

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

CITY OF ABERNATHY  
Abernathy, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2011

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CITY OF ABERNATHY  
Abernathy, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2011

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*INTRODUCTORY SECTION*

CITY OF ABERNATHY  
Abernathy, Texas

September 30, 2011

CITY COUNCIL

Darrell Stephens

Mayor

Lindsey Webb

Mayor Pro-tem

Bill Black

Councilmember

Eldon Sparkman

Councilmember

Victor Cavazos

Councilmember

Sharon Kester-Fair

Councilmember

*FINANCIAL SECTION*

# Terry & King, CPAs, P.C.

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## Independent Auditors' Report on Financial Statements

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

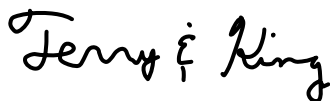
In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2012 on our consideration of the City of Abernathy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 regarding 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Abernathy's financial statements as a whole. 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 financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs  
January 5, 2012



## **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, 2011. Please read this in conjunction with the City's financial statements, which follow this section

### **FINANCIAL HIGHLIGHTS**

- The City's net assets increased as a result of this year's operations. While net assets of our business-type activities increased by \$137,129 or approximately 4%, net assets of our governmental activities increased by \$76,811 or 3%.
- During the year, the City had expenses that were \$76,811 less than the \$1,380,617 generated in tax and other revenues for governmental programs. This compares to the prior year when expenses were less than revenues by \$566,812. The prior year's large increase in net assets was largely due to grants received for capital expenditures in the amount of \$585,629.
- In the City's business type activities, revenues increased \$139,201 to \$813,380 (or 21%) while expenses increased \$32,178 to \$676,251 (or 5%).
- Total cost of all of the City's programs was \$1,980,057, a decrease of \$209,160.
- The General Fund reported a surplus this year of \$141,555.
- The resources available for appropriation were \$7,066 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$134,489.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets 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 Assets 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 Assets 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 assets* and changes in them. You can think of the City's net assets—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 assets are 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 Assets and the Statement of Activities, we divide the City into two kinds of activities:

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

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

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

grants. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets 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 Assets 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 Trustee – Reporting the City's Fiduciary Responsibilities**

The City is responsible for other assets that—because of a trust agreement—can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 21. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **THE CITY AS A WHOLE**

The City's combined net assets changed from a year ago—*increasing* from \$6,238,346 to \$6,452,286. Our following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$6,452,286 at September 30, 2011. (See Table A-1).

Table A-1  
City of Abernathy's Net Assets

	Governmental Activities			Business-type Activities			Total		
	2011	2010	Percentage Change	2011	2010	Percentage Change	2011	2010	Percentage Change
<b>Current assets:</b>									
Cash and Investments	697,295	530,479	31%	492,091	546,339	-10%	1,189,386	1,076,818	10%
Accounts Receivable, net	67,787	66,704	2%	132,805	110,172	21%	200,592	176,876	13%
Taxes Receivable, net	10,478	6,663	57%	-	-	0%	10,478	6,663	57%
Due from Other Governments	772	46,606	-98%	-	-	0%	772	46,606	-98%
Due from Other Funds	-	-	0%	213,253	226,230	-6%	213,253	226,230	-6%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
<b>Total current assets:</b>	<b>776,332</b>	<b>650,452</b>	<b>19%</b>	<b>847,863</b>	<b>892,455</b>	<b>-5%</b>	<b>1,624,195</b>	<b>1,542,907</b>	<b>5%</b>
<b>Noncurrent assets:</b>									
Land	-	-	0%	672,558	672,558	0%	672,558	672,558	0%
Infrastructure	1,365,805	1,331,022	3%	-	-	0%	1,365,805	1,331,022	3%
Less accumulated depreciation, infrastructure	(340,496)	(294,904)	15%	-	-	0%	(340,496)	(294,904)	15%
Buildings	554,178	554,178	0%	802,301	802,301	0%	1,356,479	1,356,479	0%
Less accumulated depreciation, buildings	(188,900)	(176,071)	7%	(327,887)	(307,346)	7%	(516,787)	(483,417)	7%
Water System	-	-	0%	2,014,041	1,753,841	15%	2,014,041	1,753,841	15%
Less accumulated depreciation, water system	-	-	0%	(880,816)	(832,499)	6%	(880,816)	(832,499)	6%
Sewer System	-	-	0%	1,535,264	1,507,614	2%	1,535,264	1,507,614	2%
Less accumulated depreciation, sewer system	-	-	0%	(922,629)	(882,727)	5%	(922,629)	(882,727)	5%
Vehicles	194,592	170,744	14%	253,680	219,119	16%	448,272	389,863	15%
Less accumulated depreciation, vehicles	(141,236)	(115,979)	22%	(185,344)	(160,005)	16%	(326,580)	(275,984)	18%
Furniture & Equipment	1,420,812	1,420,812	0%	-	-	0%	1,420,812	1,420,812	0%
Less accumulated depreciation, furniture & equipment	(644,269)	(574,191)	12%	-	-	0%	(644,269)	(574,191)	12%
<b>Total noncurrent assets</b>	<b>2,220,486</b>	<b>2,315,611</b>	<b>-4%</b>	<b>2,961,168</b>	<b>2,772,856</b>	<b>7%</b>	<b>5,181,654</b>	<b>5,088,467</b>	<b>2%</b>
<b>Total Assets</b>	<b>2,996,818</b>	<b>2,966,063</b>	<b>1%</b>	<b>3,809,031</b>	<b>3,665,311</b>	<b>4%</b>	<b>6,805,849</b>	<b>6,631,374</b>	<b>3%</b>
<b>Current liabilities:</b>									
Accounts Payable	12,629	19,518	-35%	14,668	11,069	33%	27,297	30,587	-11%
Accrued Wages	5,674	5,298	7%	4,643	4,335	7%	10,317	9,633	7%
Due to Other Funds	213,253	226,230	-6%	-	-	0%	213,253	226,230	-6%
Customer Deposits	-	-	0%	53,499	50,815	5%	53,499	50,815	5%
<b>Total current liabilities</b>	<b>231,556</b>	<b>251,046</b>	<b>-8%</b>	<b>72,810</b>	<b>66,219</b>	<b>10%</b>	<b>304,366</b>	<b>317,265</b>	<b>-4%</b>
<b>Noncurrent Liabilities:</b>									
Due within one year	11,431	26,566	-57%	-	-	0%	11,431	26,566	-57%
Due in more than one year	37,766	49,197	-23%	-	-	0%	37,766	49,197	-23%
<b>Total current liabilities</b>	<b>49,197</b>	<b>75,763</b>	<b>-35%</b>	<b>-</b>	<b>-</b>	<b>0%</b>	<b>49,197</b>	<b>75,763</b>	<b>-35%</b>
<b>Net Assets:</b>									
Invested in capital assets, net of related debt	2,171,289	2,239,848	-3%	2,961,168	2,772,856	7%	5,132,457	5,012,704	2%
Unrestricted	544,776	399,406	36%	775,053	826,236	-6%	1,319,829	1,225,642	8%
<b>Total Net Assets</b>	<b>2,716,065</b>	<b>2,639,254</b>	<b>3%</b>	<b>3,736,221</b>	<b>3,599,092</b>	<b>4%</b>	<b>6,452,286</b>	<b>6,238,346</b>	<b>3%</b>

