

CITY OF ABERNATHY, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2006

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

**CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS**



CITY OF ABERNATHY, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2006

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ABERNATHY, TEXAS

**MAYOR AND CITY COUNCIL
SEPTEMBER 30, 2006**

O.C. "Hoppy" Toler

Mayor

Elias Vecchio

Mayor Pro Tem

Colleen Cecil

Council Member

Victor Cavazos

Council Member

Kelly Ticer

Council Member

Darrell Stephens

Council Member

CITY OF ABERNATHY, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Management's Discussion and Analysis (Required Supplementary Information)		3
<u>Financial Statements</u>		
Statement of Net Assets	Exhibit 1	9
Statement of Activities	Exhibit 2	10
Balance Sheet – Governmental Funds	Exhibit 3	11
Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances – General Fund Type	Exhibit 4	12
Statement of Net Assets – Proprietary Funds	Exhibit 5	13
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	Exhibit 6	14
Statement of Cash Flows – Proprietary Funds	Exhibit 7	15
Notes to Financial Statements		16
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund	RSI-1	27
ADDITIONAL SCHEDULES		
General Fund – Schedule of Expenditures by Department	Schedule 1	28
Water and Sewer Fund – Schedule of Operating Expenses by Department	Schedule 2	29
Water and Sewer Fund – Schedule of Debt Principal and Interest Requirements to Maturity	Schedule 3	30
Schedule of Changes in Delinquent Taxes Receivable	Schedule 4	31
Schedule of Investments	Schedule 5	32

CITY OF ABERNATHY, TEXAS
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

TABLE OF CONTENTS (CONTINUED)

	Page <u>No.</u>
INTERNAL CONTROL AND COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	33

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

certified public accountants

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 Nashville Avenue

LUBBOCK, TEXAS 79423

INDEPENDENT AUDITORS' REPORT

Honorable O.C. "Hoppy" Toler, Mayor
and Members of the City Council
City of Abernathy, Texas

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, 2006, 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 of Abernathy, Texas' 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 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 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, 2006, 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 November 16, 2006, on our consideration of the City'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.

The Management's discussion and analysis and budgetary comparison information on pages 3-8 and 25, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Abernathy, Texas' basic financial statements. The additional schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional schedules as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 16, 2006

CITY OF ABERNATHY
MANAGEMENT'S DISCUSSION AND ANALYSIS

November 16, 2006

Honorable Mayor, City Council Members and Citizens of the City of Abernathy, Texas,

This section of Abernathy's annual financial report presents our discussion and analysis of the City of Abernathy's financial performance during the fiscal year that ended on September 30, 2006. Please read it in conjunction with the City's financial statements and independent auditors' report.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,064,696 (net assets) as compared to \$4,887,151 for the previous fiscal year. Of this amount, \$1,006,302 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$177,545 as a result of this year's operations as compared to an increase of \$391,325 in the previous year.

During the year ended September 30, 2006 and 2005, the City's expenses were \$1,960,258 and \$1,513,672, respectively, compared to \$2,137,803 and \$1,904,997 generated in taxes and other revenues.

The balance of cash and investments at September 30, 2006 and 2005, were \$953,968 and \$985,500, respectively.

Expenditures

Total fund expenditures for the year ending September 30, 2006, compared with the year ending September 30, 2005, are as follows:

Expenditures			
<u>Fund</u>	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>
General Fund	\$ 1,527,559	\$ 1,289,483	\$ 238,076
Water/Sewer Fund	582,156	563,258	18,898
Airport Fund	<u>18,854</u>	<u>49,780</u>	<u>(30,926)</u>
Total	\$ <u>2,128,569</u>	\$ <u>1,902,521</u>	\$ <u>226,048</u>

The increase in General Fund expenditures is largely attributable to the Home grant expenditures.

Revenues

The City's revenues for were up for the year ending September 30, 2006, when compared with the year ending September 30, 2005. Year-end revenue totals are as follows:

Revenues			
<u>Fund</u>	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>
General Fund	\$ 1,518,388	\$ 1,117,267	\$ 401,121
Water/Sewer Fund	620,803	757,831	(137,028)
Airport Fund	<u>4,426</u>	<u>31,912</u>	<u>(27,486)</u>
Total	<u>\$ 2,143,617</u>	<u>\$ 1,907,010</u>	<u>\$ 236,607</u>

The increase in Fund revenues is largely attributable to grant revenues received for Home grant expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements provide narrative explanations and additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Reporting the City as a Whole

Government-Wide Financial Statements

The analysis of the City's overall financial condition and operations is presented in the Statement of Net Assets and the Statement of Activities. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of 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. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's infrastructure, its property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City is reporting its governmental activities which include water, sewer, vector control (mosquito spraying) and garbage collection.

Reporting the City's Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two fund types – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City's basic services are included in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following the fund financial statements.
- Proprietary funds – The City's business activities such as water sales, sewer services, and airport operations are included in proprietary funds. These also use modified accrual accounting in reconciliation schedules following the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Changes in Net Assets

Net assets of the City's governmental and business-type activities increased from \$4,887,151 in 2005 to \$5,064,696 in 2006. 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 – increased from \$843,623 to \$1,006,302.

