Expenditures	137,234	(465,869)	(603,103)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,366,486	1,366,486
Transfers out	-	(1,253,891)	(1,253,891)
Capital lease proceeds	-	27,415	27,415
Total Other Financing Sources (Uses)	-	140,010	140,010
Revenues and Other Sources Over (Under) Expenditures and Other Uses	137,234	(325,859)	(463,093)
Fund Balance, October 1, 2016	-	945,879	945,879
Fund Balance, September 30, 2017	<u>\$ 137,234</u>	<u>\$ 620,020</u>	<u>\$ 482,786</u>

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

CITY OF CORRIGAN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017

	<u>WATER AND SEWER FUND</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 48,283
Accounts receivable (net)	104,854
Inventory	<u>28,070</u>
Total Current Assets	<u>181,207</u>
Restricted Current Assets:	
Restricted investments	<u>50,000</u>
Total Restricted Current Assets	<u>50,000</u>
Capital Assets:	
Land	31,000
Water and sewer system	2,824,729
Less: Accumulated depreciation	<u>(1,254,820)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>1,600,909</u>
Total Assets	<u>1,832,116</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on TMRS pension	<u>18,620</u>
Total Deferred Outflows of Resources	<u>18,620</u>

(continued)

CITY OF CORRIGAN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017

	<u>WATER AND SEWER FUND</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 29,373
Customer deposits	35,342
Due to other funds	<u>76,343</u>
Total Current Liabilities	<u>141,058</u>
Noncurrent Liabilities:	
Compensated absences	3,984
Net pension liability	<u>2,025</u>
Total Noncurrent Liabilities	<u>6,009</u>
Total Liabilities	<u>147,067</u>
NET POSITION	
Net investment in capital assets	1,600,909
Restricted for customer deposits	50,000
Unrestricted	<u>52,760</u>
Total Net Position	<u>\$ 1,703,669</u>

CITY OF CORRIGAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	WATER AND SEWER FUND
OPERATING REVENUES	
Water sales	\$ 362,964
Sewer charges	245,434
Garbage fees	257,528
Charges for other services	13,281
	879,207
OPERATING EXPENSES	
Water operations	256,689
Sewer operations	366,731
Sanitation operations	228,480
Depreciation	99,140
	951,040
Operating Income (Loss)	(71,833)
NONOPERATING REVENUES (EXPENSES)	
Other income (expense)	(3,618)
	(3,618)
Total Non-Operating Revenue (Expenses)	(3,618)
INCOME BEFORE TRANSFERS	(75,451)
Transfers out	(71,004)
Change in Net Position	(146,455)
Net Position, October 1, 2016	1,850,124
Net Position, September 30, 2017	\$ 1,703,669

CITY OF CORRIGAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 974,713
Cash paid to suppliers for goods and services	(671,347)
Cash paid to employees for services	<u>(157,994)</u>
Net cash provided by operating activities	<u>145,372</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Advances from other funds	76,343
Transfers out	<u>(71,004)</u>
Net cash provided by non-capital financing activities	<u>5,339</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases or construction of capital assets	<u>(113,940)</u>
Net cash used in capital and related financing activities	<u>(113,940)</u>
Net increase in cash	36,771
Cash, beginning of period	<u>11,512</u>
Cash, end of period	<u>\$ 48,283</u>
Reconciliation of cash to Exhibit 7:	
Cash - current asset	\$ 48,283
Cash - temporarily restricted	-
Total cash, end of period	<u>\$ 48,283</u>

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

**CITY OF CORRIGAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**Reconciliation of Operating Income (Loss) To Net Cash
Provided By (Used In) Operating Activities:**

Operating loss	\$	(71,833)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		99,140
Other expenses		(3,618)
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Assets:		
Receivables		95,506
Deferred outflows		105
Increase (Decrease) in Liabilities:		
Payables and accrued liabilities		27,491
Net pension liability		(1,419)
		(1,419)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	145,372

**CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

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 financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of the government's accounting policies are described below.

B. Reporting Entity

These financial statements present all of the funds of the City.

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.

C. Government-Wide and Fund 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.

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

C. Government-Wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead of general revenue. Major individual governmental funds are reported as separate columns in the financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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 judgments, 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.

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.

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

The City reports the following proprietary fund:

The *water and sewer 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.

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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Fund are charges to customers for sales and services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

1. 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.

2. 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.

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.

