

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2013

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Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2013

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INTRODUCTORY SECTION

CITY OF ABERNATHY
Abernathy, Texas

September 30, 2013

CITY COUNCIL

Lindsey Webb	Mayor
Sharon Kester-Fair	Mayor Pro-tem
Michael Macias	Councilmember
Eldon Sparkman	Councilmember
Victor Cavazos	Councilmember
Shawn Vandygriff	Councilmember

FINANCIAL SECTION

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Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Abernathy, Texas
P.O. Box 310
Abernathy, Texas 79311

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.



Independent Auditors' Report
Page 2

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 Abernathy, Texas, as of September 30, 2013, 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 management's discussion and analysis and budgetary comparison information, identified as Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

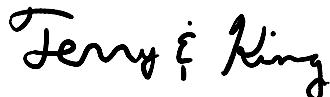
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Abernathy's financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014, on our consideration of the City of Abernathy's 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 Abernathy's internal control over financial reporting and compliance.

Respectfully submitted,



Terry & King, CPAs
Lubbock, Texas
February 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Abernathy's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2013. Please read this in conjunction with the City's financial statements, which follow this section

FINANCIAL HIGHLIGHTS

- The City's net position increased as a result of this year's operations. While net position of our business-type activities increased by \$55,981 or approximately 1%, net position of our governmental activities increased by \$153,955 or 5%.
- During the year, the City had expenses that were \$36,018 less than the \$1,720,934 generated in tax and other revenues for governmental programs, prior to transfers. This compares to the prior year when expenses were less than revenues by \$291,147 prior to transfers.
- In the City's business type activities, revenues decreased \$119,411 to \$883,731 (or 12%) while expenses increased \$52,416 to \$709,813 (or 8%). The City received a one time oil and gas lease payment in the amount of \$177,140 in the prior year. In the current year, the City received capital donations for water lines amounting to \$69,400.
- Total cost of all of the City's programs was \$2,394,729, an increase of \$397,091. This was largely due to an increase in expenditures of grant funds by \$347,332.
- The General Fund reported a surplus this year of \$59,260.
- The resources available for appropriation were \$119,904 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$141,082.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how

theses services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole -- The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in it. You can think of the City's net position—the differences between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise taxes, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover the cost of certain services it provides. The City's water/sewer system and airport operations are reported here.

Reporting the City's Most Significant Funds – Fund Financial Statements

Our analysis of the City's major funds begins on page 12. The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. At times a city council may establish other funds to help it control and manage money for particular purposes, such as special projects or to show that it is meeting legal responsibilities for using certain Federal or State grants. Currently the City's only governmental fund is the General Fund, although in the past it has had funds established for grants. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position changed from a year ago—*increasing* from \$7,089,178 to \$7,299,114. Our following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$7,299,114 at September 30, 2013. (See Table A-1).

Table A-1
City of Abernathy's Net Position

	Governmental Activities			Business-type Activities			Total		
	2013	2012	Percentage Change	2013	2012	Percentage Change	2013	2012	Percentage Change
Current assets:									
Cash and Investments	784,368	798,975	-2%	890,201	899,109	-1%	1,674,569	1,698,084	-1%
Accounts Receivable, net	73,332	58,079	26%	120,881	118,787	2%	194,213	176,866	10%
Taxes Receivable, net	14,076	16,524	-15%	-	-	0%	14,076	16,524	-15%
Due from Other Governments	82,447	19,786	317%	-	-	0%	82,447	19,786	317%
Interfund Balances	(218,426)	(218,426)	0%	218,426	218,426	0%	-	-	0%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
Total current assets:	735,797	674,938	9%	1,239,222	1,246,036	-1%	1,975,019	1,920,974	3%
Noncurrent assets:									
Land	-	-	0%	672,558	672,558	0%	672,558	672,558	0%
Infrastructure	1,894,667	1,730,050	10%	-	-	0%	1,894,667	1,730,050	10%
Less accumulated depreciation, infrastructure	(454,810)	(393,453)	16%	-	-	0%	(454,810)	(393,453)	16%
Buildings	568,218	554,178	3%	802,301	802,301	0%	1,370,519	1,356,479	1%
Less accumulated depreciation, buildings	(215,025)	(201,728)	7%	(368,479)	(348,265)	6%	(583,504)	(549,993)	6%
Water System	-	-	0%	2,113,895	2,014,041	5%	2,113,895	2,014,041	5%
Less accumulated depreciation, water system	-	-	0%	(999,352)	(940,084)	6%	(999,352)	(940,084)	6%
Sewer System	-	-	0%	1,638,527	1,535,264	7%	1,638,527	1,535,264	7%
Less accumulated depreciation, sewer system	-	-	0%	(1,002,909)	(962,769)	4%	(1,002,909)	(962,769)	4%
Vehicles	163,385	194,592	-16%	387,610	387,610	0%	550,995	582,202	-5%
Less accumulated depreciation, vehicles	(119,067)	(158,867)	-25%	(241,762)	(211,531)	14%	(360,829)	(370,398)	-3%
Furniture & Equipment	1,460,998	1,420,812	3%	-	-	0%	1,460,998	1,420,812	3%
Less accumulated depreciation, furniture & equipment	(775,420)	(707,790)	10%	-	-	0%	(775,420)	(707,790)	10%
Total noncurrent assets	2,522,946	2,437,794	3%	3,002,389	2,949,125	2%	5,525,335	5,386,919	3%
Total Assets	3,258,743	3,112,732	5%	4,241,611	4,195,161	1%	7,500,354	7,307,893	3%
Current liabilities:									
Accounts Payable	18,645	17,049	9%	14,197	7,834	81%	32,842	24,883	32%
Accrued Wages	8,157	5,706	43%	6,674	4,668	43%	14,831	10,374	43%
Accrued Interest	-	-	0%	1,121	1,379	-19%	1,121	1,379	-19%
Total current liabilities	26,802	22,755	18%	21,992	13,881	58%	48,794	36,636	33%
Noncurrent Liabilities:									
Customer Deposits	-	-	0%	53,675	54,522	-2%	53,675	54,522	-2%
Due within one year	12,579	11,991	5%	17,357	16,795	3%	29,936	28,786	4%
Due in more than one year	13,195	25,774	-49%	55,640	72,997	-24%	68,835	98,771	-30%
Total current liabilities	25,774	37,765	-32%	126,672	144,314	-12%	152,446	182,079	-16%
Net Position:									
Net investment in capital assets	2,497,172	2,400,029	4%	2,929,392	2,859,333	2%	5,426,564	5,259,362	3%
Unrestricted	708,995	652,183	9%	1,163,555	1,177,633	-1%	1,872,550	1,829,816	2%
Total Net Position	3,206,167	3,052,212	5%	4,092,947	4,036,966	1%	7,299,114	7,089,178	3%

