

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014

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Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014

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INTRODUCTORY SECTION

CITY OF ABERNATHY
Abernathy, Texas

September 30, 2014

CITY COUNCIL

Lindsey Webb

Mayor

Sharon Kester-Fair

Mayor Pro-tem

Michael Macias

Councilmember

Jay Stephenson

Councilmember

Victor Cavazos

Councilmember

Shawn Vandygriff

Councilmember

FINANCIAL SECTION

Terry & King, CPAs, P.C.

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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, 2014, 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.

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, 2014, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and TMRS-Schedule of Funding Progress, 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.

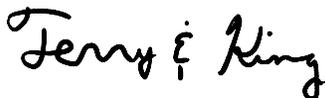
Other Information

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, 2015, 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, 2015

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, 2014. 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 decreased by \$27,271 or approximately 1%, net position of our governmental activities increased by \$61,885 or 2%.
- During the year, the City had expenses that were \$88,795 more than the \$1,585,733 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 \$36,018 prior to transfers.
- In the City's business type activities, revenues decreased \$42,356 to \$841,375 (or 5%) while expenses increased \$8,153 to \$717,966 (or 1%). In the current year, the City received \$48,351 less in capital donations for water lines.
- Total cost of all of the City's programs was \$2,392,494, a decrease of \$2,235.
- The General Fund reported a surplus this year of \$30,387.
- The resources available for appropriation were \$88,637 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$58,165.

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 these 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 \$7,299,114 to \$7,333,728. 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 \$7,333,728 at September 30, 2014. (See Table A-1).

Table A-1
City of Abernathy's Net Position

	Governmental Activities			Business-type Activities			Total		
	2014	2013	Percentage Change	2014	2013	Percentage Change	2014	2013	Percentage Change
Current assets:									
Cash and Investments	860,744	784,368	10%	1,066,326	890,201	20%	1,927,070	1,674,569	15%
Accounts Receivable, net	37,933	73,332	-48%	97,179	120,881	-20%	135,112	194,213	-30%
Taxes Receivable, net	15,905	14,076	13%	-	-	0%	15,905	14,076	13%
Due from Other Governments	3,867	82,447	-95%	-	-	0%	3,867	82,447	-95%
Interfund Balances	(143,426)	(218,426)	-34%	143,426	218,426	-34%	-	-	0%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
Total current assets:	775,023	735,797	5%	1,316,645	1,239,222	6%	2,091,668	1,975,019	6%
Noncurrent assets:									
Land	-	-	0%	677,087	672,558	1%	677,087	672,558	1%
Infrastructure	1,959,164	1,894,667	3%	-	-	0%	1,959,164	1,894,667	3%
Less accumulated depreciation, infrastructure	(522,600)	(454,810)	15%	-	-	0%	(522,600)	(454,810)	15%
Buildings	625,641	568,218	10%	802,301	802,301	0%	1,427,942	1,370,519	4%
Less accumulated depreciation, buildings	(229,957)	(215,025)	7%	(388,692)	(368,479)	5%	(618,649)	(583,504)	6%
Water System	-	-	0%	2,140,609	2,113,895	1%	2,140,609	2,113,895	1%
Less accumulated depreciation, water system	-	-	0%	(1,060,917)	(999,352)	6%	(1,060,917)	(999,352)	6%
Sewer System	-	-	0%	1,644,193	1,638,527	0%	1,644,193	1,638,527	0%
Less accumulated depreciation, sewer system	-	-	0%	(1,044,745)	(1,002,909)	4%	(1,044,745)	(1,002,909)	4%
Vehicles	166,890	163,385	2%	387,610	387,610	0%	554,500	550,995	1%
Less accumulated depreciation, vehicles	(85,851)	(119,067)	-28%	(270,485)	(241,762)	12%	(356,336)	(360,829)	-1%
Furniture & Equipment	1,472,998	1,460,998	1%	-	-	0%	1,472,998	1,460,998	1%
Less accumulated depreciation, furniture & equipment	(841,594)	(775,420)	9%	-	-	0%	(841,594)	(775,420)	9%
Total noncurrent assets	2,544,691	2,522,946	1%	2,886,961	3,002,389	-4%	5,431,652	5,525,335	-2%
Total Assets	3,319,714	3,258,743	2%	4,203,606	4,241,611	-1%	7,523,320	7,500,354	0%
Current liabilities:									
Accounts Payable	18,531	18,645	-1%	19,253	14,197	36%	37,784	32,842	15%
Accrued Wages	10,281	8,157	26%	8,412	6,674	26%	18,693	14,831	26%
Accrued Interest	-	-	0%	854	1,121	-24%	854	1,121	-24%
Total current liabilities	28,812	26,802	7%	28,519	21,992	30%	57,331	48,794	17%
Noncurrent Liabilities:									
Customer Deposits	5,000	-	100%	53,772	53,675	0%	58,772	53,675	9%
Due within one year	15,450	12,579	23%	17,939	17,357	3%	33,389	29,936	12%
Due in more than one year	2,400	13,195	-82%	37,700	55,640	-32%	40,100	68,835	-42%
Total noncurrent liabilities	22,850	25,774	-11%	109,411	126,672	-14%	132,261	152,446	-13%
Net Position:									
Net investment in capital assets	2,526,841	2,497,172	1%	2,831,322	2,929,392	-3%	5,358,163	5,426,564	-1%
Unrestricted	741,211	708,995	5%	1,234,354	1,163,555	6%	1,975,565	1,872,550	6%
Total Net Position	3,268,052	3,206,167	2%	4,065,676	4,092,947	-1%	7,333,728	7,299,114	0%

Net position of the City's governmental activities increased by 2% (\$3,268,052 compared to \$3,206,167). 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 \$708,995 at September 30, 2013 to \$741,211 at the end of this year. Net position of the City's business-type activities decreased by 1% from \$4,092,947 to \$4,065,676.