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

**CITY OF CORRIGAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

3. Receivables and Payables

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible. The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

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 1st of the following year. On July 1st of the following year, liens, penalties, and interest are assessed. The unavailable revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

4. 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.

5. 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, 2017

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

6. Construction-in-Progress

Expenditures on incomplete capital projects have been capitalized as construction-in-progress. The assets resulting from these projects will be transferred from the construction-in-progress accounts to the appropriate asset account as the projects are completed.

7. Restricted Assets

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

8. Compensated 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.

Accumulated unpaid vacation amounts are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In government funds, the cost of vacation is recognized when payments are due. In the event of termination of retirement, sick pay is not paid. Therefore, no accrued liabilities for sick pay are recorded.

9. 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 or business-type activities 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, 2017

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

10. 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, 2016. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2016 and September 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as in inflow of resources in the period that the amounts become available.

11. Pensions

For the year ended September 30, 2017, 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.

12. Fund Balances Classification

In the fund financial statements, governmental funds report fund balance categorized as non-spendable, restricted, committed, assigned, or unassigned. Fund balances of the governmental funds are classified as follows:

Nonspendable - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted - represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed - represents amounts that can only be used for a specific purpose because of a formal action by the City Council.

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

Assigned - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned - represents amounts which are unconstrained in that they may be spent for any purpose.

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.

13. Net Position

The City has adopted GASB Statement No. 63, which redefines how net assets are presented in the financial statements. The Statement of Net Assets is now the Statement of Net Position. Net position represents the difference between assets and liabilities, and is divided into three components.

Net investment in capital assets - This component consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets and adjusted for any deferred outflows or inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt.

Restricted – This component consists of those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations, reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component consists of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

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.

14. Tax Abatements

During the current year, the City adopted GASB Statement No. 77, Tax Abatement Disclosures. The City has evaluated the total tax abatements issued for the year and has determined that the amount is not material to the financial statements.

15. 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.

CITY OF CORRIGAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FISCAL YEAR ENDED SEPTEMBER 30, 2017

NOTE 2: — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

An element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$2,175,216 difference are as follows:

Capital assets, October 1, 2016, net of accumulated depreciation	\$	2,260,799
Capital asset additions, net of retirements		62,101
Depreciation of capital assets, net of retirements		<u>(147,684)</u>
	\$	<u>2,175,216</u>

Another element states that “Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$(1,203,538) difference are as follows:

Long-term liabilities, October 1, 2016	\$	(1,379,576)
Capital lease proceeds		(27,415)
Principal paid on debt in current year		188,235
Decrease in net pension liability		<u>15,218</u>
	\$	<u>(1,203,538)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities

An element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated to their estimated useful lives and reported as depreciation expense. The details of this (\$85,583) difference are as follows:

Capital outlay expenditures	\$	62,101
Depreciation expense		<u>(147,684)</u>
	\$	<u>(85,583)</u>

Also, another element states “The issuance of long-term debt (e.g. bonds) 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 the 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.

Principal payments on debt	\$	188,235
Capital lease proceeds incurred during the current year		<u>(27,415)</u>
	\$	<u>160,820</u>

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

NOTE 3: — 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.

The general fund had expenditures in excess of appropriations in the amount of \$1,072,352 at September 30, 2017.

NOTE 4: — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and investments as of September 30, 2017 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 610,947
Restricted cash and cash equivalents	137,416
Total cash and cash equivalents	<u>\$ 748,363</u>
Cash on hand	\$ 1,300
Certificates of deposit	147,606
Savings and checking accounts	727,034
Total cash and investments	<u>\$ 875,940</u>

As of September 30, 2017, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	<u>\$ 127,577</u>	1.29

As of September 30, 2017, the carrying amount of the City's deposits was \$748,363 and the total bank balance was \$843,500. 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, 2017, 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, 2017