Table I
City of Abernathy, Texas
NET ASSETS

	September 30,	
	2006	2005
Current and Other Assets	\$ 1,265,845	\$ 1,308,793
Capital Assets	4,317,082	4,231,937
Total Assets	\$ 5,582,927	\$ 5,540,730
Current Liabilities	\$ 306,671	\$ 326,637
Long-Term Liabilities	211,560	326,942
Total Liabilities	\$ 518,231	\$ 653,579
Net Assets:		
Invested in Capital Assets		
Net of Related Debt	\$ 3,990,140	\$ 3,781,754
Restricted	68,254	261,774
Unrestricted	1,006,302	843,623
Total Net Assets	\$ 5,064,696	\$ 4,887,151

Table II
City of Abernathy, Texas
CHANGES IN NET ASSETS

	September 30,	
	2006	2005
Revenues:		
Program Revenues:		
Charges for Services	\$ 966,590	\$ 866,324
Operating Grants and Contributions	356,126	43
Capital Grants and Contributions	179,425	485,830
General Revenues:		
Property Taxes	314,806	301,286
Franchise Taxes	110,328	77,229
Sales Taxes	136,816	117,081
Licenses and Permits	4,098	7,350
Investment Earnings	29,927	20,222
Miscellaneous	39,687	29,632
Total Revenue	\$ 2,137,803	\$ 1,904,997
Expenses:		
Primary Government:		
General Government	\$ 620,106	\$ 235,842
Public Safety	252,420	251,285
Public Works	319,777	276,149
Health and Welfare	92,880	70,064
Cultural and Recreation	7,445	7,713
Depreciation	66,620	59,581
Business-type activities:		
Non-Departmental	120,097	106,696
Utility Accounting and Billing	108,395	113,759
Maintenance	353,011	367,488
Interest on Debt	19,507	25,095
Total Expenses	\$ 1,960,258	\$ 1,513,672
Increase in Net Assets	\$ 177,545	\$ 391,325
Net Assets at October 1, 2005	4,887,151	4,495,826
Net Assets at September 30, 2006	\$ 5,064,696	\$ 4,887,151

The City's total revenues increased from to \$1,904,997 in 2005 to \$2,137,803 in 2006, an increase of \$232,806. This increase was attributable to an increase in tax revenues and Home grant revenue. The total expenditures of the City increased by \$446,586 from \$1,513,672 to \$1,960,258, a result of Home grant expenditures and increase in salaries.

Other factors impacting the City's financial position include the following:

- The purchase of vehicles in the Police, EMS, and Water Departments.
- The ongoing work on the Community Park.
- Capital Improvements at the Landfill
- The accelerated rate of demolition of sub-standard structures

Fund Balances

The City's total Governmental Funds fund balance at September 30, 2006 and 2005, was \$236,838 and \$245,837, respectively. This fund balance is reported in the General Fund. The General Fund balance of \$215,258 is available for current spending; however, it has been the practice of the City to try and maintain a fund balance that is at least several months operating expenses. Additionally, the City has designated \$21,580 of this fund balance for future construction of the Community Park.

Budgetary Highlights

Over the course of the year, the City Council revised the City's budget. These budget amendments were necessary to reflect the revised estimates of revenues and expenses. The principal amendment was construction expenditures allowing for various grants the City received during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had \$4,317,082 of capital assets, net of accumulated depreciation. Financial statement footnote 2 discloses the capital asset activity of the City for the fiscal year ending September 30, 2006.

Debt

At the end of 2006, the City had \$326,942 of total debt outstanding. \$115,382 of this is due within one year. The funding for the payment of the capital leases comes from general revenues and funding for the payments on the bonds come from water utilities collected for debt repayment. Financial statement footnote 3 discloses the debt activity of the City for the fiscal year ending September 30, 2006.

FACTORS BEARING ON THE CITY'S FUTURE

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City of Abernathy is a largely residential city that has a commercial section along Interstate 27. Both the City's General and Water/Sewer Funds rely heavily on revenues received from all sectors of the community. Global Pumps and two dairies relocating to the community, will bring a sizable

increase of jobs in our area. This can only strengthen our security that revenues should remain stable in the future.

The General Fund's three largest revenue sources, which are sales tax, property tax and franchise fees, make up 37% of the revenues, and all three have performed well over the last several years. For fiscal year 2006-07, sales tax, property tax, and franchise fees are projected to be \$507,133.

The Water/Sewer Fund's two largest revenue sources, water sales and sewer services, make up 87% of the revenues. For fiscal year 2006-07, water sales and sewer services are projected to be \$542,000.

Property taxes for the City (21% of General Fund revenues) have shown growth in recent years, and this trend is expected to continue in the near future due to a strong residential real estate market. Residential construction continues to increase with single home family dwellings expecting to continue to increase. This will serve a vital role of stimulating local businesses and enhancing the City's economic stability.

Long-term financial planning. While the City's largest revenue sources have shown positive trends over the last several years, total revenues have not increased at the same level as increases in the cost of providing services. This gap between revenues and expenditures is expected to widen in the upcoming years due to increased costs for health insurance premiums, workers compensation, and general liability costs. The City is actively pursuing a number of revenue enhancements to close that gap in future years.