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

	Governmental Activities			Business-type Activities			Total		
	2014	2013	Percentage Change	2014	2013	Percentage Change	2014	2013	Percentage Change
Program Revenues:									
Charges for Services	360,144	416,774	-14%	800,350	775,837	3%	1,160,494	1,192,611	-3%
Grants & Contributions	405,209	431,131	-6%	21,049	69,400	-70%	426,258	500,531	-15%
General Revenues:									
Property Taxes	454,160	457,763	-1%	-	-	0%	454,160	457,763	-1%
Nonproperty Taxes	346,050	374,854	-8%	-	-	0%	346,050	374,854	-8%
Investment Earnings	4,382	4,854	-10%	4,099	4,923	-17%	8,481	9,777	-13%
Licenses and Permits	6,145	3,091	99%	-	-	0%	6,145	3,091	99%
Miscellaneous	9,643	32,467	-70%	15,877	33,571	-53%	25,520	66,038	-61%
	<u>1,585,733</u>	<u>1,720,934</u>	<u>-8%</u>	<u>841,375</u>	<u>883,731</u>	<u>-5%</u>	<u>2,427,108</u>	<u>2,604,665</u>	<u>-7%</u>
Expenses:									
City Hall	136,658	118,888	15%	-	-	0%	136,658	118,888	15%
Legislative	4,998	3,646	37%	-	-	0%	4,998	3,646	37%
Administrative	169,628	162,954	4%	-	-	0%	169,628	162,954	4%
Sanitation	192,293	178,100	8%	-	-	0%	192,293	178,100	8%
Streets	136,742	151,237	-10%	-	-	0%	136,742	151,237	-10%
Fire	71,064	83,827	-15%	-	-	0%	71,064	83,827	-15%
Police	309,499	316,396	-2%	-	-	0%	309,499	316,396	-2%
Library	19,831	18,018	10%	-	-	0%	19,831	18,018	10%
Ambulance	127,210	146,184	-13%	-	-	0%	127,210	146,184	-13%
Judicial	23,785	24,838	-4%	-	-	0%	23,785	24,838	-4%
Parks	118,251	78,943	50%	-	-	0%	118,251	78,943	50%
Interest on Debt	1,661	1,850	-10%	-	-	0%	1,661	1,850	-10%
Homes for Citizens	362,908	400,035	-9%	-	-	0%	362,908	400,035	-9%
Water and Sewer	-	-	0%	698,560	692,430	1%	698,560	692,430	1%
Airport	-	-	0%	19,406	17,383	12%	19,406	17,383	12%
	<u>1,674,528</u>	<u>1,684,916</u>	<u>-1%</u>	<u>717,966</u>	<u>709,813</u>	<u>1%</u>	<u>2,392,494</u>	<u>2,394,729</u>	<u>0%</u>
Change in Net Position, Before Transfers	<u>(88,795)</u>	<u>36,018</u>	<u>-347%</u>	<u>123,409</u>	<u>173,918</u>	<u>-29%</u>	<u>34,614</u>	<u>209,936</u>	<u>-84%</u>
Transfers	150,680	117,937	28%	(150,680)	(117,937)	28%	-	-	0%
Change in Net Position	<u>61,885</u>	<u>153,955</u>	<u>-60%</u>	<u>(27,271)</u>	<u>55,981</u>	<u>-149%</u>	<u>34,614</u>	<u>209,936</u>	<u>-84%</u>
Beginning Net Position	<u>3,206,167</u>	<u>3,052,212</u>	<u>5%</u>	<u>4,092,947</u>	<u>4,036,966</u>	<u>1%</u>	<u>7,299,114</u>	<u>7,089,178</u>	<u>3%</u>
Ending Net Position	<u>3,268,052</u>	<u>3,206,167</u>	<u>2%</u>	<u>4,065,676</u>	<u>4,092,947</u>	<u>-1%</u>	<u>7,333,728</u>	<u>7,299,114</u>	<u>0%</u>

The City's total revenues were \$2,427,108. A significant portion, 35%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (29%), non-property taxes (22%), charges for services (23%), and grants and contributions (26%).

The total cost of all programs and services was \$2,392,494; 30% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (8%), administration (10%), sanitation (11%), streets (8%), fire department (4%), police (18%), ambulance (8%), parks (7%), and home grant expenditures (22%).

Governmental Activities

Revenue for the City's governmental activities decreased by 1% (\$135,201) while total expenses decreased 1% (\$10,388).