Net assets of the City's governmental activities increased by 6% (\$2,716,065 compared to \$2,639,254). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$399,406 at September 30, 2010 to \$544,776 at the end of this year. Net assets of the City's business-type activities increased by 4% from \$3,599,092 to \$3,736,221.

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

	Governmental Activities			Business-type Activities			Total		
	2011	2010	Percentage Change	2011	2010	Percentage Change	2011	2010	Percentage Change
<b>Program Revenues:</b>									
Charges for Services	469,799	576,284	-18%	776,279	627,038	24%	1,246,078	1,203,322	4%
Grants & Contributions	226,418	864,196	-74%	-	-	0%	226,418	864,196	-74%
<b>General Revenues:</b>									
Property Taxes	401,703	397,570	1%	-	-	0%	401,703	397,570	1%
Nonproperty Taxes	268,660	261,997	3%	-	-	0%	268,660	261,997	3%
Investment Earnings	6,182	8,442	-27%	5,964	8,115	-27%	12,146	16,557	-27%
Licenses and Permits	2,890	2,192	32%	-	-	0%	2,890	2,192	32%
Miscellaneous	4,965	1,275	289%	31,137	39,026	-20%	36,102	40,301	-10%
	<u>1,380,617</u>	<u>2,111,956</u>	<u>-35%</u>	<u>813,380</u>	<u>674,179</u>	<u>21%</u>	<u>2,193,997</u>	<u>2,786,135</u>	<u>-21%</u>
<b>Expenses:</b>									
City Hall	98,004	127,220	-23%	-	-	0%	98,004	127,220	-23%
Legislative	2,584	2,111	22%	-	-	0%	2,584	2,111	22%
Administrative	159,556	163,870	-3%	-	-	0%	159,556	163,870	-3%
Sanitation	178,282	200,045	-11%	-	-	0%	178,282	200,045	-11%
Streets	138,907	187,059	-26%	-	-	0%	138,907	187,059	-26%
Fire	84,704	71,860	18%	-	-	0%	84,704	71,860	18%
Police	258,313	246,091	5%	-	-	0%	258,313	246,091	5%
Library	21,632	22,390	-3%	-	-	0%	21,632	22,390	-3%
Ambulance	153,815	146,284	5%	-	-	0%	153,815	146,284	5%
Judicial	22,329	19,581	14%	-	-	0%	22,329	19,581	14%
Parks	75,832	76,706	-1%	-	-	0%	75,832	76,706	-1%
Interest on Debt	3,688	5,294	-30%	-	-	0%	3,688	5,294	-30%
Homes for Citizens	106,160	276,633	-62%	-	-	0%	106,160	276,633	-62%
Water and Sewer	-	-	0%	660,618	626,289	5%	660,618	626,289	5%
Airport	-	-	0%	15,633	17,784	-12%	15,633	17,784	-12%
	<u>1,303,806</u>	<u>1,545,144</u>	<u>-16%</u>	<u>676,251</u>	<u>644,073</u>	<u>5%</u>	<u>1,980,057</u>	<u>2,189,217</u>	<u>-10%</u>
<b>Increase (Decrease) in Net Assets</b>	<b>76,811</b>	<b>566,812</b>	<b>-86%</b>	<b>137,129</b>	<b>30,106</b>	<b>355%</b>	<b>213,940</b>	<b>596,918</b>	<b>-64%</b>
<b>Beginning Net Assets</b>	<b>2,639,254</b>	<b>2,072,442</b>	<b>27%</b>	<b>3,599,092</b>	<b>3,568,986</b>	<b>1%</b>	<b>6,238,346</b>	<b>5,641,428</b>	<b>11%</b>
<b>Ending Net Assets</b>	<b>2,716,065</b>	<b>2,639,254</b>	<b>3%</b>	<b>3,736,221</b>	<b>3,599,092</b>	<b>4%</b>	<b>6,452,286</b>	<b>6,238,346</b>	<b>3%</b>

