

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

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CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

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INTRODUCTORY SECTION

CITY OF ABERNATHY
Abernathy, Texas

September 30, 2017

CITY COUNCIL

Sharon Kester-Fair

Mayor

Michael Macias

Mayor Pro-tem

Jay Stephenson

Councilmember

Ron Johnson

Councilmember

Victor Cavazos

Councilmember

William Atchley

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas, as of and for the year ended September 30, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and retirement schedules, 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.

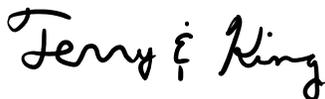
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Abernathy's basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 5, 2018, 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 5, 2018

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, 2017. Please read this in conjunction with the City's financial statements, which follow this section

FINANCIAL HIGHLIGHTS

- The City's net position decreased as a result of this year's operations. While net position of our business-type activities decreased by \$54,553 or approximately 2%, net position of our governmental activities decreased by \$102,630 or 3%.
- During the year, the City had expenses that were \$279,327 more than the \$1,340,882 generated in tax and other revenues for governmental programs, prior to transfers. This compares to the prior year when expenses were more than revenues by \$189,781 prior to transfers.
- In the City's business type activities, charges for services decreased \$32,382 to \$885,989 (or 4%) while expenses increased \$26,858 to \$799,816 (or 3%).
- Total cost of all of the City's programs was \$2,420,025, a decrease of \$212,975. In the prior year, the City had grant expenditures related to Homes for Citizens amounting to \$269,589.
- The General Fund reported a surplus this year of \$35,850.
- The resources available for appropriation were \$20,624 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$77,947.

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 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—*decreasing* from \$7,449,910 to \$7,292,727. 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 \$7,292,727 at September 30, 2017. (See Table A-1).

Table A-1
City of Abernathy's Net Position

	Governmental Activities			Business-type Activities			Total		
	2017	2016	Percentage Change	2017	2016	Percentage Change	2017	2016	Percentage Change
Current assets:									
Cash and Investments	639,140	613,100	4%	1,507,582	1,642,037	-8%	2,146,722	2,255,137	-5%
Accounts Receivable, net	50,714	44,642	14%	99,735	95,981	4%	150,449	140,623	7%
Taxes Receivable, net	21,433	17,560	22%	-	-	0%	21,433	17,560	22%
Due from Other Governments	741	908	-18%	-	-	0%	741	908	-18%
Interfund Balances	-	-	0%	-	-	0%	-	-	0%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
Total current assets:	<u>712,028</u>	<u>676,210</u>	<u>5%</u>	<u>1,617,031</u>	<u>1,747,732</u>	<u>-7%</u>	<u>2,329,059</u>	<u>2,423,942</u>	<u>-4%</u>
Noncurrent assets:									
Land	216,237	216,237	0%	460,850	460,850	0%	677,087	677,087	0%
Construction in Progress	-	-	0%	63,383	-	100%	63,383	-	100%
Infrastructure	2,505,621	2,443,024	3%	-	-	0%	2,505,621	2,443,024	3%
Less accumulated depreciation, infrastructure	(771,129)	(680,835)	13%	-	-	0%	(771,129)	(680,835)	13%
Buildings	894,526	894,526	0%	319,552	319,552	0%	1,214,078	1,214,078	0%
Less accumulated depreciation, buildings	(316,495)	(286,316)	11%	(110,922)	(102,974)	8%	(427,417)	(389,290)	10%
Water System	-	-	0%	3,139,093	3,059,622	3%	3,139,093	3,059,622	3%
Less accumulated depreciation, water system	-	-	0%	(1,289,256)	(1,203,407)	7%	(1,289,256)	(1,203,407)	7%
Sewer System	-	-	0%	1,806,289	1,806,289	0%	1,806,289	1,806,289	0%
Less accumulated depreciation, sewer system	-	-	0%	(1,181,334)	(1,133,168)	4%	(1,181,334)	(1,133,168)	4%
Vehicles	235,520	235,520	0%	437,574	413,479	6%	673,094	648,999	4%
Less accumulated depreciation, vehicles	(165,821)	(136,461)	22%	(353,405)	(326,932)	8%	(519,226)	(463,393)	12%
Furniture & Equipment	1,622,086	1,578,252	3%	-	-	0%	1,622,086	1,578,252	3%
Less accumulated depreciation, furniture & equipment	(1,064,845)	(989,370)	8%	-	-	0%	(1,064,845)	(989,370)	8%
Total noncurrent assets	<u>3,155,700</u>	<u>3,274,577</u>	<u>-4%</u>	<u>3,291,824</u>	<u>3,293,311</u>	<u>0%</u>	<u>6,447,524</u>	<u>6,567,888</u>	<u>-2%</u>
Total Assets	<u>3,867,728</u>	<u>3,950,787</u>	<u>-2%</u>	<u>4,908,855</u>	<u>5,041,043</u>	<u>-3%</u>	<u>8,776,583</u>	<u>8,991,830</u>	<u>-2%</u>
Deferred Outflows of Resources:									
Deferred Outflows - Pensions	70,317	79,714	-12%	32,035	36,271	-12%	102,352	115,985	-12%
Total Deferred Outflows	<u>70,317</u>	<u>79,714</u>	<u>-12%</u>	<u>32,035</u>	<u>36,271</u>	<u>-12%</u>	<u>102,352</u>	<u>115,985</u>	<u>-12%</u>
Current liabilities:									
Accounts Payable	19,246	23,151	-17%	30,555	22,963	33%	49,801	46,114	8%
Accrued Interest	-	-	0%	4,597	5,181	-11%	4,597	5,181	-11%
Total current liabilities	<u>19,246</u>	<u>23,151</u>	<u>-17%</u>	<u>35,152</u>	<u>28,144</u>	<u>25%</u>	<u>54,398</u>	<u>51,295</u>	<u>6%</u>
Noncurrent Liabilities:									
Customer Deposits	5,000	5,000	0%	71,904	67,929	6%	76,904	72,929	5%
Net Pension Liability	112,061	91,751	22%	51,917	41,375	25%	163,978	133,126	23%
Due within one year	-	-	0%	83,000	100,161	-17%	83,000	100,161	-17%
Due in more than one year	-	-	0%	1,203,000	1,286,000	-6%	1,203,000	1,286,000	-6%
Total noncurrent liabilities	<u>117,061</u>	<u>96,751</u>	<u>21%</u>	<u>1,409,821</u>	<u>1,495,465</u>	<u>-6%</u>	<u>1,526,882</u>	<u>1,592,216</u>	<u>-4%</u>
Deferred Inflows of Resources:									
Deferred Inflows - Pensions	4,213	10,444	-60%	715	3,950	-82%	4,928	14,394	-66%
Total Deferred Inflows	<u>4,213</u>	<u>10,444</u>	<u>-60%</u>	<u>715</u>	<u>3,950</u>	<u>-82%</u>	<u>4,928</u>	<u>14,394</u>	<u>-66%</u>
Net Position:									
Net investment in capital assets	3,155,700	3,274,577	-4%	2,005,824	1,907,150	5%	5,161,524	5,181,727	0%
Restricted - Debt Service	-	-	0%	77,387	80,790	-4%	77,387	80,790	-4%
Restricted - Capital Acquisition	-	-	0%	658,665	729,345	-10%	658,665	729,345	-10%
Unrestricted	641,825	625,578	3%	753,326	832,470	-10%	1,395,151	1,458,048	-4%
Total Net Position	<u>3,797,525</u>	<u>3,900,155</u>	<u>-3%</u>	<u>3,495,202</u>	<u>3,549,755</u>	<u>-2%</u>	<u>7,292,727</u>	<u>7,449,910</u>	<u>-2%</u>