The City will continue to seek out expansion at the Abernathy Municipal Airport. In the past year, the City has had two separate parties locating business operations at the airport and recent interest from another. Any place the City can recapture a portion of the O&M expenses should be given a high priority.

While most of the City's revenue sources have shown positive trends in recent years, the health of the City's budget, like many cities throughout the state, hinges in large part on action at the state level.

Cash management policies and practices. With the change in banking facilities to Security Bank in late 2003, the City has been able to maintain interest bearing checking accounts. This wasn't the case in previous years. The City should continue to explore and take advantage every avenue of maximizing earning capacities of operating capital in a healthy environment.

The City holds a large portion of its portfolio in Certificates of Deposits. Recent economic conditions appear promising. Interest rates have continued to move upwards over the last year. Whether or not the rates will continue to rise remains to be seen.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF ABERNATHY, TEXAS

Exhibit 1

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 16,552	\$ 48,869	\$ 65,421
Investments	387,370	454,503	841,873
Receivables (Net)	204,958	96,140	301,098
Internal Balances		232,345	
Total Current Assets	\$ 608,880	\$ 831,857	\$ 1,208,392
Noncurrent Assets:			
Restricted Cash	\$	\$ 46,674	\$ 46,674
Capital Credits		10,779	10,779
Capital Assets:			
Buildings and Equipment, Net of Depreciation	1,235,492	3,081,590	4,317,082
Total Noncurrent Assets	\$ 1,235,492	\$ 3,139,043	\$ 4,374,535
Total Assets	\$ 1,844,372	\$ 3,970,900	\$ 5,582,927
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 139,836	\$ 6,994	\$ 146,830
Internal Balances	225,745	6,600	
Meter and Other Deposits		44,459	44,459
Current Portion of Long-Term Obligations	5,382	110,000	115,382
Total Current Liabilities	\$ 370,963	\$ 168,053	\$ 306,671
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term Obligations	11,560	200,000	211,560
Total Liabilities	\$ 382,523	\$ 368,053	\$ 518,231
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 1,218,550	\$ 2,771,590	\$ 3,990,140
Restricted for:			
Debt Service		46,674	46,674
City Park	21,580		21,580
Unrestricted (Deficit)	221,719	784,583	1,006,302
Total Net Assets	\$ 1,461,849	\$ 3,602,847	\$ 5,064,696

See accompanying notes to financial statements.

CITY OF ABERNATHY, TEXAS

Exhibit 2

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2006

Net (Expense) Revenue Primary Government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
City Hall	\$ 462,077	\$ 19,930	\$ 346,450	\$	\$ (95,697)	\$ (95,697)
Legislative	2,442				(2,442)	(2,442)
Administrative	113,350				(113,350)	(113,350)
Sanitation	223,471	182,436		4,450	(36,585)	(36,585)
Streets	96,306				(96,306)	(96,306)
Fire	50,084	26,347			(23,737)	(23,737)
Police	202,336				(202,336)	(202,336)
Library	5,500				(5,500)	(5,500)
Ambulance	92,880	145,733		15,065	67,918	67,918
Judicial	42,237	29,441	9,676		(3,120)	(3,120)
Parks	1,945			143,417	141,472	141,472
Depreciation	66,620				(66,620)	(66,620)
Total Governmental Activities	\$ 1,359,248	\$ 403,887	\$ 356,126	\$ 162,932	\$ (436,303)	\$ (436,303)
Business-Type Activities:						
Non-Departmental	\$ 120,097	\$ 107,692	\$	3,156	\$ (9,249)	\$ (9,249)
Utility Accounting and Billing	108,395	107,059		3,138	1,802	1,802
Maintenance	353,011	347,952		10,199	5,140	5,140
Interest on Debt	19,507				(19,507)	(19,507)
Total Business-Type Activities	\$ 601,010	\$ 562,703	\$ 0	\$ 16,493	\$ (21,814)	\$ (21,814)
Total Primary Government	\$ 1,960,258	\$ 966,590	\$ 356,126	\$ 179,425	\$ (436,303)	\$ (458,117)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes Including Penalties					\$ 314,806	\$ 314,806
Franchise Taxes					110,328	110,328
Sales Taxes					136,816	136,816
Licenses and Permits					4,098	4,098
Unrestricted Investment Earnings					13,667	16,260
Miscellaneous					9,914	29,773
Total General Revenues and Special Items					\$ 589,629	\$ 635,662
Change in Net Assets					153,326	24,219
Net Assets—Beginning					1,308,523	3,578,628
Net Assets—Ending					\$ 1,461,849	\$ 3,602,847

See accompanying notes to financial statements.

CITY OF ABERNATHY, TEXAS

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	<u>General Fund</u>
ASSETS	
Cash	\$ 16,552
Certificates of Deposit	387,370
Accounts Receivable (Less Provision for Uncollectibles of \$3,450)	198,497
Delinquent Taxes Receivable (Net of Allowance for Uncollectibles of \$24,463)	<u>6,461</u>
Total Assets	<u>\$ 608,880</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 139,836
Deferred Revenue - Property Taxes	6,461
Due to Other Funds	<u>225,745</u>
Total Liabilities	<u>\$ 372,042</u>
FUND EQUITY	
Reserved For:	
City Park	\$ 21,580
Unreserved	<u>215,258</u>
Total Fund Balance	<u>\$ 236,838</u>

Amounts reported for governmental activities in the
statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Net of accumulated depreciation)	1,235,492
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds.	(16,942)
Deferred property tax revenue is recognized in fund above but not in the statement of net assets.	<u>6,461</u>
Net assets of governmental activities	<u>\$ 1,461,849</u>

See accompanying notes to financial statements.