Net position of the City's governmental activities increased by 5% (\$3,206,167 compared to \$3,052,212). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$652,183 at September 30, 2012 to \$708,995 at the end of this year. Net position of the City's business-type activites increased by 1% from \$4,036,966 to \$4,092,947.

Table A-2
Changes in City of Abernathy's Net Position

	Governmental Activities			Business-type Activities			Total		
	2013	2012	Percentage Change	2013	2012	Percentage Change	2013	2012	Percentage Change
Program Revenues:									
Charges for Services	416,774	466,307	-11%	775,837	787,533	-1%	1,192,611	1,253,840	-5%
Grants & Contributions	431,131	439,769	-2%	69,400	-	100%	500,531	439,769	14%
General Revenues:									
Property Taxes	457,763	421,297	9%	-	-	0%	457,763	421,297	9%
Nonproperty Taxes	374,854	281,660	33%	-	-	0%	374,854	281,660	33%
Investment Earnings	4,854	5,478	-11%	4,923	4,472	10%	9,777	9,950	-2%
Licenses and Permits	3,091	3,464	-11%	-	-	0%	3,091	3,464	-11%
Miscellaneous	32,467	13,413	142%	33,571	211,137	-84%	66,038	224,550	-71%
	1,720,934	1,631,388	5%	883,731	1,003,142	-12%	2,604,665	2,634,530	-1%
Expenses:									
City Hall	118,888	148,145	-20%	-	-	0%	118,888	148,145	-20%
Legislative	3,646	950	284%	-	-	0%	3,646	950	284%
Administrative	162,954	208,681	-22%	-	-	0%	162,954	208,681	-22%
Sanitation	178,100	176,970	1%	-	-	0%	178,100	176,970	1%
Streets	151,237	160,765	-6%	-	-	0%	151,237	160,765	-6%
Fire	83,827	59,421	41%	-	-	0%	83,827	59,421	41%
Police	316,396	246,346	28%	-	-	0%	316,396	246,346	28%
Library	18,018	16,855	7%	-	-	0%	18,018	16,855	7%
Ambulance	146,184	161,942	-10%	-	-	0%	146,184	161,942	-10%
Judicial	24,838	24,916	0%	-	-	0%	24,838	24,916	0%
Parks	78,943	80,137	-1%	-	-	0%	78,943	80,137	-1%
Interest on Debt	1,850	2,410	-23%	-	-	0%	1,850	2,410	-23%
Homes for Citizens	400,035	52,703	659%	-	-	0%	400,035	52,703	659%
Water and Sewer	-	-	0%	692,430	641,781	8%	692,430	641,781	8%
Airport	-	-	0%	17,383	15,616	11%	17,383	15,616	11%
	1,684,916	1,340,241	26%	709,813	657,397	8%	2,394,729	1,997,638	20%
Change in Net Position,									
Before Transfers	36,018	291,147	-88%	173,918	345,745	-50%	209,936	636,892	-67%
Transfers	117,937	45,000	162%	(117,937)	(45,000)	162%	-	-	0%
Change in Net Position	153,955	336,147	-54%	55,981	300,745	-81%	209,936	636,892	-67%
Beginning Net Position	3,052,212	2,716,065	12%	4,036,966	3,736,221	8%	7,089,178	6,452,286	10%
Ending Net Position	3,206,167	3,052,212	5%	4,092,947	4,036,966	1%	7,299,114	7,089,178	3%

The City's total revenues were \$2,604,665. A significant portion, 29%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (25%), non-property taxes (20%), charges for services (23%), and grants and contributions (23%).

The total cost of all programs and services was \$2,394,729; 30% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (7%), administration (10%), sanitation (11%), streets (9%), fire department (5%), police (19%), ambulance (9%), parks (5%), and home grant expenditures (24%).

Governmental Activities

Revenue for the City's governmental activities increased by 5% (\$89,546), while total expenses increased 26% (\$344,675).