Net position of the City's governmental activities decreased 3% (\$3,797,525 compared to \$3,900,155). 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 \$625,578 at September 30, 2016 to \$641,825 at the end of this year. Net position of the City's business-type activities decreased by 2% from \$3,549,755 to \$3,495,202.

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

	Governmental Activities			Business-type Activities			Total		
	2017	2016	Percentage Change	2017	2016	Percentage Change	2017	2016	Percentage Change
Program Revenues:									
Charges for Services	369,211	430,020	-14%	885,989	918,371	-4%	1,255,200	1,348,391	-7%
Grants & Contributions	67,182	349,237	-81%	-	131,321	-100%	67,182	480,558	-86%
General Revenues:									
Property Taxes	537,781	512,770	5%			0%	537,781	512,770	5%
Nonproperty Taxes	336,674	348,897	-4%			0%	336,674	348,897	-4%
Investment Earnings	2,672	2,451	9%	4,457	4,723	-6%	7,129	7,174	-1%
Licenses and Permits	9,447	7,765	22%			0%	9,447	7,765	22%
Miscellaneous	17,915	19,121	-6%	31,514	41,112	-23%	49,429	60,233	-18%
	<u>1,340,882</u>	<u>1,670,261</u>	<u>-20%</u>	<u>921,960</u>	<u>1,095,527</u>	<u>-16%</u>	<u>2,262,842</u>	<u>2,765,788</u>	<u>-18%</u>
Expenses:									
City Hall	137,755	147,029	-6%	-	-	0%	137,755	147,029	-6%
Legislative	4,467	2,796	60%	-	-	0%	4,467	2,796	60%
Administrative	194,443	187,547	4%	-	-	0%	194,443	187,547	4%
Sanitation	181,770	199,833	-9%	-	-	0%	181,770	199,833	-9%
Streets	189,098	191,569	-1%	-	-	0%	189,098	191,569	-1%
Fire	84,613	74,693	13%	-	-	0%	84,613	74,693	13%
Police	428,298	395,506	8%	-	-	0%	428,298	395,506	8%
Library	19,685	19,968	-1%	-	-	0%	19,685	19,968	-1%
Ambulance	154,070	154,699	0%	-	-	0%	154,070	154,699	0%
Judicial	27,810	25,685	8%	-	-	0%	27,810	25,685	8%
Parks	198,200	191,128	4%	-	-	0%	198,200	191,128	4%
Interest on Debt	-	-	0%	-	-	0%	-	-	0%
Homes for Citizens	-	269,589	-100%	-	-	0%	-	269,589	-100%
Water and Sewer	-	-	0%	799,816	772,958	3%	799,816	772,958	3%
	<u>1,620,209</u>	<u>1,860,042</u>	<u>-13%</u>	<u>799,816</u>	<u>772,958</u>	<u>3%</u>	<u>2,420,025</u>	<u>2,633,000</u>	<u>-8%</u>
Change in Net Position, Before Transfers	<u>(279,327)</u>	<u>(189,781)</u>	<u>47%</u>	<u>122,144</u>	<u>322,569</u>	<u>-62%</u>	<u>(157,183)</u>	<u>132,788</u>	<u>-218%</u>
Transfers	<u>176,697</u>	<u>183,279</u>	<u>-4%</u>	<u>(176,697)</u>	<u>(183,279)</u>	<u>-4%</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Change in Net Position	<u>(102,630)</u>	<u>(6,502)</u>	<u>1478%</u>	<u>(54,553)</u>	<u>139,290</u>	<u>-139%</u>	<u>(157,183)</u>	<u>132,788</u>	<u>-218%</u>
Beginning Net Position	<u>3,900,155</u>	<u>3,906,657</u>	<u>0%</u>	<u>3,549,755</u>	<u>3,410,465</u>	<u>4%</u>	<u>7,449,910</u>	<u>7,317,122</u>	<u>2%</u>
Ending Net Position	<u>3,797,525</u>	<u>3,900,155</u>	<u>-3%</u>	<u>3,495,202</u>	<u>3,549,755</u>	<u>-2%</u>	<u>7,292,727</u>	<u>7,449,910</u>	<u>-2%</u>