The City's total revenues were \$2,193,997. A significant portion, 37%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (29%), non-property taxes (19%), charges for services (34%), and grants and contributions (16%).

The total cost of all programs and services was \$1,980,057; 34% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (8%), administration (12%), sanitation (14%), streets (11%), fire department (6%), police (20%), ambulance (12%), parks (6%), home grant expenditures (8%).

### **Governmental Activities**

Revenue for the City's governmental activities decreased by 35% (\$731,339), while total expenses decreased 16% (\$241,338).

- Property tax rates increased from \$0.50 per \$100 to \$0.5382 per \$100. The ad valorem tax levy for the previous fiscal year was \$393,600, compared to \$399,476 for the current year. Total tax collections decreased 1%, from \$398,206 in the prior year to \$394,022.
- The City's grant and contribution revenue decreased from \$864,196 in the prior period to \$226,418 in the current period.
- The cost of all *governmental* activities this year was \$1,303,806 compared to \$1,545,144 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 \$401,703 because some of the costs were paid by those who directly benefited from the programs (\$469,799) or by nonproperty taxes (\$268,660). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, decreased in 2011 from \$2,111,956 to \$1,380,617.

### **Business-type Activities**

Revenues of the City's business-type activities (see table A-2) increased 21% (\$813,380 from \$674,179) and expenses *increased* by 5%.

## **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 \$534,298, which is an increase from the prior year's total of \$392,743. The following items effecting fund balance should be noted:

- Sanitation revenues increased \$24,148 and sales tax revenues increased \$18,288.
- Grant revenues decreased \$762,793.
- The City expended \$58,632 for capital items in the current fiscal period while in the previous fiscal year, \$603,161 was expended for capital assets. This was primarily expenditures of grant funds.
- The City expended grant funds in the amount of \$106,160 to build homes for citizens in the current year.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual revenues were \$7,066 more than final budget amounts and expenditures were \$134,489 below the final budget amounts for the General Fund.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2011, the City had \$8,813,232 invested in a broad range of capital assets, including police, ambulance and fire equipment, buildings, furniture and equipment, streets, water and sewer facilities, and airport land and buildings (see Table A-3). This amount represents a net increase (including additions and deductions) of \$381,043, or 5%, over last year.

This year's major additions amounted to \$381,043:

- \$34,784 was expended for street paving.
- A pickup for the police department was purchased for \$23,848.
- Two vehicles were purchased for the water & sewer department for \$34,561.
- \$247,660 was expended for improvements to a water ground storage tank.
- Well field radios were purchased for \$12,540.
- \$27,650 was spent on improvements to sewer lines.

Table A-3  
Fixed Assets

	Governmental Activities			Business-type Activities				
	2010	Additions	Deletions/ Reclassifications	2011	2010	Additions	Deletions	2011
Land	-	-	-	-	672,558	-	-	672,558
Construction in Progress	-	-	-	-	-	-	-	-
Infrastructure	1,331,021	34,784	-	1,365,805	-	-	-	-
Buildings	554,178	-	-	554,178	802,301	-	-	802,301
Water System	-	-	-	-	1,753,841	260,200	-	2,014,041
Sewer System	-	-	-	-	1,507,614	27,650	-	1,535,264
Vehicles	170,744	23,848	-	194,592	219,119	34,561	-	253,680
Furniture and Equipment	1,420,813	-	-	1,420,813	-	-	-	-
Accumulated Depreciation	(1,161,145)	(153,756)	-	(1,314,901)	(2,182,577)	(134,099)	-	(2,316,676)
Net Capital Assets	2,315,611	(95,124)	-	2,220,487	2,772,856	188,312	-	2,961,168

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 2011, the City had \$49,197 of total debt outstanding. \$11,431 of this is due within one year. The funding for the payment of the capital leases comes from general revenues. More detailed information about the City's long-term debt activity is presented in the notes to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year.

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

The rising cost of employee health insurance as continued to be a major financial concern for several years. Insurance costs for fiscal year 2012 are projected to increase by 5%. The rising cost of fuel and oil has also affected the City by increased cost of goods.

Revenues are expected to be \$544,230 more than fiscal year 2011. It is projected that General Fund revenues will increase \$522,000 due to grant revenues and water/sewer fund revenues will increase \$20,350.