-12-
CITY OF ABERNATHY, TEXAS

Exhibit 4

**STATEMENT OF GOVERNMENTAL FUNDS REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
- GENERAL FUND TYPE
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	General Fund
REVENUE	
Property Taxes	\$ 293,339
City Sales Taxes	136,816
Penalties	27,453
Franchise Taxes	110,328
Licenses and Permits	4,098
Leases and Rents	19,930
Court Fees	29,441
Fire Calls	26,347
Mosquito Spraying	10,470
Interest Income	13,667
Ambulance Calls	145,733
Sanitation Revenue	171,966
Grant Revenue	519,058
Miscellaneous Revenue	9,742
Total Revenue	<u>\$ 1,518,388</u>
 EXPENDITURES	
City Hall	\$ 472,960
Legislative	2,442
Administrative	113,350
Sanitation Department	223,471
Streets	96,306
Fire Department	63,192
Police Department	202,336
Library	5,500
Ambulance	123,746
Judicial	42,237
Parks	182,019
Total Expenditures	<u>\$ 1,527,559</u>
 Excess of Expenditures Over Revenues	 \$ (9,171)
 OTHER FINANCING SOURCES (USES)	
Sale of Property	<u>172</u>
 Net Change in Fund Balance	 <u><u>\$ (8,999)</u></u>

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

Governmental funds report capital outlay as expenditures. However, the statement of activities reports these as assets that are depreciated over their useful lives.	216,690
Depreciation is recorded in the statement of activities as an expense but not in governmental funds.	(66,620)
Principal payments are recorded as expenditures in governmental funds but excluded in the statement of activities.	18,241
Deferred revenue is not recorded in the statements of net assets thus the change is excluded in activities.	<u>(5,986)</u>
Change in net assets of governmental activities	<u><u>\$ 153,326</u></u>

See accompanying notes to financial statements.

CITY OF ABERNATHY, TEXAS

Exhibit 5

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Proprietary Funds		
	Water & Sewer	Airport	Total
ASSETS			
Current Assets:			
Cash	\$ 43,740	\$ 5,129	\$ 48,869
Investments	424,393	30,110	454,503
Accounts Receivable (Less Provision for Uncollectibles of \$2,934)	96,140		96,140
Due (to) from Other Funds	232,345		232,345
Total Current Assets	<u>\$ 796,618</u>	<u>\$ 35,239</u>	<u>\$ 831,857</u>
Noncurrent Assets:			
Restricted Cash	\$ 46,674	\$	\$ 46,674
Capital Credits	10,779		10,779
Fixed Assets (Net of Depreciation)	2,611,344	470,246	3,081,590
Total Noncurrent Assets	<u>\$ 2,668,797</u>	<u>\$ 470,246</u>	<u>\$ 3,139,043</u>
Total Assets	<u>\$ 3,465,415</u>	<u>\$ 505,485</u>	<u>\$ 3,970,900</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 4,823	\$	\$ 4,823
Due to Other Funds		6,600	6,600
Meter Deposits	43,959		43,959
Deferred Lease Deposit		500	500
Accrued Interest	2,171		2,171
Current Portion of Bonds Payable	70,000		70,000
Current Portion of Certificates of Obligation	40,000		40,000
Total Current Liabilities	<u>\$ 160,953</u>	<u>\$ 7,100</u>	<u>\$ 168,053</u>
Noncurrent Liabilities:			
Bonds Payable	\$ 75,000	\$	\$ 75,000
Certificates of Obligation	125,000		125,000
Total Noncurrent Liabilities	<u>\$ 200,000</u>	<u>\$ 0</u>	<u>\$ 200,000</u>
Total Liabilities	<u>\$ 360,953</u>	<u>\$ 7,100</u>	<u>\$ 368,053</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 2,301,344	\$ 470,246	\$ 2,771,590
Restricted for Debt Service	46,674		46,674
Unrestricted	756,444	28,139	784,583
Total Net Assets	<u>\$ 3,104,462</u>	<u>\$ 498,385</u>	<u>\$ 3,602,847</u>

See accompanying notes to financial statements.