B. Receivables

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

	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Receivables:				
Accounts	\$ -	\$ -	\$ 131,138	\$ 131,138
Property taxes	24,835	17,989	-	42,824
Sales tax	69,807	-	-	69,807
Roy O' Martin	18,480	-	-	18,480
Miscellaneous	2,731	-	33	2,764
Gross receivables	<u>115,853</u>	<u>17,989</u>	<u>131,171</u>	<u>265,013</u>
Less: Allowance for uncollectables	<u>(16,493)</u>	<u>(687)</u>	<u>(26,317)</u>	<u>(43,497)</u>
Net Receivables	<u>\$ 99,360</u>	<u>\$ 17,302</u>	<u>\$ 104,854</u>	<u>\$ 221,516</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 245,760	\$ -	\$ -	\$ 245,760
Construction in Process	178,617	12,190	(190,807)	-
Total Capital Assets, Not Being Depreciated	<u>424,377</u>	<u>12,190</u>	<u>(190,807)</u>	<u>245,760</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	955,255	6,306	-	961,561
Machinery and Equipment	1,102,981	43,605	-	1,146,586
Infrastructure	1,804,400	190,807	-	1,995,207
Total Capital Assets, Being Depreciated	<u>3,862,636</u>	<u>240,718</u>	<u>-</u>	<u>4,103,354</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(467,356)	(18,594)	-	(485,950)
Machinery and Equipment	(741,286)	(104,186)	-	(845,472)
Infrastructure	(817,572)	(24,904)	-	(842,476)
Total Accumulated Depreciation	<u>(2,026,214)</u>	<u>(147,684)</u>	<u>-</u>	<u>(2,173,898)</u>
Net Total Assets Being Depreciated	<u>1,836,422</u>	<u>93,034</u>	<u>-</u>	<u>1,929,456</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,260,799</u>	<u>\$ 105,224</u>	<u>\$ (190,807)</u>	<u>\$ 2,175,216</u>

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

C. Capital Assets - Continued

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 31,000	\$ -	\$ -	\$ 31,000
Construction in Progress	-	72,145	(72,145)	-
Total Capital Assets, Not Being Depreciated	<u>31,000</u>	<u>72,145</u>	<u>(72,145)</u>	<u>31,000</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	1,733,330	72,145	-	1,805,475
Machinery and Equipment	977,459	41,795	-	1,019,254
Total Capital Assets, Being Depreciated	<u>2,710,789</u>	<u>113,940</u>	<u>-</u>	<u>2,824,729</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(390,744)	(35,213)	-	(425,957)
Machinery and Equipment	(764,936)	(63,927)	-	(828,863)
Total Accumulated Depreciation	<u>(1,155,680)</u>	<u>(99,140)</u>	<u>-</u>	<u>(1,254,820)</u>
Net Total Assets Being Depreciated	<u>1,555,109</u>	<u>14,800</u>	<u>-</u>	<u>1,569,909</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,586,109</u>	<u>\$ 86,945</u>	<u>\$ (72,145)</u>	<u>\$ 1,600,909</u>

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

Governmental Activities:	
General Government	\$ 58,804
Public Safety	69,964
Public Works	18,916
Total depreciation expense, governmental activities	<u>\$ 147,684</u>
Business Activities:	
Water and Sewer Operations	<u>\$ 99,140</u>

As of September 30, 2017, the City did not have any active construction projects.

D. Interfund Transactions

The composition of interfund balances as of September 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 76,343

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

D. Interfund Transactions - Continued

The composition of interfund transfers as of September 30, 2017 is as follows:

	Transfers In			Total
	General Fund	Debt Service Fund	Water and Sewer Fund	
<u>Transfers Out:</u>				
General Fund	\$ -	\$ 41,591	\$ -	\$ 41,591
Water and Sewer Fund	71,004	-	-	71,004
Total transfers out/in	<u>\$ 71,004</u>	<u>\$ 41,591</u>	<u>\$ -</u>	<u>\$ 112,595</u>

Transfers between funds were for administrative expenditures.

E. Long-Term Debt

The following is a summary of bond and certificates of obligation transactions of the City for the year ended September 30, 2017:

	GENERAL OBLIGATION
Bonds payable - October 1, 2016	\$ 979,000
Additions	-
Retirements	(99,000)
Bonds payable - September 30, 2017	<u>\$ 880,000</u>

Original issue amounts currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
Governmental Activities:		
2012 General Obligation Refunding Bonds	2.40%	\$ 1,359,000
2014 Government Capital Corporation Capital Lease	3.72%	100,000
2015 Government Capital Corporation Capital Lease	3.74%	88,257
2016 Government Capital Corporation Capital Lease	2.97%	221,487
2017 Government Capital Corporation Capital Lease	5.19%	27,415
Total Governmental Activities Long-Term Debt		<u>\$ 1,796,159</u>

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

E. Long-Term Debt - Continued

Annual debt service requirements to maturity for the City for general obligation bonds are as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 102,000	\$ 21,120	\$ 123,120
2019	104,000	18,672	122,672
2020	106,000	16,176	122,176
2021	108,000	13,632	121,632
2022	111,000	11,040	122,040
2023-2025	349,000	16,872	365,872
Total	<u>\$ 880,000</u>	<u>\$ 97,512</u>	<u>\$ 977,512</u>

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.