It is planned that the City's Net Assets at the end of the fiscal year ending September 30, 2012 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 ASSETS  
September 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and Investments	\$ 697,295	\$ 492,091	\$ 1,189,386
Accounts Receivable, net	67,787	132,805	200,592
Taxes Receivable, Net	10,478	-	10,478
Due from Other Governments	772	-	772
Due from Other Funds	-	213,253	213,253
Capital Credits	-	9,714	9,714
<b>Capital Assets:</b>			
Land	-	672,558	672,558
Buildings & Improvements, net	365,279	474,414	839,693
Infrastructure	1,025,310	-	1,025,310
Utility Systems & Equipment, net	-	1,745,860	1,745,860
Furniture & Equipment, net	829,897	68,336	898,233
	<u>\$ 2,996,818</u>	<u>\$ 3,809,031</u>	<u>\$ 6,805,849</u>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 12,629	\$ 14,668	\$ 27,297
Accrued Wages	5,674	4,643	10,317
Due to Other Funds	213,253	-	213,253
<b>Noncurrent Liabilities:</b>			
Customer Deposits	-	53,499	53,499
Due within one year	11,431	-	11,431
Due in more than one year	37,766	-	37,766
	<u>\$ 280,753</u>	<u>\$ 72,810</u>	<u>\$ 353,563</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,171,289	\$ 2,961,168	\$ 5,132,457
Unrestricted	544,776	775,053	1,319,829
<u>Total Net Assets</u>	<u>\$ 2,716,065</u>	<u>\$ 3,736,221</u>	<u>\$ 6,452,286</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>			
	<u>\$ 2,996,818</u>	<u>\$ 3,809,031</u>	<u>\$ 6,805,849</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY  
Abernathy, Texas

STATEMENT OF ACTIVITIES  
Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Government Activities:</b>							
City Hall	\$ 98,004	\$ 23,410	\$ -	\$ -	\$ (74,594)	-	(74,594)
Legislative	2,584	-	-	-	(2,584)	-	(2,584)
Administrative	159,556	-	-	-	(159,556)	-	(159,556)
Sanitation	178,282	276,797	-	-	98,515	-	98,515
Streets	138,907	-	-	-	(138,907)	-	(138,907)
Fire	84,704	-	25,248	-	(59,456)	-	(59,456)
Police	258,313	-	-	-	(258,313)	-	(258,313)
Library	21,632	836	9,228	-	(11,568)	-	(11,568)
Ambulance	153,815	135,111	92,473	-	73,769	-	73,769
Judicial	22,329	33,645	-	-	11,316	-	11,316
Parks	75,832	-	-	-	(75,832)	-	(75,832)
Interest on Long-Term Debt	3,688	-	-	-	(3,688)	-	(3,688)
Homes for Citizens	106,160	-	99,469	-	(6,691)	-	(6,691)
<b>Total Government Activities</b>	<b>\$ 1,303,806</b>	<b>\$ 469,799</b>	<b>\$ 226,418</b>	<b>\$ -</b>	<b>\$ (607,589)</b>	<b>\$ -</b>	<b>\$ (607,589)</b>
<b>Business-type Activities</b>							
Water and Sewer	\$ 660,618	\$ 760,167	\$ -	\$ -	\$ -	\$ 99,549	\$ 99,549
Airport	15,633	16,112	-	-	-	479	479
<b>Total Business-Type Activities</b>	<b>\$ 676,251</b>	<b>\$ 776,279</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 100,028</b>	<b>\$ 100,028</b>
<b>Total Primary Government</b>	<b>\$ 1,980,057</b>	<b>\$ 1,246,078</b>	<b>\$ 226,418</b>	<b>\$ -</b>	<b>\$ (607,589)</b>	<b>\$ 100,028</b>	<b>\$ (507,561)</b>
<b>General Revenues</b>							
Property Taxes, Levied for General Purpose					401,703	-	401,703
Nonproperty Taxes:					268,660	-	268,660
Investment Earnings					6,182	5,964	12,146
Licenses and Permits					2,890	-	2,890
Miscellaneous					4,965	31,137	36,102
<b>Total General Revenue</b>					<b>684,400</b>	<b>37,101</b>	<b>721,501</b>
Change in Net Assets					76,811	137,129	213,940
Net Assets -- Beginning					2,639,254	3,599,092	6,238,346
Net Assets -- Ending					<b>\$ 2,716,065</b>	<b>\$ 3,736,221</b>	<b>\$ 6,452,286</b>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY  
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS  
September 30, 2011

	General Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash	\$ 233,920	\$ 233,920
Certificates of Deposit	463,375	463,375
Property Taxes Receivable, net	10,478	10,478
Accounts Receivable	67,787	67,787
Due from Other Governments	772	772
	<u>772</u>	<u>772</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 776,332</u></b>	<b><u>\$ 776,332</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 12,629	\$ 12,629
Accrued Wages	5,674	5,674
Due to Other Funds	213,253	213,253
Deferred Revenues	10,478	10,478
<b><u>Total Liabilities</u></b>	<b><u>242,034</u></b>	<b><u>242,034</u></b>
<b>FUND EQUITIES</b>		
Fund Balance-Unassigned	<u>534,298</u>	<u>534,298</u>
<b><u>Total Fund Equities</u></b>	<b><u>534,298</u></b>	<b><u>534,298</u></b>
<b><u>TOTAL LIABILITIES &amp; FUND EQUITIES</u></b>	<b><u>\$ 776,332</u></b>	<b><u>\$ 776,332</u></b>

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 ASSETS  
September 30, 2011