The City's total revenues were \$2,262,842. A significant portion, 41%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (40%), non-property taxes (25%), charges for services (28%), and grants and contributions (5%).

The total cost of all programs and services was \$2,420,025; 33% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (9%), administration (12%), sanitation (11%), streets (12%), fire department (5%), police (26%), ambulance (10%), and parks (12%).

Governmental Activities

Revenue for the City's governmental activities decreased by 20% (\$329,379) while total expenses decreased 13% (\$239,833).

- Property tax rates remained the same at \$0.5693 per \$100. The ad valorem tax levy for the previous fiscal year was \$512,425, compared to \$538,975 for the current year. Total tax collections increased 4%, from \$510,216 in the prior year to \$531,523.
- The City incurred expenditures of grant funds to build homes for citizens in the prior period amounting to \$269,589. The City did not have these expenditures in the current period.
- The cost of all *governmental* activities this year was \$1,620,209 compared to \$1,860,042 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 \$537,781 because some of the costs were paid by those who directly benefited from the programs (\$369,211) or by nonproperty taxes (\$336,674). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, decreased in 2017 from \$1,670,261 to \$1,340,882.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) decreased 16% (\$921,960 from \$1,095,527) and expenses *increased* by 3%.

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 \$666,349, which is an increase from the prior year's total of \$630,499. The following items effecting fund balance should be noted:

- Ad valorem tax revenues increased \$20,057 and non-property tax revenues decreased \$12,223.
- Grant revenues decreased \$269,359, and grant related expenditures decreased \$269,589.
- The City expended \$106,431 for capital assets in the current fiscal period while in the previous fiscal year, \$238,293 was expended for capital assets.

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 \$20,624 more than final budget amounts and expenditures were \$77,947 below the final budget amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$11,700,732 invested in a broad range of capital assets, including police, ambulance and fire equipment, buildings, furniture and equipment, streets, and water and sewer facilities (see Table A-3). This amount represents a net increase (including additions and deductions) of \$273,380 over last year.

This year's major additions amounted to \$273,380:

- \$20,499 – Marquis Sign at City Hall
- \$22,906 – Street Drainage Improvements
- \$23,335 – Park Restrooms
- \$39,691 – Street sealcoating
- \$142,854 – Water System Improvements
- \$24,095 – Water & Sewer Department Vehicle

Table A-3
Fixed Assets

Governmental Activities:	Balance <u>10-1-16</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-17</u>
Land	\$ 216,237	-	-	216,237
Buildings & Improvements	894,526	-	-	894,526
City Park	609,506	23,335	-	632,841
Street Paving	2,443,024	62,597	-	2,505,621
Vehicles	235,520	-	-	235,520
Furniture & Equipment	968,746	20,499	-	989,245
Accumulated Depreciation	<u>(2,092,982)</u>	<u>(225,308)</u>	<u>-</u>	<u>(2,318,290)</u>
Net Capital Assets	<u>\$ 3,274,577</u>	<u>\$ (118,877)</u>	<u>\$ -</u>	<u>\$ 3,155,700</u>

Business-Type Activities:	Balance <u>10-1-16</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-17</u>
Land	\$ 460,850	-	-	460,850
Construction in Progress	-	63,383	-	63,383
Buildings & Improvements	319,552	-	-	319,552
Vehicles	413,479	24,095	-	437,574
Sewer System	1,806,289	-	-	1,806,289
Water System	3,059,622	79,471	-	3,139,093
Accumulated Depreciation	<u>(2,766,481)</u>	<u>(168,435)</u>	<u>-</u>	<u>(2,934,918)</u>
Net Capital Assets	<u>\$ 3,293,311</u>	<u>\$ (1,486)</u>	<u>\$ -</u>	<u>\$ 3,291,823</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 2017, the City had \$1,286,000 of total debt outstanding. \$83,000 of this is due within one year. The City has Certificates of Obligation outstanding of \$1,286,000. More detailed information about the City's long-term debt activity is presented in the notes to the financial statements.

Business-Type Activities:	Balance 10-01-16	Additions	Decreases	Balance 09-30-17	Due Within One Year
Capital Lease	\$ 19,161	\$ -	\$ 19,161	\$ -	\$ -
Certificate of Obligation	<u>1,367,000</u>	<u>-</u>	<u>81,000</u>	<u>1,286,000</u>	<u>83,000</u>
Total	<u>\$1,386,161</u>	<u>\$ -</u>	<u>\$ 100,161</u>	<u>\$ 1,286,000</u>	<u>\$ 83,000</u>

More detailed information about the City's long-term obligations 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 2017 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 increase to \$0.5900/\$100 valuation. The Council has adopted budgets and set fees accordingly.