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

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 98,376	\$ 8,008	\$ 106,384
2019	73,899	4,919	78,818
2020	52,311	2,739	55,050
2021	54,445	1,390	55,835
Total	<u>\$ 279,031</u>	<u>\$ 17,056</u>	<u>\$ 296,087</u>

Machinery and equipment acquired under current capital lease obligations totaled \$458,668 and accumulated depreciation totaled \$239,282.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/16	Additions	Reductions	Ending Balance 9/30/17	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 979,000	\$ -	\$ 99,000	\$ 880,000	\$ 102,000
Capital Leases	340,851	27,415	89,235	279,031	98,376
Net Pension Liability	28,486	-	15,218	13,268	-
Compensated Absences	31,239	-	-	31,239	3,124
Governmental Activity Long-Term Liabilities	<u>\$ 1,379,576</u>	<u>\$ 27,415</u>	<u>\$ 203,453</u>	<u>\$ 1,203,538</u>	<u>\$ 203,500</u>
Business-type Activities:					
Net Pension Liability	\$ 3,444	\$ -	\$ 1,419	\$ 2,025	\$ -
Compensated Absences	3,984	-	-	3,984	-
Business-type Activity Long-Term Liabilities	<u>\$ 7,428</u>	<u>\$ -</u>	<u>\$ 1,419</u>	<u>\$ 6,009</u>	<u>\$ -</u>

**CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

The liabilities listed above for compensated absences are liquidated by the General Fund or the Water and Sewer Fund, depending upon which fund records the employee's salary.

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	\$ 9,770
Restricted for police	26,407
Restricted for court	66,675
Restricted for debt	54,793
Restricted for fire	686
Restricted for capital projects	29
Total Restricted Cash and Investments	<u><u>\$ 158,360</u></u>
<u>Enterprise Fund</u>	
Restricted for customer deposits	<u>50,000</u>
Total Restricted Cash and Investments	<u><u>\$ 50,000</u></u>

NOTE 5: — DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City of Corrigan participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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 retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

B. Benefits Provided - Continued

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>Plan Year 2016</u>	<u>Plan Year 2015</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Year required for vesting	5	5
Service retirement 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

C. Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Inactive employees or beneficiaries currently receiving benefits	11	12	14	15
Inactive employees entitled to but not yet receiving benefits	19	25	29	36
Active employees	<u>24</u>	<u>25</u>	<u>26</u>	<u>27</u>
	<u>54</u>	<u>62</u>	<u>69</u>	<u>78</u>

D. 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 1.36%, 1.08%, and 1.83% in calendar years 2015, 2016, and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$44,603, and were equal to the required contributions.

E. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

F. Actuarial Assumptions - Continued

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 Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, 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. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

G. 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

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

G. Discount Rate - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2015	\$ 1,314,774	\$ 1,282,844	\$ 31,930
Changes for the year:			
Service cost	63,205	-	63,205
Interest	88,217	-	88,217
Change of benefit terms	-	-	-
Difference between expected and actual experience	(471)	-	(471)
Changes of assumptions	-	-	-
Contributions - employer	-	33,728	(33,728)
Contributions - employee	-	48,248	(48,248)
Net investment income	-	86,644	(86,644)
Benefit payments, including refunds of employee contributions	(78,906)	(78,906)	-
Administrative expense	-	(979)	979
Other changes	-	(53)	53
Net changes	72,045	88,682	(16,637)
Balance at 12/31/2016	<u>\$ 1,386,819</u>	<u>\$ 1,371,526</u>	<u>\$ 15,293</u>

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 180,814	\$ 15,293	\$ (122,086)

I. Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$75,436.

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

J. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

At September 30, 2017, the City reported deferred outflows of resource and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,091	\$ -
Changes in actuarial assumptions	23,967	-
Difference between projected and actual investment earnings	84,996	-
Amortization of prior period deferred outflows	(30,255)	-
Amortization of prior period deferred inflows	-	-
Contributions subsequent to the measurement date	32,716	-
Total	<u>\$ 112,515</u>	<u>\$ -</u>

\$32,716 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	
2017	\$ 32,156
2018	25,328
2019	17,964
2020	4,351
2021	-
Thereafter	-
	<u>\$ 79,799</u>

NOTE 6: — 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.