- Property tax rates remained constant at \$0.5382 per \$100. The ad valorem tax levy for the previous fiscal year was \$420,263, compared to \$438,820 for the current year. Total tax collections increased 9%, from \$411,898 in the prior year to \$447,768.
- The City's expenditures of grant funds to build homes for citizens increased from \$52,703 in the prior period to \$400,035 in the current period.
- The cost of all *governmental* activities this year was \$1,684,916 compared to \$1,340,241 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was only \$457,763 because some of the costs were paid by those who directly benefited from the programs (\$416,774) or by nonproperty taxes (\$374,854). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, increased in 2013 from \$1,631,388 to \$1,720,934.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) decreased 12% (\$883,731 from \$1,003,142) and expenses *increased* by 8%.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$694,919, which is an increase from the prior year's total of \$635,659. The following items effecting fund balance should be noted:

- Ad valorem tax revenues increased \$44,962 and non-property tax revenues increased \$93,194.
- Grant revenues increased \$62,033.
- The City expended \$243,773 for capital assets in the current fiscal period while in the previous fiscal year, \$364,245 was expended for capital assets. In the prior year, \$249,807 of these capital expenditures were paid for with grant funds.
- The City expended grant funds in the amount of \$400,035 to build homes for citizens in the current year.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual revenues were \$119,904 more than final budget amounts and expenditures were \$141,082 below the final budget amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had \$9,702,160 invested in a broad range of capital assets, including police, ambulance and fire equipment, buildings, furniture and equipment, streets, water and sewer facilities, and airport land and buildings (see Table A-3). This amount represents a net increase (including additions and deductions) of \$390,753, or 4%, over last year.

This year's major additions amounted to \$446,889:

- \$164,617 was expended for street paving.
- Fire department equipment - \$8,000
- Police department software - \$19,087
- A vehicle and equipment for the police department was purchased for \$30,029.
- Building improvements cost \$14,040.
- A sprinkler system was installed in the park for \$8,000.
- Water and sewer systems were installed in the City's new addition for \$203,116.

Table A-3
Fixed Assets

<u>Governmental Activities:</u>	<u>Balance 10-1-12</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-13</u>
Buildings & Improvements	\$ 554,178	14,041	-	568,219
City Park	574,692	8,000	-	582,692
Street Paving	1,730,050	164,617	-	1,894,667
Vehicles	194,592	24,929	56,136	163,385
Furniture & Equipment	846,120	32,186	-	878,306
Accumulated Depreciation	(1,461,839)	(158,619)	(56,136)	(1,564,322)
Net Capital Assets	<u>\$ 2,437,793</u>	<u>\$ 85,154</u>	<u>\$ -</u>	<u>\$ 2,522,947</u>

<u>Business-Type Activities:</u>	<u>Balance 10-1-12</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-13</u>
Land	\$ 672,558	-	-	672,558
Buildings & Improvements	802,301	-	-	802,301
Vehicles	387,610	-	-	387,610
Sewer System	1,535,265	103,262	-	1,638,527
Water System	2,014,041	99,854	-	2,113,895
Accumulated Depreciation	(2,462,650)	(149,852)	-	(2,612,502)
Net Capital Assets	<u>\$ 2,949,125</u>	<u>\$ 53,264</u>	<u>\$ -</u>	<u>\$ 3,002,389</u>

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

Debt

A municipal government can finance activities such as capital improvements and acquisitions through general tax bonds or revenue bonds. Additionally, a government may purchase items through the use of capital leases. Short-term financing is available in the form of time warrants with a financial institution.

At the end of 2013, the City had \$98,771 of total debt outstanding. \$29,936 of this is due within one year. \$25,774 of this debt is for a fire truck which is accounted for in the general fund. The remaining \$72,997 is a new lease acquired in the water & sewer fund for the purchase of a backhoe. More detailed information about the City's long-term debt activity is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2014 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year.

The property tax rate will remain constant at \$0.5382/\$100 valuation. The Council has adopted budgets and set fees accordingly.

The rising cost of employee health insurance has continued to be a major financial concern for several years. Insurance costs for fiscal year 2014 are projected to increase by 5%. The rising cost of fuel and oil has also affected the City by increased cost of goods.

It is planned that the City's Net Position at the end of the fiscal year ending September 30, 2014 will remain basically the same with perhaps a slight increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Administrator at the City's office located at 811 Avenue D, Abernathy, Texas 79311.