- Property tax rates remained constant at \$0.5382 per \$100. The ad valorem tax levy for the previous fiscal year was \$438,820, compared to \$449,448 for the current year. Total tax collections decreased less than 1%, from \$447,768 in the prior year to \$446,943.
- The City's expenditures of grant funds to build homes for citizens decreased from \$400,035 in the prior period to \$362,908 in the current period.
- The cost of all *governmental* activities this year was \$1,674,528 compared to \$1,684,916 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 \$454,160 because some of the costs were paid by those who directly benefited from the programs (\$360,144) or by nonproperty taxes (\$346,050). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, decreased in 2014 from \$1,720,934 to \$1,585,733.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) decreased 5% (\$841,375 from \$883,731) and expenses *increased* by 1%.

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 \$725,306, which is an increase from the prior year's total of \$694,919. The following items effecting fund balance should be noted:

- Ad valorem tax revenues decreased \$7,881 and non-property tax revenues decreased \$28,804.
- Grant revenues decreased \$36,682.
- The City expended \$195,348 for capital assets in the current fiscal period while in the previous fiscal year, \$243,773 was expended for capital assets.
- The City expended grant funds in the amount of \$359,108 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 \$88,637 more than final budget amounts and expenditures were \$58,165 below the final budget amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$9,876,493 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 \$174,334, or 2%, over last year.

This year's major additions amounted to \$232,257:

- \$64,497 was expended for street paving.
- Fire department equipment - \$6,800
- Police department vehicles - \$54,629
- A mosquito fogger - \$12,000
- Building improvements cost \$28,108.
- A building was donated to the City with a value of \$29,314.
- Water and sewer improvements - \$32,380
- Land for Water and Sewer use - \$4,529

Table A-3
Fixed Assets

Governmental Activities:	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-14</u>
Buildings & Improvements	\$ 568,219	57,422	-	625,641
City Park	582,692	-	-	582,692
Street Paving	1,894,667	64,497	-	1,959,164
Vehicles	163,385	61,430	57,925	166,890
Furniture & Equipment	878,306	12,000	-	890,306
Accumulated Depreciation	<u>(1,564,322)</u>	<u>(173,605)</u>	<u>(57,925)</u>	<u>(1,680,002)</u>
Net Capital Assets	<u>\$ 2,522,947</u>	<u>\$ 21,744</u>	<u>\$ -</u>	<u>\$ 2,544,691</u>

Business-Type Activities:	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-14</u>
Land	\$ 672,558	4,529	-	677,087
Buildings & Improvements	802,301	-	-	802,301
Vehicles	387,610	-	-	387,610
Sewer System	1,638,527	5,666	-	1,644,193
Water System	2,113,895	26,715	-	2,140,610
Accumulated Depreciation	<u>(2,612,502)</u>	<u>(152,338)</u>	<u>-</u>	<u>(2,764,840)</u>
Net Capital Assets	<u>\$ 3,002,389</u>	<u>\$(115,428)</u>	<u>\$ -</u>	<u>\$ 2,886,961</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 \$73,489 of total debt outstanding. \$33,389 of this is due within one year. \$13,195 of this debt is for a fire truck which is accounted for in the general fund. \$4,655 is outstanding on a fire department vehicle which is accounted for in the general fund. The remaining \$55,639 is a 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 2015 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 2015 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, 2015 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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Investments	\$ 860,744	\$ 1,066,326	\$ 1,927,070
Accounts Receivable, net	37,933	97,179	135,112
Taxes Receivable, Net	15,905	-	15,905
Due from Other Governments	3,867	-	3,867
Interfund Balances	(143,426)	143,426	-
Capital Credits	-	9,714	9,714
Capital Assets:			
Land	-	677,087	677,087
Buildings & Improvements, net	395,684	413,609	809,293
Infrastructure	1,436,564	-	1,436,564
Utility Systems & Equipment, net	-	1,679,141	1,679,141
Furniture & Equipment, net	712,443	117,124	829,567
<u>TOTAL ASSETS</u>	<u>\$ 3,319,714</u>	<u>\$ 4,203,606</u>	<u>\$ 7,523,320</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 18,531	\$ 19,253	\$ 37,784
Accrued Wages	10,281	8,412	18,693
Accrued Interest	-	854	854
Noncurrent Liabilities:			
Customer Deposits	5,000	53,772	58,772
Due within one year	15,450	17,939	33,389
Due in more than one year	2,400	37,700	40,100
<u>Total Liabilities</u>	<u>\$ 51,662</u>	<u>\$ 137,930</u>	<u>\$ 189,592</u>
NET POSITION			
Net Investment in Capital Assets	\$ 2,526,841	\$ 2,831,322	\$ 5,358,163
Unrestricted	741,211	1,234,354	1,975,565
<u>Total Net Position</u>	<u>\$ 3,268,052</u>	<u>\$ 4,065,676</u>	<u>\$ 7,333,728</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Primary Government		Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	
Government Activities:							
City Hall	\$ 136,658	\$ 37,987	\$ -	\$ 29,314	\$ (69,357)	-	(69,357)
Legislative	4,998	-	-	-	(4,998)	-	(4,998)
Administrative	169,628	-	-	-	(169,628)	-	(169,628)
Sanitation	192,293	289,313	-	-	97,020	-	97,020
Streets	136,742	-	-	-	(136,742)	-	(136,742)
Fire	71,064	-	16,787	-	(54,277)	-	(54,277)
Police	309,499	-	-	-	(309,499)	-	(309,499)
Library	19,831	6,003	-	-	(13,828)	-	(13,828)
Ambulance	127,210	987	-	-	(126,223)	-	(126,223)
Judicial	23,785	25,854	-	-	2,069	-	2,069
Parks	118,251	-	-	-	(118,251)	-	(118,251)
Interest on Long-Term Debt	1,661	-	-	-	(1,661)	-	(1,661)
Homes for Citizens	362,908	-	359,108	-	(3,800)	-	(3,800)
Total Government Activities	\$ 1,674,528	\$ 360,144	\$ 375,895	\$ 29,314	\$ (909,175)	\$ -	\$ (909,175)
Business-type Activities							
Water and Sewer	\$ 698,560	\$ 783,375	\$ -	\$ 21,049	\$ -	\$ 105,864	\$ 105,864
Airport	19,406	16,975	-	-	-	(2,431)	(2,431)
Total Business-Type Activities	\$ 717,966	\$ 800,350	\$ -	\$ 21,049	\$ -	\$ 103,433	\$ 103,433
Total Primary Government	\$ 2,392,494	\$ 1,160,494	\$ 375,895	\$ 50,363	\$ (909,175)	\$ 103,433	\$ (805,742)
General Revenues							
Property Taxes, Levied for General Purpose					454,160	-	454,160
Nonproperty Taxes:					346,050	-	346,050
Investment Earnings					4,382	4,099	8,481
Licenses and Permits					6,145	-	6,145
Miscellaneous					6,675	15,877	22,552
Gain on Sale of Capital Asset					2,968	-	2,968
Transfers					150,680	(150,680)	-
Total General Revenue					971,060	(130,704)	837,388
Change in Net Position					61,885	(27,271)	34,614
Net Position -- Beginning					3,206,167	4,092,947	7,299,114
Net Position -- Ending					\$ 3,268,052	\$ 4,065,676	\$ 7,333,728