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 534,298
Amounts reported for governmental activities in the statement of net assets (A-1) are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	10,478
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,220,486
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(49,197)</u>
Net Assets of Governmental Activities -- Statement of Net Assets	<u>\$ 2,716,065</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, 2011

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>		
Property Taxes (Including Penalty & Interest)	\$ 397,888	\$ 397,888
Sales Taxes	163,006	163,006
Franchise Taxes	105,654	105,654
Licenses and Permits	2,890	2,890
Leases and Rents	23,410	23,410
Court Fees	33,645	33,645
Fire	25,248	25,248
Mosquito Spraying	16,235	16,235
Interest Income	6,182	6,182
Ambulance	227,584	227,584
Sanitation	260,563	260,563
Library	10,064	10,064
Grant Revenues	99,469	99,469
Miscellaneous	4,965	4,965
<u>Total Revenues</u>	<u>1,376,803</u>	<u>1,376,803</u>
<b>EXPENDITURES</b>		
Current		
City Hall	88,716	88,716
Legislative	2,584	2,584
Administrative	147,083	147,083
Sanitation Department	176,324	176,324
Streets	121,236	121,236
Fire Department	66,537	66,537
Police Department	256,903	256,903
Library	21,632	21,632
Ambulance	147,764	147,764
Judicial	22,329	22,329
Parks	47,726	47,726
Homes for Citizens	106,160	106,160
Principal on Long-Term Debt	26,566	26,566
Interest on Long-Term Debt	3,688	3,688
<u>Total Expenditures</u>	<u>1,235,248</u>	<u>1,235,248</u>
Excess of Revenues Over (Under) Expenditures	141,555	141,555
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	-	-
Transfers Out	-	-
<u>Total Other Sources (Uses)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	141,555	141,555
Fund Balance--Beginning of Year	<u>392,743</u>	<u>392,743</u>
<u>Fund Balance--End of Year</u>	<u>\$ 534,298</u>	<u>\$ 534,298</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, 2011

Net Change in Fund Balances -- Total Governmental Funds	\$ 141,555
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.	58,632
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(153,756)
Certain property tax revenues are deferred 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.	3,814
Repayment of debt principal is an expenditure in the governmental funds, but a reduction of long-term debt in the statement of net assets. This amount is the total debt principal repaid on long-term debt.	<u>26,566</u>
Change in Net Assets -- Statement of Activities	<u>\$ 76,811</u>

The accompanying notes are an integral part of this statement.



CITY OF ABERNATHY  
Abernathy, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
September 30, 2011

	Proprietary Funds		
	Water and Sewer	Airport	Total
<b>ASSETS</b>			
<u>Current Assets:</u>			
Cash and Investments	\$ 416,271	\$ 75,820	\$ 492,091
Accounts Receivable	133,918	-	133,918
Allowance for Uncollectible	(1,113)	-	(1,113)
Due from Other Funds	225,436	-	225,436
<u>Total Current Assets</u>	<u>\$ 774,512</u>	<u>\$ 75,820</u>	<u>\$ 850,332</u>
<u>Noncurrent Assets:</u>			
Capital Credits	\$ 9,714	\$ -	\$ 9,714
Land	456,321	216,237	672,558
Vehicles & Equipment (net of depreciation)	2,070,678	217,932	2,288,610
<u>Total Fixed Assets</u>	<u>\$ 2,536,713</u>	<u>\$ 434,169</u>	<u>\$ 2,970,882</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 3,311,225</u>	 <u>\$ 509,989</u>	 <u>\$ 3,821,214</u>
 <b>LIABILITIES &amp; NET ASSETS</b>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 14,422	\$ 246	\$ 14,668
Accrued Wages	4,643	-	4,643
Due to Other Funds	-	12,183	12,183
<u>Total Current Liabilities</u>	<u>\$ 19,065</u>	<u>\$ 12,429</u>	<u>\$ 31,494</u>
<u>Other Liabilities</u>			
Customer Deposits	\$ 52,999	\$ 500	\$ 53,499
<u>Total Other Liabilities</u>	<u>\$ 52,999</u>	<u>\$ 500</u>	<u>\$ 53,499</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,526,999	\$ 434,169	\$ 2,961,168
Unrestricted	712,162	62,891	775,053
<u>Total Net Assets</u>	<u>\$ 3,239,161</u>	<u>\$ 497,060</u>	<u>\$ 3,736,221</u>
 <u>TOTAL LIABILITIES &amp; NET ASSETS</u>	 <u>\$ 3,311,225</u>	 <u>\$ 509,989</u>	 <u>\$ 3,821,214</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 ASSETS--  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2011