BASIC FINANCIAL STATEMENT

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET POSITION
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Investments	\$ 784,368	\$ 890,201	\$ 1,674,569
Accounts Receivable, net	73,332	120,881	194,213
Taxes Receivable, Net	14,076	-	14,076
Due from Other Governments	82,447	-	82,447
Interfund Balances	(218,426)	218,426	-
Capital Credits	-	9,714	9,714
Capital Assets:			
Land	-	672,558	672,558
Buildings & Improvements, net	353,193	433,822	787,015
Infrastructure	1,439,857	-	1,439,857
Utility Systems & Equipment, net	-	1,750,160	1,750,160
Furniture & Equipment, net	729,896	145,849	875,745
<u>TOTAL ASSETS</u>	<u>\$ 3,258,743</u>	<u>\$ 4,241,611</u>	<u>\$ 7,500,354</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 18,645	\$ 14,197	\$ 32,842
Accrued Wages	8,157	6,674	14,831
Accrued Interest	-	1,121	1,121
Noncurrent Liabilities:			
Customer Deposits	-	53,675	53,675
Due within one year	12,579	17,357	29,936
Due in more than one year	13,195	55,640	68,835
<u>Total Liabilities</u>	<u>\$ 52,576</u>	<u>\$ 148,664</u>	<u>\$ 201,240</u>
NET POSITION			
Net Investment in Capital Assets	\$ 2,497,172	\$ 2,929,392	\$ 5,426,564
Unrestricted	708,995	1,163,555	1,872,550
<u>Total Net Position</u>	<u>\$ 3,206,167</u>	<u>\$ 4,092,947</u>	<u>\$ 7,299,114</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Government Activities:							
City Hall	\$ 118,888	\$ 25,580	\$ -	\$ -	\$ (93,308)	-	(93,308)
Legislative	3,646	-	-	-	(3,646)	-	(3,646)
Administrative	162,954	-	-	-	(162,954)	-	(162,954)
Sanitation	178,100	272,718	-	-	94,618	-	94,618
Streets	151,237	-	-	-	(151,237)	-	(151,237)
Fire	83,827	32,964	-	-	(50,863)	-	(50,863)
Police	316,396	-	-	-	(316,396)	-	(316,396)
Library	18,018	5,964	-	-	(12,054)	-	(12,054)
Ambulance	146,184	49,932	35,341	-	(60,911)	-	(60,911)
Judicial	24,838	29,616	-	-	4,778	-	4,778
Parks	78,943	-	-	-	(78,943)	-	(78,943)
Interest on Long-Term Debt	1,850	-	-	-	(1,850)	-	(1,850)
Homes for Citizens	400,035	-	395,790	-	(4,245)	-	(4,245)
Total Government Activities	\$ 1,684,916	\$ 416,774	\$ 431,131	\$ -	\$ (837,011)	\$ -	\$ (837,011)
Business-type Activities							
Water and Sewer	\$ 692,430	\$ 757,842	\$ -	\$ 69,400	\$ -	\$ 134,812	\$ 134,812
Airport	17,383	17,995	-	-	-	612	612
Total Business-Type Activities	\$ 709,813	\$ 775,837	\$ -	\$ 69,400	\$ -	\$ 135,424	\$ 135,424
Total Primary Government	\$ 2,394,729	\$ 1,192,611	\$ 431,131	\$ 69,400	\$ (837,011)	\$ 135,424	\$ (701,587)
General Revenues							
Property Taxes, Levied for General Purpose					457,763	-	457,763
Nonproperty Taxes:					374,854	-	374,854
Investment Earnings					4,854	4,923	9,777
Licenses and Permits					3,091	-	3,091
Miscellaneous					6,000	33,571	39,571
Insurance Proceeds					26,467	-	26,467
Transfers					117,937	(117,937)	-
Total General Revenue					<u>990,966</u>	<u>(79,443)</u>	<u>885,056</u>
Change in Net Position					153,955	55,981	209,936
Net Position -- Beginning					<u>3,052,212</u>	<u>4,036,966</u>	<u>7,089,178</u>
Net Position -- Ending					<u>\$ 3,206,167</u>	<u>\$ 4,092,947</u>	<u>\$ 7,299,114</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

CITY OF ABERNATHY
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2013

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 55,915	\$ 55,915
Certificates of Deposit	728,453	728,453
Property Taxes Receivable, net	14,076	14,076
Accounts Receivable	73,332	73,332
Due from Other Governments	<u>82,447</u>	<u>82,447</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 954,223</u>	 <u>\$ 954,223</u>
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 18,645	\$ 18,645
Accrued Wages	8,157	8,157
Due to Other Funds	218,426	218,426
Unavailable Revenues	<u>14,076</u>	<u>14,076</u>
<u>Total Liabilities</u>	 <u>259,304</u>	 <u>259,304</u>
 FUND EQUITIES		
Fund Balance-Unassigned	<u>694,919</u>	<u>694,919</u>
<u>Total Fund Equities</u>	 <u>694,919</u>	 <u>694,919</u>
 <u>TOTAL LIABILITIES & FUND EQUITIES</u>	 <u>\$ 954,223</u>	 <u>\$ 954,223</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2013

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 694,919
Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds	14,076
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,522,946
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(25,774)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u>\$ 3,206,167</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	General Fund	Total Governmental Funds
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 460,212	\$ 460,212
Sales Taxes	244,245	244,245
Franchise Taxes	130,609	130,609
Licenses and Permits	3,091	3,091
Leases and Rents	25,580	25,580
Court Fees	29,616	29,616
Fire	32,964	32,964
Mosquito Spraying	15,948	15,948
Interest Income	4,854	4,854
Ambulance	85,273	85,273
Sanitation	256,770	256,770
Library	5,964	5,964
Grant Revenues	395,790	395,790
Insurance Proceeds	26,467	26,467
Miscellaneous	6,001	6,001
Total Revenues	1,723,384	1,723,384
EXPENDITURES		
Current		
City Hall	123,172	123,172
Legislative	3,646	3,646
Administrative	158,568	158,568
Sanitation Department	176,143	176,143
Streets	247,634	247,634
Fire Department	72,059	72,059
Police Department	343,320	343,320
Library	18,018	18,018
Ambulance	142,084	142,084
Judicial	24,838	24,838
Parks	58,703	58,703
Homes for Citizens	400,035	400,035
Principal on Long-Term Debt	11,991	11,991
Interest on Long-Term Debt	1,850	1,850
Total Expenditures	1,782,061	1,782,061
Excess of Revenues Over (Under) Expenditures	(58,677)	(58,677)
OTHER FINANCING SOURCES (USES)		
Transfers In	117,937	117,937
Transfers Out	-	-
Total Other Sources (Uses)	117,937	117,937
Net Change in Fund Balances	59,260	59,260
Fund Balance--Beginning of Year	635,659	635,659
Fund Balance--End of Year	\$ 694,919	\$ 694,919