CITY OF ABERNATHY, TEXAS

Exhibit 6

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Proprietary Funds		
	Water & Sewer	Airport	Total
OPERATING REVENUES			
Water Revenue	\$ 412,223	\$	\$ 412,223
Sewer Revenue	125,551		125,551
Water/Sewer Permits	1,798		1,798
Reconnect and Late Fees	23,131		23,131
Total Operating Revenue	<u>\$ 562,703</u>	<u>\$ 0</u>	<u>\$ 562,703</u>
OPERATING EXPENSES			
Non-Departmental	\$ 107,682	\$ 12,415	\$ 120,097
Utility Accounting and Billing	107,049	1,346	108,395
Maintenance	347,918	5,093	353,011
Total Operating Expenses	<u>\$ 562,649</u>	<u>\$ 18,854</u>	<u>\$ 581,503</u>
Operating Income (Loss)	<u>\$ 54</u>	<u>\$ (18,854)</u>	<u>\$ (18,800)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	\$ 15,349	\$ 911	\$ 16,260
Miscellaneous Revenue (Expense)	26,258	3,515	29,773
Grant Revenue	16,493		16,493
Interest Expense	(19,507)		(19,507)
Total Nonoperating Revenue (Expenses)	<u>\$ 38,593</u>	<u>\$ 4,426</u>	<u>\$ 43,019</u>
Change in Net Assets	<u>\$ 38,647</u>	<u>\$ (14,428)</u>	<u>\$ 24,219</u>
TOTAL NET ASSETS - BEGINNING	<u>3,065,815</u>	<u>512,813</u>	<u>3,578,628</u>
TOTAL NET ASSETS - ENDING	<u>\$ 3,104,462</u>	<u>\$ 498,385</u>	<u>\$ 3,602,847</u>

See accompanying notes to financial statements.

CITY OF ABERNATHY, TEXAS

Exhibit 7

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Proprietary Funds		
	Water & Sewer	Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts From Customers	\$ 585,611	\$ 3,515	\$ 589,126
Payments to Suppliers and Employees	(639,540)	(5,939)	(645,479)
Net Cash Used in Operating Activities	\$ (53,929)	\$ (2,424)	\$ (56,353)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net Cash Provided by Noncapital Financing Activities	\$ 0	\$ 0	\$ 0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions of Fixed Assets	\$ (46,743)	\$	\$ (46,743)
Interest Paid on Bonds	(20,220)		(20,220)
Grant Revenues	147,819		147,819
Payments on Certificates of Obligation	(35,000)		(35,000)
Payments on Long-Term Borrowings	(70,000)		(70,000)
Net Cash Used in Capital and Related Financing Activities	\$ (24,144)	\$ 0	\$ (24,144)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned on Investments	\$ 15,349	\$ 911	\$ 16,260
Net Cash Provided by Investing Activities	\$ 15,349	\$ 911	\$ 16,260
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (62,724)	\$ (1,513)	\$ (64,237)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	577,531	36,752	614,283
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 514,807	\$ 35,239	\$ 550,046
Reconciliation of Operating Loss to Net Cash Flows From Operating Activities:			
Operating Loss	\$ 54	\$ (18,854)	\$ (18,800)
Adjustments to Reconcile Loss From Operations to Net Cash From Operating Activities:			
Depreciation Expense	\$ 99,253	\$ 12,415	\$ 111,668
Miscellaneous Revenues	26,258	3,515	29,773
Change in Assets and Liabilities:			
Receivables	(6,194)		(6,194)
Due from Other Funds	(40,330)		(40,330)
Accounts Payable	(135,814)		(135,814)
Meter and Other Deposits	2,844	500	3,344
	\$ (53,983)	\$ 16,430	\$ (37,553)
Cash Flows From Operating Activities	\$ (53,929)	\$ (2,424)	\$ (56,353)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Abernathy, Texas (the City) operates under a Council / City Manager 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 City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. REPORTING ENTITY

These financial statements present the City (the primary government). As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The City does not have component units.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, sanitation and recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer services and airport are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces

CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, etc) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, to be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

-18-
CITY OF ABERNATHY, TEXAS
NOTES TO FINANCIAL STATEMENTS

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary funds financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent.

2. Investments:

Investments are stated at fair value, (quoted market price or the best available estimate).

3. Capital Assets:

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Water and sewer systems	15-40 years
Machinery and equipment	5-20 years
Automotive	7-10 years

-19-
CITY OF ABERNATHY, TEXAS
NOTES TO FINANCIAL STATEMENTS

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

6. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee.

7. Interfund Activity:

Interfund activity is reported as either advances, services provided, reimbursements, or transfers. Advances 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/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

2. CAPITAL ASSETS

Governmental Activities:

Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 550,966	\$	\$	\$ 550,966
Street Paving	285,318			285,318
Fire Fighting Equipment	230,041			230,041
Furniture and Fixtures	12,216			12,216
Machinery and Equipment	232,044	26,840		258,884
Automotive	143,993	35,866		179,859
City Park - CWIP	319,819	153,984		473,803
	<u>\$ 1,774,397</u>	<u>\$ 216,690</u>	<u>\$ 0</u>	<u>\$ 1,991,087</u>

-20-
CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Accumulated Depreciation

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 119,639	\$ 12,652	\$	\$ 132,291
Street Paving	230,458	4,783		235,241
Fire Fighting Equipment	182,560	13,231		195,791
Furniture and Fixtures	9,067	639		9,706
Machinery and Equipment	84,693	13,534		98,227
Automotive	62,558	21,781		84,339
	<u>\$ 688,975</u>	<u>\$ 66,620</u>	<u>\$ 0</u>	<u>\$ 755,595</u>

Business-Type Activities:

Assets – Water and Sewer

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 456,321	\$	\$	\$ 456,321
Buildings	317,914			317,914
Water System	1,685,323			1,685,323
Sewer System	1,185,547	280,251		1,465,798
Automotive	173,826			173,826
CWIP	233,508	(233,508)		0
	<u>\$ 4,052,439</u>	<u>\$ 46,743</u>	<u>\$ 0</u>	<u>\$ 4,099,182</u>