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2014

	General Fund	Total Governmental Funds
ASSETS		
Cash & Cash Equivalents	\$ 860,744	\$ 860,744
Property Taxes Receivable, net	15,905	15,905
Accounts Receivable	37,933	37,933
Due from Other Governments	3,867	3,867
	<u>3,867</u>	<u>3,867</u>
<u>TOTAL ASSETS</u>	<u>\$ 918,449</u>	<u>\$ 918,449</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 18,531	\$ 18,531
Accrued Wages	10,281	10,281
Due to Other Funds	143,426	143,426
Customer Deposits	5,000	5,000
	<u>5,000</u>	<u>5,000</u>
<u>Total Liabilities</u>	<u>177,238</u>	<u>177,238</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues - Property Taxes	15,905	15,905
	<u>15,905</u>	<u>15,905</u>
<u>Total Deferred Inflows of Resources</u>	<u>15,905</u>	<u>15,905</u>
FUND BALANCES		
Unassigned	725,306	725,306
	<u>725,306</u>	<u>725,306</u>
<u>Total Fund Equities</u>	<u>725,306</u>	<u>725,306</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	<u>\$ 918,449</u>	<u>\$ 918,449</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, 2014

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 725,306
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	15,905
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,544,691
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(17,850)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u>\$ 3,268,052</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, 2014

	General Fund	Total Governmental Funds
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 452,331	\$ 452,331
Sales Taxes	200,573	200,573
Franchise Taxes	145,477	145,477
Licenses and Permits	6,145	6,145
Leases and Rents	37,987	37,987
Court Fees	25,854	25,854
Fire	16,786	16,786
Mosquito Spraying	15,859	15,859
Interest Income	4,382	4,382
Ambulance	987	987
Sanitation	273,454	273,454
Library	6,003	6,003
Grant Revenues	359,108	359,108
Donations	29,314	29,314
Miscellaneous	6,674	6,674
<u>Total Revenues</u>	1,580,934	1,580,934
EXPENDITURES		
Current		
City Hall	152,974	152,974
Legislative	4,998	4,998
Administrative	165,241	165,241
Sanitation Department	202,335	202,335
Streets	127,520	127,520
Fire Department	57,862	57,862
Police Department	334,988	334,988
Library	19,831	19,831
Ambulance	123,109	123,109
Judicial	23,785	23,785
Parks	89,745	89,745
Homes for Citizens	362,908	362,908
Principal on Long-Term Debt	14,724	14,724
Interest on Long-Term Debt	1,661	1,661
Capital Outlay	29,314	29,314
<u>Total Expenditures</u>	1,710,995	1,710,995
Excess of Revenues Over (Under) Expenditures	(130,061)	(130,061)
OTHER FINANCING SOURCES (USES)		
Transfers In	150,680	150,680
Proceeds from Long-Term Debt	6,800	6,800
Sale of Capital Assets	2,968	2,968
<u>Total Other Sources (Uses)</u>	160,448	160,448
Net Change in Fund Balances	30,387	30,387
Fund Balance--Beginning of Year	694,919	694,919
<u>Fund Balance--End of Year</u>	\$ 725,306	\$ 725,306