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

Net Change in Fund Balances -- Total Governmental Funds	\$ 59,260
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.	243,772
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(158,619)
Certain property tax revenues are unavailable in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts have changed during the current period.	(2,449)
Repayment of debt principal is an expenditure in the governmental funds, but a reduction of long-term debt in the statement of net position. This amount is the total debt principal repaid on long-term debt.	11,991
Change in Net Position -- Statement of Activities	<u>\$ 153,955</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2013

	Proprietary Funds		
	Water and Sewer	Airport	Total
ASSETS			
<u>Current Assets:</u>			
Cash and Investments	\$ 753,336	\$ 136,865	\$ 890,201
Accounts Receivable	121,687	-	121,687
Allowance for Uncollectible	(806)	-	(806)
Due from Other Funds	230,455	-	230,455
Total Current Assets	\$ 1,104,672	\$ 136,865	\$ 1,241,537
<u>Noncurrent Assets:</u>			
Capital Credits	\$ 9,714	\$ -	\$ 9,714
Land	456,321	216,237	672,558
Vehicles & Equipment (net of depreciation)	2,136,431	193,400	2,329,831
Total Fixed Assets	\$ 2,602,466	\$ 409,637	\$ 3,012,103
TOTAL ASSETS	\$ 3,707,138	\$ 546,502	\$ 4,253,640
LIABILITIES & NET POSITION			
<u>Current Liabilities</u>			
Accounts Payable	\$ 14,126	\$ 71	\$ 14,197
Accrued Wages	6,674	-	6,674
Accrued Interest	1,121	-	1,121
Due to Other Funds	-	12,029	12,029
Total Current Liabilities	\$ 21,921	\$ 12,100	\$ 34,021
<u>Other Liabilities</u>			
Customer Deposits	\$ 53,175	\$ 500	\$ 53,675
Due within one year	17,357	-	17,357
Due in more than one year	55,640	-	55,640
Total Other Liabilities	\$ 126,172	\$ 500	\$ 126,672
NET POSITION			
Net investment in capital assets	\$ 2,519,755	\$ 409,637	\$ 2,929,392
Unrestricted	1,039,290	124,265	1,163,555
Total Net Position	\$ 3,559,045	\$ 533,902	\$ 4,092,947

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION--
PROPRIETARY FUNDS
For the Year Ended September 30, 2013

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Operating Revenues</u>			
Water Revenue	\$ 566,780	\$ -	\$ 566,780
Sewer Revenue	159,041	-	159,041
Water/Sewer Permits	1,520	-	1,520
Reconnect and Late Fees	30,501	-	30,501
Rental Income	-	17,995	17,995
<u>Total Operating Revenues</u>	<u>757,842</u>	<u>17,995</u>	<u>775,837</u>
<u>Operating Expenses</u>			
Salaries	244,766	-	244,766
Payroll Taxes	17,479	-	17,479
Retirement Costs	10,085	-	10,085
Supplies	40,356	-	40,356
Repairs & Maintenance	72,385	2,524	74,909
Utilities & Fuel	82,404	1,387	83,791
Insurance	59,325	886	60,211
Professional Fees	10,672	-	10,672
Miscellaneous	14,621	320	14,941
Depreciation	137,587	12,266	149,853
<u>Total Operating Expenses</u>	<u>689,680</u>	<u>17,383</u>	<u>707,063</u>
<u>Operating Income (Loss)</u>	<u>68,162</u>	<u>612</u>	<u>68,774</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	4,279	644	4,923
Miscellaneous Income	33,571	-	33,571
Capital Contribution	69,400	-	69,400
Interest Expense	(2,750)	-	(2,750)
Transfers In/(Out)	(117,937)	-	(117,937)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(13,437)</u>	<u>644</u>	<u>(12,793)</u>
Change in Net Position	54,725	1,256	55,981
NET POSITION			
Net Position, Beginning of Year	3,504,320	532,646	4,036,966
Net Position, End of Year	<u>3,559,045</u>	<u>533,902</u>	<u>4,092,947</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF CASH FLOWS--
PROPRIETARY FUNDS
For the Year Ended September 30, 2013

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers	\$ 788,472	\$ 17,995	\$ 806,467
Payments to Suppliers	(273,362)	(5,155)	(278,517)
Payments to Employees	<u>(270,324)</u>	<u>-</u>	<u>(270,324)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	244,786	12,840	257,626
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Payments on Interfund Balances	-	-	-
Transfer to Other Fund	(117,937)	-	(117,937)
<u>Net Cash Provided (Used) by Investing Activities</u>	(117,937)	-	(117,937)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Fixed Assets	(203,117)	-	(203,117)
Capital Contributions	69,400	-	69,400
Payments on Long-Term Debt	(19,803)	-	(19,803)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	(153,520)	-	(153,520)
<u>Cash Flows from Investing Activities</u>			
Interest Earned on Investments	4,279	644	4,923
<u>Net Cash Provided (Used) by Investing Activities</u>	4,279	644	4,923
Net Increase (Decrease) in Cash & Cash Equivalents	(22,392)	13,484	(8,908)
Cash & Cash Equivalents--Beginning of Year	<u>775,728</u>	<u>123,381</u>	<u>899,109</u>
<u>Cash & Cash Equivalents--End of Year</u>	753,336	136,865	890,201
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	68,162	612	68,774
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:			
Depreciation	137,587	12,266	149,853
Miscellaneous Revenues	33,571	-	33,571
(Increase) Decrease in Receivables	(2,094)	-	(2,094)
Increase (Decrease) in Liabilities	<u>7,560</u>	<u>(38)</u>	<u>7,522</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	244,786	12,840	257,626