It is planned that the City's Net Position at the end of the fiscal year ending September 30, 2017 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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Investments	\$ 639,140	\$ 766,933	\$ 1,406,073
Cash and Investments - Restricted	-	740,649	740,649
Accounts Receivable, net	50,714	99,735	150,449
Taxes Receivable, Net	21,433	-	21,433
Due from Other Governments	741	-	741
Capital Credits	-	9,714	9,714
Capital Assets:			
Land	216,237	460,850	677,087
Construction in Progress	-	63,383	63,383
Buildings & Improvements, net	578,031	208,631	786,662
Infrastructure	1,734,492	-	1,734,492
Utility Systems & Equipment, net	-	2,474,792	2,474,792
Furniture & Equipment, net	626,940	84,168	711,108
TOTAL ASSETS	\$ 3,867,728	\$ 4,908,855	\$ 8,776,583
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pension	70,317	32,035	102,352
TOTAL DEFERRED OUTFLOWS OF RESOURCES	70,317	32,035	102,352
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 19,246	\$ 30,555	\$ 49,801
Accrued Interest	-	4,597	4,597
Noncurrent Liabilities:			
Customer Deposits	5,000	71,904	76,904
Due within one year	-	83,000	83,000
Due in more than one year	-	1,203,000	1,203,000
Net Pension Liability	112,061	51,917	163,978
Total Liabilities	\$ 136,307	\$ 1,444,973	\$ 1,581,280
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension	4,213	715	4,928
Total Deferred Inflows of Resources	4,213	715	4,928
NET POSITION			
Net Investment in Capital Assets	\$ 3,155,700	\$ 2,005,824	\$ 5,161,524
Restricted for:			
Debt Service	-	77,387	77,387
Capital Acquisition	-	658,665	658,665
Unrestricted	641,825	753,326	1,395,151
Total Net Position	\$ 3,797,525	\$ 3,495,202	\$ 7,292,727

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Government Activities:							
City Hall	\$ 137,755	\$ 69,041	\$ -	\$ -	\$ (68,714)	-	(68,714)
Legislative	4,467	-	-	-	(4,467)	-	(4,467)
Administrative	194,443	-	-	-	(194,443)	-	(194,443)
Sanitation	181,770	286,656	-	-	104,886	-	104,886
Streets	189,098	-	-	-	(189,098)	-	(189,098)
Fire	84,613	-	25,687	-	(58,926)	-	(58,926)
Police	428,298	-	28,426	-	(399,872)	-	(399,872)
Library	19,685	387	5,569	-	(13,729)	-	(13,729)
Ambulance	154,070	-	-	-	(154,070)	-	(154,070)
Judicial	27,810	13,127	-	-	(14,683)	-	(14,683)
Parks	198,200	-	7,500	-	(190,700)	-	(190,700)
Interest on Long-Term Debt	-	-	-	-	-	-	-
Homes for Citizens	-	-	-	-	-	-	-
Total Government Activities	\$ 1,620,209	\$ 369,211	\$ 67,182	\$ -	\$ (1,183,816)	\$ -	\$ (1,183,816)
Business-type Activities							
Water and Sewer	\$ 799,816	\$ 885,989	\$ -	\$ -	\$ -	\$ 86,173	\$ 86,173
Total Business-Type Activities	\$ 799,816	\$ 885,989	\$ -	\$ -	\$ -	\$ 86,173	\$ 86,173
Total Primary Government	\$ 2,420,025	\$ 1,255,200	\$ 67,182	\$ -	\$ (1,183,816)	\$ 86,173	\$ (1,097,643)
General Revenues							
Property Taxes, Levied for General Purpose					537,781	-	537,781
Nonproperty Taxes					336,674	-	336,674
Investment Earnings					2,672	4,457	7,129
Licenses and Permits					9,447	-	9,447
Miscellaneous					17,915	31,514	49,429
Gain on Sale of Capital Asset:					-	-	-
Transfers					176,697	(176,697)	-
Total General Revenue					1,081,186	(140,726)	940,460
Change in Net Position					(102,630)	(54,553)	(157,183)
Net Position -- Beginning					3,900,155	3,549,755	7,449,910
Net Position -- Ending					\$ 3,797,525	\$ 3,495,202	\$ 7,292,727

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2017

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
ASSETS		
Cash & Cash Equivalents	\$ 639,140	\$ 639,140
Property Taxes Receivable, net	21,433	21,433
Accounts Receivable	50,714	50,714
Due from Other Governments	<u>741</u>	<u>741</u>
<u>TOTAL ASSETS</u>	<u>\$ 712,028</u>	<u>\$ 712,028</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 19,246	\$ 19,246
Customer Deposits	<u>5,000</u>	<u>5,000</u>
<u>Total Liabilities</u>	<u>24,246</u>	<u>24,246</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues - Property Taxes	<u>21,433</u>	<u>21,433</u>
<u>Total Deferred Inflows of Resources</u>	<u>21,433</u>	<u>21,433</u>
FUND BALANCES		
Unassigned	<u>666,349</u>	<u>666,349</u>
<u>Total Fund Equities</u>	<u>666,349</u>	<u>666,349</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	<u>\$ 712,028</u>	<u>\$ 712,028</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, 2017