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, 2014

Net Change in Fund Balances -- Total Governmental Funds	\$ 30,387
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.	195,348
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(173,604)
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.	1,830
Proceeds from the issuance of debt are recorded as other financing sources in the Governmental Funds, but are recorded as a long-term liability on the Statement of Net Position.	(6,800)
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 the total debt principal repaid on long-term debt.	<u>14,724</u>
Change in Net Position -- Statement of Activities	<u><u>\$ 61,885</u></u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2014

	Proprietary Funds		
	Water and Sewer	Airport	Total
ASSETS			
<u>Current Assets:</u>			
Cash and Investments	\$ 919,181	\$ 147,145	\$ 1,066,326
Accounts Receivable	97,985	-	97,985
Allowance for Uncollectible	(806)	-	(806)
Due from Other Funds	155,455	-	155,455
<u>Total Current Assets</u>	<u>\$ 1,171,815</u>	<u>\$ 147,145</u>	<u>\$ 1,318,960</u>
<u>Noncurrent Assets:</u>			
Capital Credits	\$ 9,714	\$ -	\$ 9,714
Land	460,850	216,237	677,087
Vehicles & Equipment (net of depreciation)	2,028,739	181,135	2,209,874
<u>Total Fixed Assets</u>	<u>\$ 2,499,303</u>	<u>\$ 397,372</u>	<u>\$ 2,896,675</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 3,671,118</u>	 <u>\$ 544,517</u>	 <u>\$ 4,215,635</u>
 LIABILITIES & NET POSITION			
<u>Current Liabilities</u>			
Accounts Payable	\$ 19,253	\$ -	\$ 19,253
Accrued Wages	8,412	-	8,412
Accrued Interest	854	-	854
Due to Other Funds	-	12,029	12,029
<u>Total Current Liabilities</u>	<u>\$ 28,519</u>	<u>\$ 12,029</u>	<u>\$ 40,548</u>
<u>Other Liabilities</u>			
Customer Deposits	\$ 53,272	\$ 500	\$ 53,772
Due within one year	17,939	-	17,939
Due in more than one year	37,700	-	37,700
<u>Total Other Liabilities</u>	<u>\$ 108,911</u>	<u>\$ 500</u>	<u>\$ 109,411</u>
 <u>TOTAL LIABILITIES</u>	 <u>\$ 137,430</u>	 <u>\$ 12,529</u>	 <u>\$ 149,959</u>
 NET POSITION			
Net investment in capital assets	\$ 2,433,950	\$ 397,372	\$ 2,831,322
Unrestricted	1,099,738	134,616	1,234,354
<u>Total Net Position</u>	<u>\$ 3,533,688</u>	<u>\$ 531,988</u>	<u>\$ 4,065,676</u>

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, 2014

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Operating Revenues</u>			
Water Revenue	\$ 582,607	\$ -	\$ 582,607
Sewer Revenue	167,282	-	167,282
Water/Sewer Permits	1,320	-	1,320
Reconnect and Late Fees	32,166	-	32,166
Rental Income	-	16,975	16,975
<u>Total Operating Revenues</u>	<u>783,375</u>	<u>16,975</u>	<u>800,350</u>
<u>Operating Expenses</u>			
Salaries	218,495	-	218,495
Payroll Taxes	14,940	-	14,940
Retirement Costs	8,396	-	8,396
Supplies	46,883	-	46,883
Repairs & Maintenance	74,977	76	75,053
Utilities & Fuel	84,698	750	85,448
Insurance	69,509	886	70,395
Professional Fees	18,440	5,428	23,868
Miscellaneous	19,971	-	19,971
Depreciation	140,072	12,266	152,338
<u>Total Operating Expenses</u>	<u>696,381</u>	<u>19,406</u>	<u>715,787</u>
<u>Operating Income (Loss)</u>	<u>86,994</u>	<u>(2,431)</u>	<u>84,563</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	3,582	517	4,099
Miscellaneous Income	15,877	-	15,877
Interest Expense	(2,179)	-	(2,179)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>17,280</u>	<u>517</u>	<u>17,797</u>
<u>Income Before Contributions and Transfers</u>	<u>104,274</u>	<u>(1,914)</u>	<u>102,360</u>
<u>Contributions and Transfers</u>			
Capital Contribution	21,049	-	21,049
Transfers In/(Out)	(150,680)	-	(150,680)
<u>Total Contributions and Transfers</u>	<u>(129,631)</u>	<u>-</u>	<u>(129,631)</u>
Change in Net Position	(25,357)	(1,914)	(27,271)
NET POSITION			
Net Position, Beginning of Year	3,559,045	533,902	4,092,947
Net Position, End of Year	<u>3,533,688</u>	<u>531,988</u>	<u>4,065,676</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, 2014