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2013

Note A: Summary of Significant Accounting Policies

The City of Abernathy, Texas was incorporated under the provisions of the State of Texas. The City operates under a Council form of government and provides the following services as authorized by its charter: police and fire protection, sanitation and recreation, public works, and general administrative services. In addition, the City owns and operates a water and sewer system.

The basic financial statements of the City of Abernathy have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants (AICPA), and by the Financial Accounting Standards Board (FASB), when applicable.

1. The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Abernathy. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Abernathy.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
September 30, 2013

Note A: Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Enterprise Funds: Enterprise Funds are used to account for operations (a) that 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) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2013

Note A: Summary of Significant Accounting Policies--Continued

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
September 30, 2013

Note A: Summary of Significant Accounting Policies (continued)

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Unassigned: This classification includes the residual fund balance for the General Fund.

The City would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned/Unrestricted resources first to defer the use of these other classified funds.

3. Financial Statement Amounts

a. Deposits and Investments

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 City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments for the City are reported at fair value.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2013, the amount deemed uncollectible by this estimate was \$26,253. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
September 30, 2013

Note A: Summary of Significant Accounting Policies (continued)

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3

e. Receivable and Payable Balances

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

There are no significant receivables which are not scheduled for collection within one year of the period end.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2013

Note A: Summary of Significant Accounting Policies (continued)

f. Interfund Activity

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

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violations</u>	<u>Action Taken</u>
None Reported	Not Applicable

Note C: Deposits and Investments

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2013

Note C: Deposits and Investments (continued)

Cash Deposits

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,674,569 and the bank balance was \$1,729,562. The City's cash deposits from March 2013 through September 30, 2013 were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize and investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City's investments at September 30, 2013 included certificates of deposit (\$1,418,846).

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2013

Note C: Deposits and Investments (continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was exposed to custodial credit risk due to not having adequate securities pledged against the City's deposits.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2013

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2013, was as follows:

Governmental Activities:	Balance <u>10-1-12</u>	Additions	Deletions/ Reclassifications	Balance <u>9-30-13</u>
Buildings & Improvements	\$ 554,178	14,041	-	\$ 568,219
City Park	574,692	8,000	-	582,692
Street Paving	1,730,050	164,617	-	1,894,667
Vehicles	194,592	24,929	56,136	163,385
Furniture & Equipment	846,120	32,186	-	878,306
Total Capital Assets	<u>\$3,899,632</u>	<u>\$ 243,773</u>	<u>\$ 56,136</u>	<u>\$ 4,087,269</u>

Less Accumulated
Depreciation:

Buildings & Improvements	\$ 201,729	\$ 13,296	-	\$ 215,025
City Park	160,296	28,240	-	188,536
Street Paving	393,452	61,358	-	454,810
Vehicles	158,868	16,335	56,136	119,067
Furniture & Equipment	<u>547,494</u>	<u>39,390</u>	<u>-</u>	<u>586,884</u>
Total Accumulated Depreciation	<u>\$1,461,839</u>	<u>\$ 158,619</u>	<u>\$ 56,136</u>	<u>\$ 1,564,322</u>
Net Capital Assets	<u><u>\$2,437,793</u></u>	<u><u>\$ 85,154</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,522,947</u></u>

Business-Type Activities: Water & Sewer	Balance <u>10-1-12</u>	Additions	Deletions/ Reclassifications	Balance <u>9-30-13</u>
Land	\$ 456,321	-	-	\$ 456,321
Buildings & Improvements	319,552	-	-	319,552
Water System	2,014,041	99,854	-	2,113,895
Sewer System	1,535,265	103,262	-	1,638,527
Vehicles	<u>387,610</u>	<u>-</u>	<u>-</u>	<u>387,610</u>
Total Capital Assets	<u>\$ 4,712,789</u>	<u>\$203,116</u>	<u>\$ -</u>	<u>\$ 4,915,905</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2013

Note D: Capital Assets (continued)