Total Fund Balances -- Governmental Funds Balance Sheet	\$	666,349
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		21,433
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,155,700
Included in the items related to noncurrent assets is the recognition of the City's proportionate share of the net pension asset/liability required by GASB 68 in the amount of \$112,061, a deferred resource outflow related to Pensions in the amount of \$70,317, and a deferred resource inflow in the amount of \$4,213. This resulted in a decrease in net position by \$45,957.		<u>(45,957)</u>
Net Position of Governmental Activities -- Statement of Net Position	\$	<u>3,797,525</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, 2017

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 533,908	\$ 533,908
Sales Taxes	192,918	192,918
Franchise Taxes	143,756	143,756
Licenses and Permits	9,447	9,447
Leases and Rents	69,041	69,041
Court Fees	13,127	13,127
Fire	22,954	22,954
Mosquito Spraying	15,817	15,817
Interest Income	2,672	2,672
Ambulance	-	-
Sanitation	270,839	270,839
Library	5,956	5,956
Grant Revenues	35,926	35,926
Donations	2,733	2,733
Miscellaneous	17,914	17,914
<u>Total Revenues</u>	<u>1,337,008</u>	<u>1,337,008</u>
EXPENDITURES		
Current		
City Hall	129,841	129,841
Legislative	4,467	4,467
Administrative	185,037	185,037
Sanitation Department	178,022	178,022
Streets	151,617	151,617
Fire Department	54,451	54,451
Police Department	390,966	390,966
Library	19,137	19,137
Ambulance	150,593	150,593
Judicial	27,809	27,809
Parks	185,915	185,915
Homes for Citizens	-	-
Principal on Long-Term Debt	-	-
Interest on Long-Term Debt	-	-
Capital Outlay	-	-
<u>Total Expenditures</u>	<u>1,477,855</u>	<u>1,477,855</u>
Excess of Revenues Over (Under) Expenditures	(140,847)	(140,847)
OTHER FINANCING SOURCES (USES)		
Transfers In	176,697	176,697
Sale of Capital Assets	-	-
<u>Total Other Sources (Uses)</u>	<u>176,697</u>	<u>176,697</u>
Net Change in Fund Balances	35,850	35,850
Fund Balance--Beginning of Year	<u>630,499</u>	<u>630,499</u>
<u>Fund Balance--End of Year</u>	<u>\$ 666,349</u>	<u>\$ 666,349</u>

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, 2017

Net Change in Fund Balances -- Total Governmental Funds	\$ 35,850
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.	106,431
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(225,308)
Proceeds from the sale of capital assets are recorded as other financing sources in the Governmental Funds, but only the gain or loss is reported on the Statement of Activities	-
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.	3,873
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/16 caused the change in the ending net position to increase in the amount of \$13,010. Contributions made before the measurement date and during the 2016 fiscal year were also expensed in the 2016 fiscal year and recorded as an increase in net pension expense for the District. This caused a decrease in the change in net position totaling \$12,066. The District's proportionate share of the TMRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense decreased the change in net position \$24,420. The result of these amounts is to decrease the change in net position by \$23,476.	<u>(23,476)</u>
	<u>\$ (102,630)</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2017

	<u>Proprietary Funds</u>
	<u>Water and Sewer</u>
ASSETS	
<u>Current Assets:</u>	
Cash and Investments	\$ 766,933
Cash - Restricted	740,649
Accounts Receivable	148,860
Allowance for Uncollectible	(49,125)
Due from Other Funds	-
<u>Total Current Assets</u>	<u>\$ 1,607,317</u>
<u>Noncurrent Assets:</u>	
Capital Credits	\$ 9,714
Land	460,850
Vehicles & Equipment (net of depreciation)	2,830,974
<u>Total Fixed Assets</u>	<u>\$ 3,301,538</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 4,908,855</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflows - Pension	\$ 32,035
<u>TOTAL DEFERRED OUTFLOWS OF RESOURCES</u>	<u>\$ 32,035</u>
 LIABILITIES	
<u>Current Liabilities</u>	
Accounts Payable	\$ 30,555
Accrued Interest	4,597
<u>Noncurrent Liabilities</u>	
Customer Deposits	71,904
Due within one year	83,000
Due in more than one year	1,203,000
Net Pension Liability	51,917
<u>Total Liabilities</u>	<u>1,444,973</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows - Pension	715
<u>Total Deferred Inflows of Resources</u>	<u>715</u>
 NET POSITION	
Net investment in capital assets	2,005,824
Restricted for:	
Debt Service	77,387
Capital Acquisition	658,665
Unrestricted	753,326
<u>Total Net Position</u>	<u>\$ 3,495,202</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, 2017

	<u>Proprietary Funds</u>
	<u>Water and Sewer</u>
<u>Operating Revenues</u>	
Water Revenue	\$ 704,205
Sewer Revenue	169,677
Water/Sewer Permits	1,990
Reconnect and Late Fees	10,117
<u>Total Operating Revenues</u>	<u>885,989</u>
<u>Operating Expenses</u>	
Salaries	245,780
Payroll Taxes	18,802
Retirement Costs	20,199
Supplies	45,187
Repairs & Maintenance	79,755
Utilities & Fuel	83,320
Insurance	70,641
Professional Fees	10,526
Miscellaneous	19,175
Depreciation	168,435
<u>Total Operating Expenses</u>	<u>761,820</u>
<u>Operating Income (Loss)</u>	124,169
<u>Non-Operating Revenues (Expenses)</u>	
Interest Income	4,457
Miscellaneous Income	31,514
Interest Expense	(37,996)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(2,025)</u>
<u>Income Before Contributions and Transfers</u>	122,144
<u>Contributions and Transfers</u>	
Capital Contribution	-
Transfers In/(Out)	(176,697)
<u>Total Contributions and Transfers</u>	<u>(176,697)</u>
Change in Net Position	(54,553)
NET POSITION	
Net Position, Beginning of Year	<u>3,549,755</u>
Net Position, End of Year	<u><u>3,495,202</u></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, 2017