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Operating Revenues</u>			
Water Revenue	\$ 575,323	\$ -	\$ 575,323
Sewer Revenue	138,728	-	138,728
Water/Sewer Permits	8,095	-	8,095
Reconnect and Late Fees	38,021	-	38,021
Rental Income	-	16,112	16,112
<u>Total Operating Revenues</u>	<u>760,167</u>	<u>16,112</u>	<u>776,279</u>
<u>Operating Expenses</u>			
Salaries	232,163	-	232,163
Payroll Taxes	16,359	-	16,359
Retirement Costs	16,614	-	16,614
Supplies	37,215	-	37,215
Repairs & Maintenance	71,237	500	71,737
Utilities & Fuel	86,034	1,846	87,880
Insurance	55,843	1,021	56,864
Professional Fees	9,073	-	9,073
Miscellaneous	14,247	-	14,247
Depreciation	121,833	12,266	134,099
<u>Total Operating Expenses</u>	<u>660,618</u>	<u>15,633</u>	<u>676,251</u>
<u>Operating Income (Loss)</u>	<u>99,549</u>	<u>479</u>	<u>100,028</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	5,287	677	5,964
Miscellaneous Income	31,137	-	31,137
Interest Expense	-	-	-
<u>Total Non-Operating Revenues (Expenses)</u>	<u>36,424</u>	<u>677</u>	<u>37,101</u>
Change in Net Assets	135,973	1,156	137,129
NET ASSETS			
Net Assets, Beginning of Year	<u>3,103,188</u>	<u>495,904</u>	<u>3,599,092</u>
Net Assets, End of Year	<u>3,239,161</u>	<u>497,060</u>	<u>3,736,221</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, 2011

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers	\$ 771,355	\$ 16,112	\$ 787,467
Payments to Suppliers	(270,296)	(3,121)	(273,417)
Payments to Employees	(264,828)	-	(264,828)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>236,231</u>	<u>12,991</u>	<u>249,222</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Payments on Interfund Balances	12,977	-	12,977
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>12,977</u>	<u>-</u>	<u>12,977</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>			
Acquisition of Fixed Assets	(322,411)	-	(322,411)
<u>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</u>	<u>(322,411)</u>	<u>-</u>	<u>(322,411)</u>
<u>Cash Flows from Investing Activities</u>			
Interest Earned on Investments	5,287	677	5,964
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>5,287</u>	<u>677</u>	<u>5,964</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(67,916)	13,668	(54,248)
Cash & Cash Equivalents--Beginning of Year	484,187	62,152	546,339
<u>Cash &amp; Cash Equivalents--End of Year</u>	<u>416,271</u>	<u>75,820</u>	<u>492,091</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	99,549	479	100,028
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:			
Depreciation	121,833	12,266	134,099
Miscellaneous Revenues	31,137	-	31,137
(Increase) Decrease in Receivables	(22,633)	-	(22,633)
Increase (Decrease) in Liabilities	6,345	246	6,591
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>236,231</u>	<u>12,991</u>	<u>249,222</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS  
September 30, 2011

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. The City's major operations include 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 financial statements of the City of Abernathy have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 assets 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.

The statement of activities presents a comparison between direct expenses and program revenues 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.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2  
September 30, 2011

Note A: Summary of Significant Accounting Policies (Continued)

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.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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.

c. Fund Balance Classification

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

The District would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds. As of September 30, 2011, the City only has unassigned fund balances.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3  
September 30, 2011

Note A: Summary of Significant Accounting Policies--Continued

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

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1<sup>st</sup> 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 1<sup>st</sup> of the year following the year in which imposed. On January 1<sup>st</sup> 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, 2011, the amount deemed uncollectible by this estimate was \$34,306. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4  
September 30, 2011

Note A: Summary of Significant Accounting Policies (continued)

b. 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.

c. 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	40
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3

d. Receivable and Payable Balances

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

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

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5  
September 30, 2011

Note A: Summary of Significant Accounting Policies (continued)

e. 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 assets.

f. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

Note C: Deposits and Investments

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



CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6  
September 30, 2011

Note C: Deposits and Investments (continued)

Cash Deposits

At September 30, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,189,386 and the bank balance was \$1,251,284. The City's cash deposits at September 30 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. In the month of February 2011, the City's cash deposits were not entirely covered by FDIC insurance or by pledged collateral.

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

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

The City's investments at September 30, 2011 included certificates of deposit (\$924,695).

Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7  
September 30, 2011

Note C: Deposits and Investments (continued)

b. Custodial Credit Risk

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

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

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8  
September 30, 2011

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2011, was as follows:

<b>Governmental Activities:</b>	Balance <u>10-1-10</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-11</u>
Buildings	\$ 554,178	-	-	\$ 554,178
Construction in Progress	-	-	-	-
City Park	574,692	-	-	574,692
Street Paving	1,331,022	34,783	-	1,365,805
Vehicles	170,744	23,848	-	194,592
Furniture & Equipment	<u>846,120</u>	<u>-</u>	<u>-</u>	<u>846,120</u>
Total Capital Assets	<u>\$ 3,476,756</u>	<u>\$ 58,631</u>	<u>\$ -</u>	<u>\$ 3,535,387</u>
 <u>Less Accumulated Depreciation:</u>				
Buildings	\$ 176,071	\$ 12,829	-	\$ 188,900
City Park	104,084	28,106	-	132,190
Street Paving	294,903	45,591	-	340,494
Vehicles	115,979	25,258	-	141,237
Furniture & Equipment	<u>470,108</u>	<u>41,972</u>	<u>-</u>	<u>512,080</u>
Total Accumulated Depreciation	<u>\$ 1,161,145</u>	<u>\$ 153,756</u>	<u>\$ -</u>	<u>\$ 1,314,901</u>
Net Capital Assets	<u>\$ 2,315,611</u>	<u>\$ (95,125)</u>	<u>\$ -</u>	<u>\$ 2,220,486</u>
 <b>Business-Type Activities:</b>				
<b><u>Water &amp; Sewer</u></b>	Balance <u>10-1-10</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-11</u>
Land	\$ 456,321	-	-	\$ 456,321
Buildings	319,552	-	-	319,552
Water System	1,753,841	260,200	-	2,014,041
Sewer System	1,507,615	27,650	-	1,535,265
Vehicles	<u>219,119</u>	<u>34,561</u>	<u>-</u>	<u>253,680</u>
Total Capital Assets	<u>\$ 4,256,448</u>	<u>\$322,411</u>	<u>\$ -</u>	<u>\$ 4,578,859</u>