<u>Less Accumulated Depreciation:</u>	Balance 10-1-12	Additions	Deletions/ Reclassifications	Balance 9-30-13
Buildings& Improvements	\$ 71,183	\$ 7,947	-	\$ 79,130
Water System	940,084	59,268	-	999,352
Sewer System	962,769	40,140	-	1,002,909
Vehicles	<u>211,531</u>	<u>30,231</u>	<u>-</u>	<u>241,762</u>
Total Accumulated Depreciation	<u>\$ 2,185,567</u>	<u>\$ 137,586</u>	<u>\$ -</u>	<u>\$ 2,323,153</u>
Net Capital Assets	<u>\$ 2,527,222</u>	<u>\$ 65,530</u>	<u>\$ -</u>	<u>\$ 2,592,752</u>
<u>Business-Type Activities: Airport</u>	Balance 10-1-12	Additions	Deletions/ Reclassifications	Balance 9-30-13
Land	\$ 216,237	-	-	\$ 216,237
Buildings & Improvements	<u>482,749</u>	<u>-</u>	<u>-</u>	<u>482,749</u>
Total Capital Assets	<u>\$ 698,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698,986</u>
<u>Less Accumulated Depreciation:</u>	Balance 10-1-12	Additions	Deletions/ Reclassifications	Balance 9-30-13
Buildings & Improvements	<u>\$ 277,083</u>	<u>12,266</u>	<u>-</u>	<u>289,349</u>
Total Accumulated Depreciation	<u>\$ 277,083</u>	<u>\$ 12,266</u>	<u>\$ -</u>	<u>\$ 289,349</u>
Net Capital Assets	<u>\$ 421,903</u>	<u>\$ (12,266)</u>	<u>\$ -</u>	<u>\$ 409,637</u>

Depreciation was charged to functions as follows:

City Hall	\$ 9,756
Administration	4,386
Sanitation	1,957
Streets	68,220
Fire	19,768
Police	22,191
Ambulance	4,101
Parks	28,240
Water & Sewer	137,586
Airport	<u>12,266</u>
	<u>\$ 308,471</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2013

Note E: Loans

Short term loans are accounted for through the applicable fund. General Fund proceeds from loans (except those issued and retired during the current year) are shown in the financial statements as Other Resources and principal payments as Other Uses. Enterprise fund loans are shown in the appropriate fund.

During the year ended September 30, 2007, the City financed \$89,827 for the purchase of a Firestar Pumper Truck. Terms of the lease include an interest rate of 4.9% for eight annual installments of \$13,842 with the first installment due May 1, 2008. This lease is accounted for in the General Fund.

During the year ended September 30, 2012, the City financed \$109,594 for the purchase of a John Deere Backhoe. Terms of the lease include an interest rate of 3.3% for 6 annual installments of \$19,803 with the first installment due at signing of the lease. This lease is accounted for in the Water & Sewer Fund.

Changes in long-term obligations for the year ended September 30, 2013 are as follows:

<u>Governmental Funds:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Lease	\$ 37,765	\$ -	\$ 11,991	\$ 25,774	\$ 11,991
<u>Total Governmental Funds:</u>	<u>\$ 37,765</u>	<u>\$ -</u>	<u>\$ 11,991</u>	<u>\$ 25,774</u>	<u>\$ 11,991</u>

Debt service requirements on long-term debt at September 30, 2013 are as follows:

<u>Governmental Funds</u>			
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 12,579	\$ 1,262	\$ 13,841
2015	<u>13,195</u>	<u>646</u>	<u>13,841</u>
Total	\$ 25,774	\$ 1,908	\$ 27,682

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2013

Note E: Loans (continued)

<u>Enterprise Funds:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Lease	\$ 89,791	\$ -	\$ 16,795	\$ 72,996	\$ 17,357
<u>Total Enterprise Funds:</u>	<u>\$ 89,791</u>	<u>\$ -</u>	<u>\$ 16,795</u>	<u>\$ 72,996</u>	<u>\$ 17,357</u>

Debt service requirements on long-term debt at September 30, 2012 are as follows:

<u>Enterprise Funds</u>			
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 17,357	\$ 2,446	\$ 19,803
2015	17,939	1,864	19,803
2016	18,540	1,263	19,803
2017	<u>19,160</u>	<u>643</u>	<u>19,803</u>
Total	\$ 72,996	\$ 6,216	\$ 79,212

Note F: Pension Plan

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

Upon retirement, benefits depend on the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2013

Note F: Pension Plan (continued)

In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an Updated Service Credit. This monetary credit is determined by hypothetically re-computing the member's account balance by assuming that the current deposit rate of the City has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

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: retiree life only; one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

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 for the plan/calendar years ended December 31, 2009, 2010, and 2011:

Deposit Rate:	5.00%
Matching Ratio (City to Employee):	1 to 1
A member is vested after	5 years
Updated Service Credit Annually Repeating	100%
Supplemental Death Benefit	
For active employees (Y/N)	Y
For retirees (Y/N)	Y

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are: 5yrs/age 60, 25 yrs/any age.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2013

Note F: Pension Plan (continued)

Contributions

Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2011 valuation is effective for rates beginning January 2013).

Annual Pension Cost: The City's contributions to the TMRS plan for the years ended September 30, 2013, 2012, and 2011 were \$23,973, \$24,678, and \$35,762, respectively, which equaled the required contributions each year. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 23,973
Interest on NPO	-
Adjustment to the ARC	-
Annual Pension Cost	\$ 23,973
Contributions Made	(23,973)
Increase (decrease) in net pension obligation	\$ -
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -

Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	\$ 35,762	100%	\$ 0
September 30, 2012	24,678	100%	0
September 30, 2013	23,973	100%	0

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2013

Note F: Pension Plan (continued)

<u>Actuarial Information</u>			
	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent Of payroll	Level percent Of payroll	Level Percent Of payroll
GASB 25 Equivalent Single Amortization period	23.2 years- Closed period	21.7 years- Closed period	20.7 years- Closed period
Amortization Period for new Gains/Losses	25 years	19 years	19 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.5%	7.0%	7.0%
Projected salary increases	Varies by age And service	Varies by age And service	Varies by age And service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.9%	0.9%	0.9%