	<u>Proprietary Funds</u>
	<u>Water and Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 917,724
Payments to Suppliers	(301,012)
Payments to Employees	(273,238)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>343,474</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Payments on Interfund Balances	-
Transfer to Other Fund	(176,697)
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>(176,697)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Fixed Assets	(166,948)
Capital Contributions	-
Payments on Long-Term Debt	(138,741)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(305,689)</u>
<u>Cash Flows from Investing Activities</u>	
Interest Earned on Investments	4,457
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>4,457</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(134,455)
Cash & Cash Equivalents--Beginning of Year	<u>1,642,037</u>
<u>Cash & Cash Equivalents--End of Year</u>	<u>1,507,582</u>
Reconciliaton of Operating Income (Loss) to Net Cash Flows from Operating Activities:	-
Operating Income (Loss)	124,169
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:	
Depreciation	168,435
Miscellaneous Revenues	31,514
(Increase) Decrease in Receivables	(3,754)
(Increase) Decrease in Deferred Outflows	4,236
Increase (Decrease) in Liabilities	22,109
Increase (Decrease) in Deferred Inflows	(3,235)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>343,474</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017, the amount deemed uncollectible by this estimate was \$30,883. 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, 2017

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 assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one item which qualifies for reporting in this category.

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 District currently has one type of item which arises under the modified accrual basis of accounting and one type of item that qualifies under the accrual basis of accounting. Accordingly, unavailable ad valorem tax revenue is only reported in the governmental funds balance sheet; and deferred inflows related to pensions is only reported in the statement of net position. 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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2017

Note A: Summary of Significant Accounting Policies (continued)

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.

i. Pensions

For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2017, the carrying amount of the City’s deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$2,146,722 and the bank balance was \$2,247,288. The City’s cash deposits at September 30, 2017 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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2017

Note C: Deposits and Investments (continued)

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an 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, 2017 included certificates of deposit (\$1,124,919).

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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2017

Note C: Deposits and Investments (continued)

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2017, was as follows.

Governmental Activities:	Balance <u>10-1-16</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-17</u>
Land	\$ 216,237	-	-	\$ 216,237
Buildings & Improvements	894,526	-	-	894,526
City Park	609,506	23,335	-	632,841
Street Paving	2,443,024	62,597	-	2,505,621
Vehicles	235,520	-	-	235,520
Furniture & Equipment	<u>968,746</u>	<u>20,499</u>	-	<u>989,245</u>
Total Capital Assets	<u>\$5,367,559</u>	<u>\$ 106,431</u>	<u>\$ -</u>	<u>\$ 5,473,990</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2017

Note D: Capital Assets (continued)

	<u>Balance</u> <u>10-1-16</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>9-30-17</u>
<u>Less Accumulated</u> <u>Depreciation:</u>				
Buildings & Improvements	\$ 286,316	\$ 30,179	-	\$ 316,495
City Park	274,646	30,138	-	304,784
Street Paving	680,835	90,294	-	771,129
Vehicles	136,461	29,360	-	165,821
Furniture & Equipment	<u>714,724</u>	<u>45,337</u>	<u>-</u>	<u>760,061</u>
Total Accumulated Depreciation	<u>\$2,092,982</u>	<u>\$ 225,308</u>	<u>\$ -</u>	<u>\$ 2,318,290</u>
Net Capital Assets	<u>\$3,274,577</u>	<u>\$(118,877)</u>	<u>\$ -</u>	<u>\$ 3,155,700</u>

Business-Type Activities: Water & Sewer	<u>Balance</u> <u>10-1-16</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>9-30-17</u>
Land	\$ 460,850	-	-	\$ 460,850
Construction in Progress	-	63,383	-	63,383
Buildings& Improvements	319,552	-	-	319,552
Water System	3,059,622	79,471	-	3,139,093
Sewer System	1,806,289	-	-	1,806,289
Vehicles	<u>413,479</u>	<u>24,095</u>	<u>-</u>	<u>437,574</u>
Total Capital Assets	<u>\$ 6,059,792</u>	<u>\$166,949</u>	<u>\$ -</u>	<u>\$ 6,226,741</u>

<u>Less Accumulated</u> <u>Depreciation:</u>	<u>Balance</u> <u>10-1-16</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>9-30-17</u>
Buildings& Improvements	\$ 102,974	\$ 7,948	-	\$ 110,922
Water System	1,203,407	85,849	-	1,289,256
Sewer System	1,133,168	48,165	-	1,181,334
Vehicles	<u>326,932</u>	<u>26,473</u>	<u>-</u>	<u>353,406</u>
Total Accumulated Depreciation	<u>\$ 2,766,481</u>	<u>\$ 168,435</u>	<u>\$ -</u>	<u>\$ 2,934,918</u>
Net Capital Assets	<u>\$ 3,293,311</u>	<u>\$ (1,486)</u>	<u>\$ -</u>	<u>\$ 3,291,823</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2017

Note D: Capital Assets (continued)

Depreciation was charged to functions as follows:

City Hall	\$ 28,413
Administration	3,590
Sanitation	3,749
Streets	100,078
Fire	30,162
Police	25,701
Ambulance	3,477
Parks	30,138
Water & Sewer	<u>168,435</u>
	<u>\$ 393,743</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, 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 \$348.