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9  
September 30, 2011

Note D: Capital Assets (continued)

<u>Less Accumulated</u> <u>Depreciation:</u>	Balance <u>10-1-10</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-11</u>
Buildings	\$ 54,796	\$ 8,275	-	\$ 63,071
Water System	832,500	48,316	-	880,816
Sewer System	882,727	39,902	-	922,629
Vehicles	<u>160,004</u>	<u>25,340</u>	<u>-</u>	<u>185,344</u>
Total Accumulated Depreciation	<u>\$ 1,930,027</u>	<u>\$ 121,833</u>	<u>\$ -</u>	<u>\$2,051,860</u>
Net Capital Assets	<u>\$ 2,326,421</u>	<u>\$ 200,578</u>	<u>\$ -</u>	<u>\$2,526,999</u>

**Business-Type**

<u>Activities:</u> <u>Airport</u>	Balance <u>10-1-10</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-11</u>
Land	\$ 216,237	-	-	\$ 216,237
Buildings and Improvements	<u>482,749</u>	<u>-</u>	<u>-</u>	<u>482,749</u>
Total Capital Assets	<u>\$ 698,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 698,986</u>

<u>Less Accumulated</u> <u>Depreciation:</u>	Balance <u>10-1-10</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-11</u>
Buildings and Improvements	\$ 252,551	<u>12,266</u>	<u>-</u>	<u>264,817</u>
Net Capital Assets	<u>\$ 446,435</u>	<u>\$ ( 12,266)</u>	<u>\$ -</u>	<u>\$ 434,169</u>

Depreciation was charged to functions as follows:

City Hall	\$ 9,288
Administration	12,473
Sanitation	1,958
Streets	52,455
Fire	18,168
Police	25,258
Ambulance	6,051
Parks	28,106
Water & Sewer	121,833
Airport	<u>12,266</u>
	<u>\$287,856</u>

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10  
September 30, 2011

Note E: Loans

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

During the year ended September 30, 2007, the City financed \$89,827 for the purchase of a Firestar Pumper. Terms of the lease include an interest rate of 4.9% for eight annual installments of \$13,842 with the first installment due May 1, 2008. This note was paid off in the current period.

During the year ended September 30, 2007, the City financed \$74,950 for the purchase of a Street Grader. Terms of the lease include an interest rate of 4.75% for five annual installments of \$16,413 with the first installment due January 1, 2007.

Changes in long-term obligations for the year ended September 30, 2011 are as follows:

<u>Governmental Funds:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases:					
Pumper Truck	60,094	-	10,897	49,197	11,431
Street Grader	<u>15,668</u>	<u>-</u>	<u>15,668</u>	<u>-</u>	<u>-</u>
<u>Total Governmental Funds:</u>	<u>\$ 75,762</u>	<u>\$ -</u>	<u>\$ 26,565</u>	<u>\$ 49,197</u>	<u>\$ 11,431</u>

Debt service requirements on long-term debt at September 30, 2011 are as follows:

Year Ending September 30,	<u>Governmental Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 11,431	\$ 2,410	\$ 13,841
2013	11,992	1,850	13,842
2014	12,579	1,263	13,842
2015	<u>13,195</u>	<u>647</u>	<u>13,842</u>
Total	<u>\$ 49,197</u>	<u>\$ 6,170</u>	<u>\$ 55,367</u>

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11  
September 30, 2011

Note F: Pension Plan

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

Upon retirement, benefits depend on the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an Updated Service Credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming that the current deposit rate of the City has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation. At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three lifetime survivor options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12  
September 30, 2011

Note F: Pension Plan (continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. New actuarial cost method and assumptions were adopted by the TMRS Board of Trustees at their December, 2007 meeting, effective for the 12/31/2007 valuation. Plan provisions for the City were as follows for the plan/calendar years ended December 31, 2009, 2010, and 2011:

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

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

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate, using the Projected Unit Credit actuarial cost method (effective with the December 31, 2009 actuarial valuation). This rate consists of the normal cost contribution rate and the prior service cost contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The City's retirement contribution rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll for year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as Updated Service Credit and Annuity Increases. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the city matching percentage.

CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13  
September 30, 2011

Note F: Pension Plan (continued)

Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010 valuation is effective for rates beginning January 2011).