The funded status as of December 31, 2011 is presented as follows:

Schedule of Funding Information

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2009	\$ 435,509	\$ 687,713	63.3%	\$ 252,204	\$ 481,410	52.4%
12/31/2010	\$ 732,144	\$ 858,444	85.3%	\$ 126,300	\$ 483,756	26.1%
12/31/2011	\$ 804,989	\$ 912,864	88.2%	\$ 107,875	\$ 475,635	22.7%

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2013

Note G: Supplemental Death Benefits Plan

The City contributes to the Supplemental Death Benefits Fund (SDBF), a cost-sharing multiple-employer defined group term life insurance plan operated by the Texas Municipal Retirement System (TMRS); this is a separate trust administered by the TMRS Board of Trustees. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

The City offers this benefit to active employees and retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period proceeding the month of death). Retired employees are insured for \$7,500. This coverage is an "other postemployment benefit," or OPEB. For the years ended September 30, 2013, 2012, and 2011, the City's contributions to the SDBF were \$1,760, \$1,427, and \$1,900, respectively which equaled the required contributions each year.

Note H: Litigation

There was no litigation pending or in progress against the City at September 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2013

	General Fund				Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual		
Revenues					
Property Taxes (Including Penalty & Interest)	\$ 410,000	\$ 410,000	\$ 460,212	\$ 50,212	
Sales Taxes	144,000	144,000	244,245	100,245	
Franchise Taxes	110,000	110,000	130,609	20,609	
Licenses and Permits	2,500	2,500	3,091	591	
Leases and Rents	22,000	22,000	25,580	3,580	
Court Fees	23,580	23,580	29,616	6,036	
Fire	-	33,000	32,964	(36)	
Mosquito Spraying	16,000	16,000	15,948	(52)	
Interest Income	7,600	7,600	4,854	(2,746)	
Ambulance	116,000	116,000	85,273	(30,727)	
Sanitation	259,800	259,800	256,770	(3,030)	
Library	5,500	5,500	5,964	464	
Grant Revenues	1,353,000	451,000	395,790	(55,210)	
Insurance Proceeds	-	-	26,467	26,467	
Miscellaneous	2,500	2,500	6,001	3,501	
Total Revenues	2,472,480	1,603,480	1,723,384	119,904	
Expenditures					
Current					
City Hall	116,751	134,779	123,172	11,607	
Legislative	3,500	3,650	3,646	4	
Administrative	165,155	165,633	158,568	7,065	
Sanitation Department	193,150	193,150	176,143	17,007	
Streets	123,300	253,538	247,634	5,904	
Fire Department	41,051	74,051	72,059	1,992	
Police Department	292,212	361,185	343,320	17,865	
Library	21,618	21,618	18,018	3,600	
Ambulance	57,600	151,396	142,084	9,312	
Judicial	27,212	27,212	24,838	2,374	
Parks	64,090	72,090	58,703	13,387	
Homes for Citizens	1,353,000	451,000	400,035	50,965	
Principal on Long-Term Debt	11,991	11,991	11,991	-	
Interest on Long-Term Debt	1,850	1,850	1,850	-	
Total Expenditures	2,472,480	1,923,143	1,782,061	141,082	
Other Financing Sources (Uses)					
Transfers In	-	57,616	117,937	60,321	
Transfers Out	-	-	-	-	
Total Other Sources (Uses)	-	57,616	117,937	60,321	
Net Change in Fund Balances	-	(262,047)	59,260	321,307	
Fund Balance, Beginning of Year	635,659	635,659	635,659	-	
Fund Balance, End of Year	\$ 635,659	\$ 373,612	\$ 694,919	\$ 321,307	

OTHER SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2013

Years Ended <u>September 30</u>	Balance <u>10/01/12</u>	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance <u>09/30/13</u>
2004 and Prior	\$ 5,966	\$ -	\$ 2,894	\$ -	\$ 3,072
2005	1,364	-	795	-	569
2006	1,626	-	1,034	-	592
2007	1,693	-	1,092	-	601
2008	1,875	-	1,104	-	771
2009	3,315	-	1,883	-	1,432
2010	5,263	-	2,757	-	2,506
2011	9,965	-	5,065	(3)	4,897
2012	20,158	-	9,832	(59)	10,267
2013	-	438,820	421,312	(1,886)	15,622
Totals	\$ 51,225	\$ 438,820	\$ 447,768	\$ (1,948)	\$ 40,329

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Independent Auditors' Report

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

To the Honorable Mayor and City Council
City of Abernathy, Texas
P.O. Box 310
Abernathy, Texas 79311

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, each major fund, the business-type activities, and the aggregate remaining fund information of the City of Abernathy, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Abernathy's basic financial statements and have issued our report thereon dated February 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Abernathy's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Abernathy's 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Independent Auditors' Report
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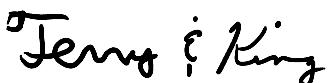
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Terry & King, CPAs, P.C.

Lubbock, Texas

February 4, 2014

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None
Yes Reported

Noncompliance material to financial statements noted?

Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF ABERNATHY
Abernathy, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
None	N/A	N/A

CITY OF ABERNATHY
Abernathy, Texas

CORRECTIVE ACTION PLAN
For the Year Ended September 30, 2013

Not Applicable – None Required