On January 6, 2015, the City issued \$1,445,000 of Combination Tax and Revenue Certificates of Obligation, Series 2015 for the construction of city water lines. The interest rate is 2.86% and is payable from August 15, 2015 through February 15, 2030. Interest expense in the current period was \$37,648.

Changes in long-term obligations for the year ended September 30, 2017 are as follows:

<u>Enterprise Funds:</u>	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital Lease	\$ 19,161	\$ -	\$ 19,161	\$ -	\$ -
Certificates of Obligation- Series 2015	<u>1,367,000</u>	<u>-</u>	<u>81,000</u>	<u>1,286,000</u>	<u>83,000</u>
<u>Total Enterprise Funds:</u>	<u>\$1,386,161</u>	<u>\$ -</u>	<u>\$100,161</u>	<u>\$ 1,286,000</u>	<u>\$ 83,000</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2017

Note E: Long-Term Debt (continued)

Debt service requirements on long-term debt at September 30, 2017 are as follows:

Year Ending September 30,	<u>Enterprise Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 83,000	\$ 35,593	\$ 118,593
2019	85,000	33,190	118,190
2020	88,000	30,716	118,716
2021	90,000	28,171	118,171
2022	93,000	25,554	118,554
2023-2027	506,000	85,743	591,743
2028-2030	<u>341,000</u>	<u>14,829</u>	<u>355,829</u>
Total	<u>\$ 1,286,000</u>	<u>\$ 253,796</u>	<u>\$ 1,539,796</u>

Note F: TMRS-Pension Plan

Plan Description

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

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

Benefits Provided

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2017

Note F: TMRS-Pension Plan (continued)

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

	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100%	100%
Annuity Increase (to retirees)	30% of CPI	30% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	32
Active employees	<u>18</u>
Total	56

Contributions

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2017

Note F: TMRS-Pension Plan (continued)

Employees for the City of Abernathy were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Abernathy were 3.17% and 3.27% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$23,358 which was equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%.

For Cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2017

Note F: TMRS-Pension Plan (continued)

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

Discount Rate

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2017

Note F: TMRS-Pension Plan (continued)

Change in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/15	\$ 1,181,968	\$ 1,048,839	\$ 133,129
Changes for the year:			
Service cost	49,481		49,481
Interest	79,999		79,999
Change of benefit terms			
Difference between expected and actual experience	26,009		26,009
Changes of assumptions	-		-
Contributions - employer		21,196	(21,196)
Contributions - employee		33,433	(33,433)
Net investment income		70,850	(70,850)
Benefit payments, including refunds of employee contributions	(43,090)	(43,090)	-
Administrative expense		(801)	801
Other changes		(43)	43
Net changes	<u>112,399</u>	<u>81,545</u>	<u>30,854</u>
Balance at 12/31/16	<u>\$ 1,294,367</u>	<u>\$ 1,130,384</u>	<u>\$ 163,983</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 328,318	\$ 163,983	\$ 26,526

Pension Plan Fiduciary Net Position

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17
September 30, 2017

Note F: TMRS-Pension Plan (continued)

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

For the year ended September 30, 2017, the city recognized pension expense of \$58,377.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 25,644	\$ 4,928
Changes in actuarial assumptions	\$ 9,525	\$ -
Difference between projected and actual investment earnings	\$ 47,464	\$ -
Contributions subsequent to the measure date December 31, 2016	<u>\$ 19,719</u>	<u>\$ -</u>
Total	\$ 102,352	\$ 4,928

\$19,719 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ 32,199
2018	31,367
2019	14,148
2020	(9)
2021	-
Thereafter	<u>-</u>
Total	\$ 77,705

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 18
September 30, 2017

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.

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, 2017, 2016, and 2015, the City’s contributions to the SDBF were \$1,974, \$1,935, and \$1,950, respectively, which equaled the required contributions each year.

Note H: Interfund Transfers

Interfund transfers for the year ended September 30, 2017 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Water and Sewer Fund	\$ 176,697	-
Total General Fund	\$ 176,697	\$ -
<u>Water and Sewer Fund:</u>		
General Fund	-	\$ 176,697
Total Water and Sewer Fund	-	176,697
<u>Total</u>	<u>\$ 176,697</u>	<u>\$ 176,697</u>

The Water and Sewer Fund transferred \$176,697 to the General Fund in the normal course of business.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 19
September 30, 2017

Note I: Interfund Balances

There were no interfund balances at September 30, 2017.

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

From time to time the City is party to legal proceedings in the normal course of business. The City was made aware of threatened litigation related to a dispute concerning a water line. At this time, there has been no suit filed against the City of Abernathy nor has it been served with any demands. The City intends to vigorously defend any such claims.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2017