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers	\$ 823,051	\$ 16,975	\$ 840,026
Payments to Suppliers	(309,352)	(7,212)	(316,564)
Payments to Employees	(240,093)	-	(240,093)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>273,606</u>	<u>9,763</u>	<u>283,369</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Payments on Interfund Balances	75,000	-	75,000
Transfer to Other Fund	(150,680)	-	(150,680)
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>(75,680)</u>	<u>-</u>	<u>(75,680)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Fixed Assets	(36,909)	-	(36,909)
Capital Contributions	21,049	-	21,049
Payments on Long-Term Debt	(19,803)	-	(19,803)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(35,663)</u>	<u>-</u>	<u>(35,663)</u>
<u>Cash Flows from Investing Activities</u>			
Interest Earned on Investments	3,582	517	4,099
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>3,582</u>	<u>517</u>	<u>4,099</u>
Net Increase (Decrease) in Cash & Cash Equivalents	165,845	10,280	176,125
Cash & Cash Equivalents--Beginning of Year	753,336	136,865	890,201
<u>Cash & Cash Equivalents--End of Year</u>	<u>919,181</u>	<u>147,145</u>	<u>1,066,326</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	86,994	(2,431)	84,563
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:			
Depreciation	140,072	12,266	152,338
Miscellaneous Revenues	15,877	-	15,877
(Increase) Decrease in Receivables	23,702	-	23,702
Increase (Decrease) in Liabilities	6,961	(72)	6,889
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>273,606</u>	<u>9,763</u>	<u>283,369</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2014

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 state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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, 2014

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, 2014

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 and 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. Ad valorem, franchise and sales tax revenues in the General Fund 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. 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 enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. 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, 2014

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.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed, 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.

Cash deposits and investments are reported at carrying amount (cost), which equals fair value.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
September 30, 2014

Note A: Summary of Significant Accounting Policies (continued)

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, 2014, the amount deemed uncollectible by this estimate was \$24,841. 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.

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2014

Note A: Summary of Significant Accounting Policies (continued)

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.

f. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has only one type of item, which arises only under the 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 revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

g. 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.

h. 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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2014

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.

Cash Deposits

At September 30, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,927,070 and the bank balance was \$1,962,831. The City's cash deposits at September 30, 2014 and throughout the year were 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 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) money market funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City's investments at September 30, 2014 included certificates of deposit (\$1,388,379).

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2014

Note C: Deposits and Investments (continued)

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.

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 not exposed to custodial credit risk.

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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2014

Note C: Deposits and Investments (continued)

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.

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2014, was as follows:

Governmental Activities:	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-14</u>
Buildings & Improvements	\$ 568,219	57,422	-	\$ 625,641
City Park	582,692	-	-	582,692
Street Paving	1,894,667	64,497	-	1,959,164
Vehicles	163,385	61,430	57,925	166,890
Furniture & Equipment	<u>878,306</u>	<u>12,000</u>	-	<u>890,306</u>
Total Capital Assets	<u>\$4,087,269</u>	<u>\$ 195,349</u>	<u>\$ 57,925</u>	<u>\$ 4,224,693</u>
 <u>Less Accumulated Depreciation:</u>				
Buildings & Improvements	\$ 215,025	\$ 14,932	-	\$ 229,957
City Park	188,536	28,507	-	217,043
Street Paving	454,810	67,790	-	522,600
Vehicles	119,067	24,709	57,925	85,851
Furniture & Equipment	<u>586,884</u>	<u>37,667</u>	-	<u>624,551</u>
Total Accumulated Depreciation	<u>\$1,564,322</u>	<u>\$ 173,605</u>	<u>\$ 57,925</u>	<u>\$ 1,680,002</u>
Net Capital Assets	<u>\$2,522,947</u>	<u>\$ 21,744</u>	<u>\$ -</u>	<u>\$ 2,544,691</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2014

Note D: Capital Assets (continued)

Business-Type Activities: Water & Sewer	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ Reclassifications	Balance <u>9-30-14</u>
Land	\$ 456,321	4,529	-	\$ 460,850
Buildings& Improvements	319,552	-	-	319,552
Water System	2,113,895	26,715	-	2,140,610
Sewer System	1,638,527	5,666	-	1,644,193
Vehicles	<u>387,610</u>	<u>-</u>	<u>-</u>	<u>387,610</u>
Total Capital Assets	<u>\$ 4,915,905</u>	<u>\$ 36,910</u>	<u>\$ -</u>	<u>\$ 4,952,815</u>

<u>Less Accumulated Depreciation:</u>	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ Reclassifications	Balance <u>9-30-14</u>
Buildings& Improvements	\$ 79,130	\$ 7,948	-	\$ 87,078
Water System	999,352	61,565	-	1,060,917
Sewer System	1,002,909	41,836	-	1,044,745
Vehicles	<u>241,762</u>	<u>28,724</u>	<u>-</u>	<u>270,486</u>
Total Accumulated Depreciation	<u>\$ 2,323,153</u>	<u>\$ 140,073</u>	<u>\$ -</u>	<u>\$ 2,463,226</u>
Net Capital Assets	<u>\$ 2,592,752</u>	<u>\$ (103,163)</u>	<u>\$ -</u>	<u>\$ 2,489,589</u>

Business-Type Activities: Airport	Balance <u>10-1-13</u>	<u>Additions</u>	Deletions/ Reclassifications	Balance <u>9-30-14</u>
Land	\$ 216,237	-	-	\$ 216,237
Buildings & Improvements	482,749	-	-	482,749
Total Capital Assets	<u>\$ 698,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698,986</u>

<u>Less Accumulated Depreciation:</u>				
Buildings & Improvements	\$ 289,349	12,265	-	301,614
Total Accumulated Depreciation	<u>\$ 289,349</u>	<u>\$ 12,265</u>	<u>\$ -</u>	<u>\$ 301,614</u>
Net Capital Assets	<u>\$ 409,637</u>	<u>\$ (12,265)</u>	<u>\$ -</u>	<u>\$ 397,372</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2014

Note D: Capital Assets (continued)

Depreciation was charged to functions as follows:

City Hall	\$ 10,965
Administration	4,386
Sanitation	1,958
Streets	73,720
Fire	20,002
Police	29,141
Ambulance	4,101
Parks	28,506
Water & Sewer	140,073
Airport	<u>12,265</u>
	<u>\$ 325,117</u>

Note E: Long-Term Debt

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. Interest expense in the current period was \$1,263.