Assets – Airport

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 216,237	\$	\$	\$ 216,237
Improvements	455,260			455,260
	<u>\$ 671,497</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 671,497</u>

-21-
CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

Accumulated Depreciation – Water and Sewer

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 13,909	\$ 7,948	\$	\$ 21,857
Water System	603,227	44,521		647,748
Sewer System	696,655	33,142		729,797
Automotive	74,794	13,642		88,436
	<u>\$ 1,388,585</u>	<u>\$ 99,253</u>	<u>\$ 0</u>	<u>\$ 1,487,838</u>

Accumulated Depreciation – Airport

	Beginning Balance	Increases	Decreases	Ending Balance
Improvements	\$ 188,836	\$ 12,415	\$ 0	\$ 201,251

3. LONG-TERM OBLIGATIONS

Capital Lease Obligation

During the ended September 30, 2005, the City financed \$28,280 for the purchase of a John Deere 5220 tractor. Terms of the lease include an interest rate of 4.75% for five annual installments with the final installment due November 18, 2008. The outstanding balance at September 30, 2006, is \$16,942. Payments to maturity are as follows:

2007	\$ 6,204
2008	6,204
2009	6,204
	<u>18,612</u>
Less: Amount Representing Interest	<u>(1,670)</u>
	<u>\$ 16,942</u>

Revenue Bonds

The ordinance for the revenue bonds of the Water and Sewer Fund require the establishment of a Bond Sinking Fund and a Bond Reserve Fund. The Sinking Fund requires a monthly deposit of one-twelfth (1/12) of the next annual principal and interest installment. The Reserve Fund requires a monthly deposit until the fund has a balance of \$50,000. The amount in the Reserve Fund as of September 30, 2006, is \$46,674. These funds are carried on the Balance Sheet of the Water and Sewer Fund as restricted assets.

CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following is a summary of revenue bond activities for the year ended September 30, 2006, and the principal and interest requirements for the next 12 months.

	Balance 10/1/2005	Issued	Retired	Balance 9/30/2006	Next Twelve Months	
					Principal	Interest
Water & Sewer Revenue Bonds - 5-1-1998	\$ 215,000	\$	\$ 70,000	\$ 145,000	\$ 70,000	\$ 5,665

Principal obligations to maturity are as follows:

	Amount
9/30/2007	\$ 70,000
9/30/2008	75,000
	<u>\$ 145,000</u>

The 1998 Series bonds are payable from net revenues of the Water and Sewer Fund, with final payment due in 2008. Interest is payable annually at 5.15% per annum.

Certificates of Obligation

In 2000, the City issued certificates of obligation totaling \$350,000. Proceeds from this issue were used for the purchase of land and installation of a water well. This debt carries an interest rate of 6% and matures in 2010.

The following is a summary of certificate activities for the year ended September 30, 2006, and the principal and interest requirements for the next 12 months.

	Balance 10/1/2005	Issued	Retired	Balance 9/30/2006	Amounts Due Next Twelve Months	
					Principal	Interest
Certificates of Obligation - 2000	\$ 200,000	\$	\$ 35,000	\$ 165,000	\$ 40,000	\$ 8,700

Principal obligations to maturity are as follows:

	Amount
9/30/2007	\$ 40,000
9/30/2008	40,000
9/30/2009	40,000
9/30/2010	45,000
	<u>\$ 165,000</u>

-23-
CITY OF ABERNATHY, TEXAS
NOTES TO FINANCIAL STATEMENTS

4. LITIGATION – COMMITMENTS

As of September 30, 2006, there were no claims or assessments nor any litigation pending against the City.

5. PENSION PLAN

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multi-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan with interest and the City-financed monetary credits with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS, and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/19/06):

Deposit Rate:	5%
---------------	----

Matching Ratio (City to Employee)	1 to 1
-----------------------------------	--------

A member is vested after	5 Years
--------------------------	---------

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

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This 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 from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, 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 normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded

CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

(overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005, valuation is effective for rates beginning January, 2007).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/05
Actuarial Value of Assets	\$	317,787
Actuarial Accrued Liability	\$	526,886
Percentage Funded		60.3%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$	209,099
Annual Covered Payroll	\$	348,000
UAAL as a Percentage of Covered Payroll		60.1%
Net Pension Obligation (NPO) at the Beginning of Period	\$	0
Annual Pension Cost		
Annual Required Contribution (ARC)	\$	26,996
Interest on NPO		
Adjustment to the ARC		\$ 26,996
Contributions Made		(26,996)
Increase in NPO		
NPO at the End of Period	\$	<u>0</u>

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost (to accurately reflect the requirements of GASB stmt, No. 25, paragraphs 36e And 138)
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost of Living Adjustments	None

CITY OF ABERNATHY, TEXAS

NOTES TO FINANCIAL STATEMENTS

6. Deposits and Investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City 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. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and pledged securities held by a third party in the City's name.
- b. Concentration of Credit Risk – The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2006, all of the City's investments are with Security Bank which are covered by FDIC insurance and pledged securities, and as such the City has no risk.
- c. Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2006 the City was not significantly exposed to credit risk.