NOTE 7: — 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

CITY OF CORRIGAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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.

NOTE 8: — 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.

NOTE 9: — SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 5, 2018, 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, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service Cost	\$ 42,005	\$ 48,310	\$ 63,205
Interest (on the Total Pension Liability)	82,808	84,987	88,217
Changes in benefit terms	-	-	-
Difference between expected and actual results	(2,410)	2,003	(471)
Change of assumptions	-	36,544	-
Benefit payments, including refunds of employee contributions	<u>(94,825)</u>	<u>(94,023)</u>	<u>(78,906)</u>
Net Change in Total Pension Liability	27,578	77,821	72,045
Total Pension Liability - Beginning	<u>1,209,375</u>	<u>1,236,953</u>	<u>1,314,774</u>
Total Pension Liability - Ending (a)	<u>\$ 1,236,953</u>	<u>\$ 1,314,774</u>	<u>\$ 1,386,819</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 16,447	\$ 23,536	\$ 33,728
Contributions - Employee	39,314	40,258	48,248
Net Investment Income	73,169	1,936	86,644
Benefit payments, including refunds of employee contributions	(94,825)	(94,023)	(78,906)
Administrative Expense	(764)	(1,180)	(979)
Other	<u>(63)</u>	<u>(58)</u>	<u>(53)</u>
Net Change in Plan Fiduciary Net Position	33,278	(29,531)	88,682
Plan Fiduciary Net Position - Beginning	<u>1,279,097</u>	<u>1,312,375</u>	<u>1,282,844</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,312,375</u>	<u>\$ 1,282,844</u>	<u>\$ 1,371,526</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>\$ (75,422)</u>	<u>\$ 31,930</u>	<u>\$ 15,293</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	106.10%	97.57%	98.90%
Covered Employee Payroll	\$ 786,272	\$ 805,161	\$ 964,966
Net Pension Liability as a Percentage of Covered Employee Payroll	-9.59%	3.97%	1.58%

Notes to Schedule:

This schedule will present 10 years information when it becomes available.

**CITY OF CORRIGAN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 10,855	\$ 8,856	\$ 7,269	\$ 44,603
Contributions in relation to the actuarially determined contributions	<u>10,855</u>	<u>8,856</u>	<u>37,556</u>	<u>44,603</u>
Contribution deficiency (Excess)	\$ -	\$ -	\$ (30,287)	\$ -
Covered employee payroll	\$ 798,196	\$ 819,981	\$ 845,243	\$ 962,988
Contributions as a percentage of covered employee payroll	1.36%	1.08%	4.44%	4.63%

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.

OTHER REPORTS



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*

Independent Auditors' Report

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, 2017, 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 July 5, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Compliance with Texas Municipal Retirement System

During our audit for the year ended September 30, 2017, we noted that the City did not maintain compliance with the Texas Municipal Retirement System (TMRS) eligibility requirements. It was noted that an eligible employee was entered to participate at a later date than the date of eligibility, and an employee marked as part-time, who consistently works more than 1,000 hours a year, was not part of TMRS. The City should develop and maintain processes, such as checklists, to ensure proper enrollment in TMRS. In addition, we recommend better organization of employee files, to ensure all relevant data for the employee is maintained.

Cash and Transfers

During our audit for the year ended September 30, 2017, we identified issues surrounding cash and transfers. The City did not perform monthly bank reconciliations for the majority of cash accounts. Due to this, the bank accounts differed significantly from recorded cash amounts. Additionally, the City recorded transfers between bank accounts within a particular fund as intrafund transfers, which is incorrect. In most instances, the other side of the intrafund was incorrectly recorded in the City's accounting system. The City should close excess and unneeded cash accounts, and incorporate bank reconciliation processes to all accounts.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the prior paragraphs.

City Response

The management for the City of Corrigan, Texas has reviewed the significant deficiencies identified in this report and we accept full responsibility to correct these in the current fiscal year. During the year ended September 30, 2017 and for part of the current fiscal year, the City went through a change in the City Secretary position and the current employee in that position is working to correct the deficiencies noted above and consult with our audit firm on ways to correct.

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
July 5, 2018

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