During the year ended September 30, 2014, the City borrowed \$6,800 for the purchase of a fire department pickup. Terms of the loan include an interest rate of 6.0% for 3 annual installments of \$2,548 with the first installment due October 10, 2014. This loan is accounted for in the General Fund. Interest expense in the current period was \$399.

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. Interest expense in the current period was \$2,750.

Changes in long-term obligations for the year ended September 30, 2014 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 Loan – Fire Dept.	\$ 25,774	\$ -	\$ 12,579	\$ 13,195	\$ 13,195
	<u>-</u>	<u>6,800</u>	<u>2,145</u>	<u>4,655</u>	<u>2,255</u>
<u>Total Governmental Funds:</u>	<u>\$ 25,774</u>	<u>\$ 6,800</u>	<u>\$ 14,724</u>	<u>\$ 17,850</u>	<u>\$ 15,450</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2014

Note E: Long-Term Debt (continued)

Debt service requirements on long-term debt at September 30, 2014 are as follows:

Year Ending September 30,	<u>Governmental Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 15,450	\$ 940	\$ 16,390
2016	<u>2,400</u>	<u>148</u>	<u>2,548</u>
Total	<u>\$ 17,850</u>	<u>\$ 1,088</u>	<u>\$ 18,938</u>

<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	\$ <u>72,996</u>	\$ <u>-</u>	\$ <u>17,357</u>	\$ <u>55,639</u>	\$ <u>17,939</u>
<u>Total Enterprise Funds:</u>	\$ <u>72,996</u>	\$ <u>-</u>	\$ <u>17,357</u>	\$ <u>55,639</u>	\$ <u>17,939</u>

Debt service requirements on long-term debt at September 30, 2014 are as follows:

Year Ending September 30,	<u>Enterprise Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 55,639</u>	<u>\$ 3,770</u>	<u>\$ 59,409</u>

Note F: Pension Plan

The City provides pension benefits for all of its eligible 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 state statutes of TMRS.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2014

Note F: Pension Plan (continued)

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.

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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2014

Note F: Pension Plan (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 for the plan years 2013 and 2014:

Employee Deposit Rate:	5.00%
Matching Ratio (City to Employee):	1 to 1
Years required for vesting	5 years
Updated Service	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating
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.

Contributions

Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that 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 rate and the calendar year when the rate goes into effect. (i.e. December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2014

Note F: Pension Plan (continued)

Annual Pension Cost: The City's contributions to the TMRS plan for the years ended September 30, 2014, 2013, and 2012 were \$25,586, \$23,973, and \$24,678, respectively, which equaled the required contributions each year. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 25,586
Interest on NPO	-
Adjustment to the ARC	-
Annual Pension Cost	<u>\$ 25,586</u>
Contributions Made	<u>(25,586)</u>
Increase (decrease) in net pension obligation	\$ -
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

Trend Information for the Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2012	\$ 24,678	100%	\$ 0
September 30, 2013	23,973	100%	0
September 30, 2014	25,586	100%	0

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>Actuarial Information</u>		
	<u>12/31/11</u>	<u>12/31/12</u>	<u>12/31/13</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level percent Of payroll	Level percent Of payroll	Level Percent Of payroll
GASB 25 Equivalent Single Amortization period	20.7 years-Closed period	19.4 years-Closed period	30.0 years-Closed period
Amortization Period for new Gains/Losses	19 years	19 years	25 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions:			
Investment rate of return	7.0%	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%

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2014

Note F: Pension Plan (continued)

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the poste-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, 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>
12/31/2013	\$ 926,620	\$ 1,020,739	90.8%	\$ 94,119	\$ 580,615	16.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note G: Supplemental Death Benefits Plan

The City also participates in the cost-sharing multiple-employer defined group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17
September 30, 2014

Note G: Supplemental Death Benefits Plan (continued)

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 preceeding the month of death). Retired employees are insured for \$7,500. This coverage is an “other postemployment benefit,” or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

For the years ended September 30, 2014, 2013, and 2012, the City’s contributions to the SDBF were \$798, \$1,760, and \$1,427, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(Retiree-only portion of the rate)

Plan/Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.20%	0.20%	100.0%
2012	0.15%	0.15%	100.0%
2013	0.16%	0.16%	100.0%
2014	0.11%	0.11%	100.0%

Note H: Interfund Transfers

Interfund transfers for the year ended September 30, 2014 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Water and Sewer Fund	\$ 150,680	\$ -
<u>Water and Sewer Fund:</u>		
General Fund	-	150,680
<u>Total</u>	<u>\$ 150,680</u>	<u>\$ 150,680</u>

These interfund transfers represent cash flow transfers to the general fund in the normal course of business.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 18
September 30, 2014

Note I: Interfund Balances

Interfund balances at September 30, 2014 consisted of the following individual fund balances:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund:</u>		
Water and Sewer Fund	\$ -	\$ 143,426
<u>Total General Fund</u>	<u>-</u>	<u>143,426</u>
<u>Water and Sewer Fund:</u>		
General Fund	143,426	-
Airport Fund	<u>12,029</u>	<u>-</u>
<u>Total Water and Sewer Fund</u>	<u>155,455</u>	<u>-</u>
<u>Airport Fund:</u>		
Water and Sewer Fund	<u>-</u>	<u>12,029</u>
<u>Total</u>	<u>\$ 155,455</u>	<u>\$ 155,455</u>

These interfund receivables and payables were recorded to eliminate cash flow deficits of various funds.