-26-
CITY OF ABERNATHY, TEXAS
NOTES TO FINANCIAL STATEMENTS

- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

The carrying amount of the City's cash and temporary investments at September 30, 2006, approximates fair value and consisted of the following shown below:

	<u>Primary Government</u>
Cash in Bank	\$ 112,095
Certificate of Deposits	<u>841,873</u>
Total Cash and Investments	<u><u>953,968</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

RSI-1

CITY OF ABERNATHY, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 288,014	\$ 288,014	\$ 293,339	\$ 5,325
City Sales Taxes	115,500	115,500	136,816	21,316
Penalties	6,500	6,500	27,453	20,953
Franchise Taxes	60,000	60,000	110,328	50,328
Licenses and Permits	8,000	8,000	4,098	(3,902)
Leases and Rents	17,238	17,238	19,930	2,692
Court Fees	19,600	19,600	29,441	9,841
Mosquito Spraying	10,000	10,000	10,470	470
Interest Income	15,000	15,000	13,427	(1,573)
Ambulance Calls	95,000	95,000	95,607	607
Sanitation Revenue	168,800	168,800	171,966	3,166
Grant Revenue	815,000	815,000	519,058	(295,942)
Miscellaneous Revenues	10,600	10,600	4,907	(5,693)
Total Revenues	\$ 1,629,252	\$ 1,629,252	\$ 1,436,840	\$ (192,412)
EXPENDITURES				
City Hall	\$ 624,864	\$ 624,864	\$ 472,960	\$ 151,904
Legislative	5,650	5,650	2,442	3,208
Administrative	106,012	106,012	113,350	(7,338)
Sanitation	192,467	192,467	223,471	(31,004)
Streets	73,300	73,300	96,306	(23,006)
Fire	35,998	35,998	34,152	1,846
Police	201,325	201,325	201,106	219
Library	6,000	6,000	5,500	500
Ambulance	35,650	35,650	73,476	(37,826)
Judicial	31,786	31,786	42,237	(10,451)
Parks	322,600	322,600	182,019	140,581
Total Expenditures	\$ 1,635,652	\$ 1,635,652	\$ 1,447,019	\$ 188,633
Excess of Revenues Over (Under) Expenditures	\$ (6,400)	\$ (6,400)	\$ (10,179)	\$ (3,779)
Unbudgeted Amounts:				
Fire Department Funds			(2,693)	
Police Department Funds			3,620	
Ambulance Funds			81	
Sale of Property			172	
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES - TOTAL			\$ (8,999)	
FUND BALANCE - BEGINNING OF YEAR			245,837	
FUND BALANCE - END OF YEAR			\$ 236,838	

-28-
CITY OF ABERNATHY, TEXAS

Schedule 1

**GENERAL FUND
SCHEDULE OF EXPENDITURES BY DEPARTMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	City Hall	Legislative	Administrative	Sanitation	Streets	Fire	Police	Library	Ambulance	Judicial	Parks	Total
Auto Allowance	\$	\$	\$ 4,200	\$	\$	\$	\$ (712)	\$	\$	\$	\$	\$ 3,488
Uniforms							1,509		797			2,306
Contract Services	13,149	1,221	661	113,017	948	148	1,118		8,472			138,734
Contract Billing									9,993			9,993
Sub-Housing Demolition												20,149
Contract Hauling				20,149								20,149
Legal Publications				32,377								32,377
Engineering	1,533											1,533
Legal					2,106							2,106
Accounting	14,227									(59)		14,168
Dues and Registrations	10,000											10,000
Travel and Meals	1,948	1,042	586			7,999	544		3,022	135		15,276
Library Services			947			1,497	132			309		2,885
Judicial Expenses								5,500				5,500
Office Supplies										13,875		13,875
Printing			2,100				450					2,550
Postage			328									328
Janitorial Supplies			955									955
Telephones	306						68		1,149			306
Election	10,792		1,966									12,009
Utilities												1,966
General Insurance/Safety	14,324					518						35,282
Small Tools	23,358				19,888				55		497	23,358
Pest Control	2		59		747		927					1,735
Animal Shelter	265											265
Fuel and Oil												1,966
Vector Control						3,671	14,073		5,210	331		30,051
Supplies				279	6,487		1,966					11,991
Vehicle Maintenance	2,864	179	569	11,991	4,059	21,202	9,867		11,897	9,518		61,334
Equipment Maintenance				1,179	3,645		2,041					5,686
Tires and Accessories	416		135	1,701	9,092	918	755		1,394			14,412
Street Maintenance					2,478		1,047					3,525
City Park Maintenance					46,856							46,856
Home Grant Expenses	352,276										1,448	352,276
Building and Grounds	4,243					3,550			622			8,415
Post Office	60											60
Leases Payable	6,585					13,904						20,489
Civil Defense			918									918
Miscellaneous	3,136		(1,925)			9,310	511		12,478	31		23,541
Software Support	645											645
Capital Outlay	5,750										180,074	216,890
Salary	6,651		82,913	36,168		445	137,348		30,866	16,998		316,019
TML Insurance			8,167	4,272			12,949		35,496			25,388
FICA			5,360	2,338		29	8,879		2,295	1,099		20,430
TIMRS Retirement	430		5,411				8,864					14,275
	\$ 472,960	\$ 2,442	\$ 113,350	\$ 223,471	\$ 96,306	\$ 63,192	\$ 202,336	\$ 5,500	\$ 123,746	\$ 42,237	\$ 182,019	\$ 1,527,559