Actuarial Information

	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent	Level percent	Level Percent
	Of payroll	Of payroll	Of payroll
Amortization period	24 years-	23.2 years-	21.7 years-
	Closed period	Closed period	Closed period
Asset valuation method	Amortized cost	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.5%	7.5%	7.0%
Projected salary increases	Varies by age And service	Varies by age And service	Varies by age And service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.9%	0.9%	0.9%

Schedule of Funding Information

Actuarial Valuation Date	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$380,203	\$435,509	\$ 732,144
Actuarial Accrued Liability (AAL)	608,864	687,713	858,444
Unfunded (Over-funded)			
Actuarial Accrued Liability (UAAL)	228,661	252,204	126,300
Funded Ratio	62.4%	63.3%	85.3%
Annual Covered Payroll	422,397	481,410	483,756
UAAL as a Percentage of Covered Payroll	54.1%	52.4%	26.1%

The City's pension plan contributions to TMRS for the years ended September 30, 2011, 2010, and 2009 were \$35,762, \$35,042, and \$30,292, respectively.

The City of Abernathy is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. At its December 2010 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2010. A summary of actuarial assumptions and definitions can be found in the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.



CITY OF ABERNATHY  
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14  
September 30, 2011

Note G: Supplemental Death Benefits Plan

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

The City is one of 714 entities participating in the Supplemental Death Benefits Fund. The City offers this benefit to active employees and retirees. For the year ended September 30, 2011, the City's contributions to the SDBF were \$1,900 which equaled the required contributions.

Note H: Litigation

There was no litigation pending or in progress against the City at September 30, 2011.

*REQUIRED SUPPLEMENTARY INFORMATION*

CITY OF ABERNATHY  
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Fiscal Year Ended September 30, 2011

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 385,600	\$ 395,600	\$ 397,888	\$ 2,288
Sales Taxes	129,000	159,000	163,006	4,006
Franchise Taxes	110,000	110,000	105,654	(4,346)
Licenses and Permits	4,000	4,000	2,890	(1,110)
Leases and Rents	20,000	20,000	23,410	3,410
Court Fees	20,500	30,157	33,645	3,488
Fire	25,000	25,000	25,248	248
Mosquito Spraying	16,000	16,000	16,235	235
Interest Income	8,900	8,900	6,182	(2,718)
Ambulance	227,000	227,000	227,584	584
Sanitation	255,300	255,300	260,563	5,263
Library	5,000	5,000	10,064	5,064
Grant Revenues	200,000	110,000	99,469	(10,531)
Miscellaneous	3,780	3,780	4,965	1,185
<u>Total Revenues</u>	<u>1,410,080</u>	<u>1,369,737</u>	<u>1,376,803</u>	<u>7,066</u>
<u>Expenditures</u>				
<u>Current</u>				
City Hall	127,470	127,470	88,716	38,754
Legislative	7,750	7,750	2,584	5,166
Administrative	148,754	148,754	147,083	1,671
Sanitation Department	199,200	199,200	176,324	22,876
Streets	104,418	125,931	121,236	4,695
Fire Department	57,823	62,119	66,537	(4,418)
Police Department	267,025	290,873	256,903	33,970
Library	21,849	21,849	21,632	217
Ambulance	164,700	164,700	147,764	16,936
Judicial	21,659	21,659	22,329	(670)
Parks	59,178	59,178	47,726	11,452
Homes for Citizens	200,000	110,000	106,160	3,840
Principal on Long-Term Debt	26,566	26,566	26,566	-
Interest on Long-Term Debt	3,688	3,688	3,688	-
<u>Total Expenditures</u>	<u>1,410,080</u>	<u>1,369,737</u>	<u>1,235,248</u>	<u>134,489</u>
Net Change in Fund Balances	-	-	141,555	141,555
Fund Balance, Beginning of Year	<u>392,743</u>	<u>392,743</u>	<u>392,743</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ 392,743</u>	<u>\$ 392,743</u>	<u>\$ 534,298</u>	<u>\$ 141,555</u>

*OTHER SUPPLEMENTARY INFORMATION*

CITY OF ABERNATHY  
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended September 30, 2011

Years Ended September 30	Balance 10/01/10	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/11
2002 and Prior	\$ 3,775	\$ -	\$ 109	\$ -	\$ 3,666
2003	1,048	-	73	-	975
2004	2,101	-	302	-	1,799
2005	1,923	-	431	-	1,492
2006	2,041	-	239	-	1,802
2007	2,760	-	640	-	2,120
2008	4,098	-	1,417	-	2,681
2009	7,197	-	2,219	-	4,978
2010	13,567	-	5,253	(58)	8,256
2011	<u>-</u>	<u>399,476</u>	<u>383,339</u>	<u>878</u>	<u>17,015</u>
<u>Totals</u>	<u>\$ 38,510</u>	<u>\$ 399,476</u>	<u>\$ 394,022</u>	<u>\$ 820</u>	<u>\$ 44,784</u>

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## Independent Auditors' Report

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

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

We have audited the financial statements of the governmental activities, each major fund, the business-type activities, and the aggregate remaining fund information of the City of Abernathy, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City of Abernathy's basic financial statements and have issued our report thereon dated January 5, 2012. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Abernathy's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

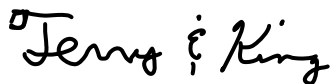


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Abernathy's financial statements are free of 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*.

This report is intended solely for the information and use of management, City Council, federal awarding agencies and pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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

Terry & King, CPAs, P.C.  
January 5, 2012

CITY OF ABERNATHY  
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2011

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> Reported None
Noncompliance material to financial Statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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, 2011

<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, 2011

Not Applicable – None Required