Note J: Commitments and Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note K: Litigation

There was no reportable litigation pending or in progress against the City at September 30, 2014.

Note L: Subsequent Event

After year-end, the Council made a resolution to issue certificates of obligation in the amount of \$1,400,000. These funds will be used to construct a new water line that brings water from the well field to the city.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 441,900	\$ 441,900	\$ 452,331	\$ 10,431
Sales Taxes	180,000	180,000	200,573	20,573
Franchise Taxes	110,000	110,000	145,477	35,477
Licenses and Permits	3,000	3,000	6,145	3,145
Leases and Rents	22,000	22,000	37,987	15,987
Court Fees	25,700	25,700	25,854	154
Fire	25,000	25,000	16,786	(8,214)
Mosquito Spraying	16,000	16,000	15,859	(141)
Interest Income	5,000	5,000	4,382	(618)
Ambulance	-	900	987	87
Sanitation	256,800	262,800	273,454	10,654
Library	5,600	5,600	6,003	403
Grant Revenues	902,000	363,108	359,108	(4,000)
Donations	-	29,314	29,314	-
Miscellaneous	1,975	1,975	6,674	4,699
<u>Total Revenues</u>	<u>1,994,975</u>	<u>1,492,297</u>	<u>1,580,934</u>	<u>88,637</u>
<u>Expenditures</u>				
<u>Current</u>				
City Hall	122,686	153,294	152,974	320
Legislative	4,500	6,500	4,998	1,502
Administrative	177,951	175,451	165,241	10,210
Sanitation Department	211,650	203,650	202,335	1,315
Streets	122,000	128,000	127,520	480
Fire Department	61,230	61,230	57,862	3,368
Police Department	312,234	366,864	334,988	31,876
Library	22,347	22,347	19,831	2,516
Ambulance	123,027	123,927	123,109	818
Judicial	27,265	27,265	23,785	3,480
Parks	65,450	91,825	89,745	2,080
Homes for Citizens	902,000	363,108	362,908	200
Principal on Long-Term Debt	14,724	14,724	14,724	-
Interest on Long-Term Debt	1,661	1,661	1,661	-
Capital Outlay	-	29,314	29,314	-
<u>Total Expenditures</u>	<u>2,168,725</u>	<u>1,769,160</u>	<u>1,710,995</u>	<u>58,165</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	165,950	165,950	150,680	(15,270)
Proceeds from Long-Term Debt	6,800	6,800	6,800	-
Sale of Capital Assets	1,000	1,000	2,968	1,968
<u>Total Other Sources (Uses)</u>	<u>173,750</u>	<u>173,750</u>	<u>160,448</u>	<u>(13,302)</u>
Net Change in Fund Balances	-	(103,113)	30,387	133,500
Fund Balance, Beginning of Year	<u>694,919</u>	<u>694,919</u>	<u>694,919</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ 694,919</u>	<u>\$ 591,806</u>	<u>\$ 725,306</u>	<u>\$ 133,500</u>

CITY OF ABERNATHY
Abernathy, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)

<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>
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2011	\$ 804,989	\$ 912,864	88.2%	\$ 107,875	\$ 475,635	22.7%
12/31/2012	\$ 851,075	\$ 901,415	94.4%	\$ 50,340	\$ 460,237	10.9%
12/31/2013	\$ 926,620	\$ 1,020,739	90.8%	\$ 94,119	\$ 580,615	16.2%

OTHER SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2014

Years Ended September 30	Balance 10/01/13	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/14
2005 and Prior	\$ 3,641	\$ -	\$ 215	\$ (495)	\$ 2,931
2006	592	-	87	-	505
2007	601	-	90	-	511
2008	771	-	4	-	767
2009	1,432	-	670	-	762
2010	2,506	-	1,095	-	1,411
2011	4,897	-	2,330	-	2,567
2012	10,267	-	4,034	(221)	6,012
2013	15,622	-	6,360	(274)	8,988
2014	-	449,448	432,058	(1,098)	16,292
<u>Totals</u>	<u>\$ 40,329</u>	<u>\$ 449,448</u>	<u>\$ 446,943</u>	<u>\$ (2,088)</u>	<u>\$ 40,746</u>

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Lubbock, TX 79493-3550

Randel J. Terry, CPA
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

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, 2014, 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, 2015.

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
Page 2

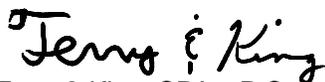
Compliance and Other Matters

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,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.
Lubbock, Texas
February 4, 2015

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2014

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 Reported None

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, 2014

<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, 2014

Not Applicable – None Required