CITY OF ABERNATHY, TEXAS

Schedule 2

WATER AND SEWER FUND
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Non Departmental	Utility Accounting and Billing	Maintenance	Total
Uniforms	\$	\$	\$ 5,639	\$ 5,639
Contract Services		3,657	12,293	15,950
Accounting		6,500		6,500
Dues and Registration		1,420	2,365	3,785
Travel		35	2,417	2,452
Office Supplies		629		629
Printing		570		570
Postage		4,792		4,792
Janitorial Supplies				0
Utilities		7,903	50,205	58,108
Telephone		1,484		1,484
General Insurance		19,343		19,343
State Fees and Permits			636	636
Fuel and Oil			21,355	21,355
Small Tools			1,409	1,409
Chemicals			1,509	1,509
Supplies		54	5,398	5,452
Vehicle Maintenance			1,503	1,503
Equipment Maintenance		477	12,274	12,751
Tires and Accessories			2,383	2,383
Building and Grounds	787		488	1,275
Water/Sewer Treatment			12,053	12,053
Utility Maintenance			26,051	26,051
Leases Payable		16		16
Miscellaneous		6,201	2,898	9,099
Salaries		38,099	142,868	180,967
TML Insurance		4,272	30,587	34,859
FICA		2,593	9,722	12,315
TMRS Retirement		9,004	3,865	12,869
Bad Debts	7,642			7,642
Depreciation	99,253			99,253
Totals	\$ 107,682	\$ 107,049	\$ 347,918	\$ 562,649

CITY OF ABERNATHY, TEXAS

Schedule 3

WATER AND SEWER FUND
SCHEDULE OF DEBT PRINCIPAL AND INTEREST REQUIREMENTS TO MATURITY
SEPTEMBER 30, 2006

Fiscal Year Ended September 30,	1998 Certificates of Obligation		2000 Certificates of Obligation		Grand Total
	Principal	Interest	Principal	Interest	
2007	\$ 70,000	\$ 3,734	\$ 40,000	\$ 8,700	\$ 122,434
2008	75,000	1,931	40,000	6,300	123,231
2009			40,000	3,900	43,900
2010			45,000	1,350	46,350
	<u>\$ 145,000</u>	<u>\$ 5,665</u>	<u>\$ 165,000</u>	<u>\$ 20,250</u>	<u>\$ 335,915</u>

CITY OF ABERNATHY, TEXAS

Schedule 4

SCHEDULE OF CHANGES IN DELINQUENT TAXES RECEIVABLE
SEPTEMBER 30, 2006

Year	Property Taxes Receivable Oct. 1, 2005	Assessed	Adjust- ments and Collections	Property Taxes Receivable Sept. 30, 2006
1991 and Prior	\$ 1,115	\$	\$ 638	\$ 477
1992	422		289	133
1993	682		548	134
1994	437		302	135
1995	740		576	164
1996	831		550	281
1997	871		312	559
1998	1,057		350	707
1999	1,627		509	1,118
2000	2,358		672	1,686
2001	2,799		854	1,945
2002	4,432		1,600	2,832
2003	6,889		2,557	4,332
2004	12,447		5,986	6,461
2005		304,194	292,234	11,960
Totals	\$ <u>36,707</u>	\$ <u>304,194</u>	\$ <u>307,977</u>	\$ <u>32,924</u>

-32-
CITY OF ABERNATHY, TEXAS

Schedule 5

SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2006

Investments - General Fund

	<u>CD #</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	
Security Bank - For the City	5300060	11/30/2006	1.35%	\$ 103,242
Security Bank - For the City	5300061	11/30/2006	3.85%	258,106
Security Bank - For the City	5300218	10/17/2006	1.45%	20,000
Security Bank - For EMS	5300196	1/1/2007	3.75%	<u>6,022</u>
Total General Fund				\$ <u>387,370</u>

Investments - Water and Sewer Fund

Security Bank - For the City	5300065	11/30/2006	3.85%	\$ 103,242
Security Bank - For the City	5300066	11/30/2006	3.85%	180,674
Security Bank - For the City	5300167	11/30/2006	4.20%	<u>140,477</u>
Total Water and Sewer Fund				\$ <u>424,393</u>

Investments - Airport Fund

Security Bank - For the City	5300181	8/6/2007	4.30%	\$ <u>30,110</u>
Total Airport Fund				\$ <u>30,110</u>

Total - All Funds

\$ 841,873

INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

certified public accountants

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 Nashville Avenue

LUBBOCK, TEXAS 79423

**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**

Honorable O.C. "Hoppy" Toler, Mayor
and Members of the City Council
City of Abernathy, Texas

We have audited 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, 2006, which collectively comprise City of Abernathy, Texas' basic financial statements and have issued our report thereon dated November 16, 2006. 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 of Abernathy, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining assurance about whether the City of Abernathy, Texas' 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 the management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 16, 2006