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 515,334	\$ 515,334	\$ 533,908	\$ 18,574
Sales Taxes	195,000	195,000	192,918	(2,082)
Franchise Taxes	145,000	145,000	143,756	(1,244)
Licenses and Permits	4,000	4,000	9,447	5,447
Leases and Rents	68,000	68,000	69,041	1,041
Court Fees	30,675	30,675	13,127	(17,548)
Fire	25,000	25,000	22,954	(2,046)
Mosquito Spraying	15,500	15,500	15,817	317
Interest Income	3,000	3,000	2,672	(328)
Sanitation	276,000	276,000	270,839	(5,161)
Library	5,550	5,550	5,956	406
Grant Revenues	30,525	30,525	35,926	5,401
Donations	-	-	2,733	2,733
Miscellaneous	2,800	2,800	17,914	15,114
<u>Total Revenues</u>	<u>1,316,384</u>	<u>1,316,384</u>	<u>1,337,008</u>	<u>20,624</u>
<u>Expenditures</u>				
<u>Current</u>				
City Hall	107,462	130,252	129,841	411
Legislative	6,000	6,000	4,467	1,533
Administrative	183,542	185,542	185,037	505
Sanitation Department	220,150	212,150	178,022	34,128
Streets	144,085	166,991	151,617	15,374
Fire Department	56,445	56,445	54,451	1,994
Police Department	371,546	391,856	390,966	890
Library	22,589	22,589	19,137	3,452
Ambulance	153,350	153,350	150,593	2,757
Judicial	26,266	28,266	27,809	457
Parks	179,026	202,361	185,915	16,446
Capital Outlay	-	-	-	-
<u>Total Expenditures</u>	<u>1,470,461</u>	<u>1,555,802</u>	<u>1,477,855</u>	<u>77,947</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	154,077	154,077	176,697	22,620
Sale of Capital Assets	-	-	-	-
<u>Total Other Sources (Uses)</u>	<u>154,077</u>	<u>154,077</u>	<u>176,697</u>	<u>22,620</u>
Net Change in Fund Balances	-	(85,341)	35,850	121,191
Fund Balance, Beginning of Year	<u>630,499</u>	<u>630,499</u>	<u>630,499</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ 630,499</u>	<u>\$ 545,158</u>	<u>\$ 666,349</u>	<u>\$ 121,191</u>

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
AND RELATED RATIOS - TMRS
(unaudited)

	Measurement Year		
	December 31, 2016	December 31, 2015	December 31, 2014
Total Pension Liability			
Service Cost	\$ 49,481	\$ 53,095	\$ 48,256
Interest (on the Total Pension Liability)	79,999	74,384	70,961
Changes of benefit terms	-	-	-
Difference between expected and actual experience	26,009	19,220	(19,127)
Change of assumptions	-	21,661	-
Benefit payments, including refunds of employee contributions	(43,090)	(44,944)	(62,277)
Net change in Total Pension Liability	112,399	123,416	37,813
Total Pension Liability - Beginning	1,181,968	1,058,552	1,020,739
Total Pension Liability - Ending (a)	\$ 1,294,367	\$ 1,181,968	\$ 1,058,552
 Plan Fiduciary Net Position			
Contributions - employer	21,196	25,584	23,562
Contributions - employee	33,433	34,567	32,728
Net investment income	70,850	1,524	56,262
Benefit payments, including refunds of employee contributions	(43,090)	(44,944)	(62,277)
Administrative expense	(801)	(928)	(587)
Other	(43)	(46)	(48)
Net Change in Plan Fiduciary Net Position	81,545	15,757	49,640
Plan Fiduciary Net Position - Beginning	1,048,840	1,033,083	983,443
Plan Fiduciary Net Position - Ending (b)	\$ 1,130,385	\$ 1,048,840	\$ 1,033,083
 Net Pension Liability/(Asset) - Ending (a) - (b)	\$ 163,982	\$ 133,128	\$ 25,469
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	87.33%	88.74%	97.59%
 Covered Employee Payroll	\$ 668,661	\$ 691,341	\$ 654,559
 Net Pension Liability/(Asset) as a Percentage of Covered Payroll	24.52%	19.26%	3.89%

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF CONTRIBUTIONS - TMRS
(unaudited)

	<u>FYE 9/30/2017</u>	<u>FYE 9/30/2016</u>	<u>FYE 9/30/2015</u>
Actuarially Determined Contribution	\$ 25,332	\$ 24,273	\$ 25,857
Contributions in relation to the actuarially determined contribution	<u>25,332</u>	<u>24,273</u>	<u>25,857</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 719,274	\$ 679,295	\$ 702,382
Contributions as a percentage of covered employee payroll	3.52%	3.57%	3.68%

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2017

Schedule of Contributions – TMRS

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll, Closed

Remaining Amortization Period

25 years

Asset Valuation Method

10 year smoothed market; 15% soft corridor

Inflation

2.5%

Salary Increases

3.50% to 10.5% including inflation

Investment Rate of Return

6.75%

Retirement Age

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Mortality

Other Information:

Notes

There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2017

Years Ended September 30	Balance 10/01/16	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/17
2008 and Prior	\$ 4,329	\$ -	\$ 49	\$ (105)	\$ 4,175
2009	732	-	16	-	716
2010	956	-	47	-	909
2011	1,549	-	247	-	1,302
2012	2,959	-	557	-	2,402
2013	4,217	-	611	(196)	3,410
2014	5,949	-	1,206	(181)	4,562
2015	10,267	-	3,466	178	6,979
2016	14,316	-	3,725	147	10,738
2017	<u>-</u>	<u>538,975</u>	<u>521,599</u>	<u>(254)</u>	<u>17,122</u>
<u>Totals</u>	<u>\$ 45,274</u>	<u>\$ 538,975</u>	<u>\$ 531,523</u>	<u>\$ (411)</u>	<u>\$ 52,315</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, the 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, 2017, 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 5, 2018.

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.



Independent Auditors' Report
Page 2

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.

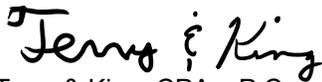
Compliance and Other Matters

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 cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.
Lubbock, Texas
February 5, 2018

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

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, 2017

<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, 2017

Not Applicable – None Required