

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2010

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
INTRODUCTORY SECTION		
City Council		1
FINANCIAL SECTION		
Independent Auditors' Report on Financial Statements		2
Management's Discussion and Analysis (Required Supplementary Information)		4
<u>Basic Financial Statements</u>		
Government-Wide Financial Statements:		
Statement of Net Assets	A-1	13
Statement of Activities	B-1	14
Governmental Fund Financial Statements:		
Balance Sheet-Governmental Funds	C-1	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	C-1R	16
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	C-2	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-3	18
Proprietary Fund Financial Statements		
Statement of Net Assets	D-1	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	D-2	20
Statement of Cash Flows	D-3	21
Notes to the Financial Statements		22
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedules:		
General Fund	E-1	36
OTHER SUPPLEMENTARY INFORMATION		
Schedule of Delinquent Taxes Receivable	G-1	37

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2010

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page Number</u>
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>Government Auditing Standards</i>		38
Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		40
Schedule of Findings and Questioned Costs		42
Summary Schedule of Prior Audit Findings		43
Corrective Action Plan		44
Schedule of Expenditures of Federal Awards	K-1	45
Notes to the Schedule of Expenditures of Federal Awards		46

INTRODUCTORY SECTION

CITY OF ABERNATHY
Abernathy, Texas

September 30, 2010

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, 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, 2010, 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'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, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas as of September 30, 2010, 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.

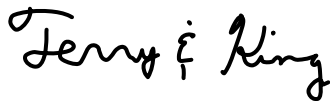
In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011, on our consideration of the City of Abernathy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management regarding the methods 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 the 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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, the 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 7, 2011

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, 2010. 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 \$30,106 or approximately 1%, net assets of our governmental activities increased by \$566,812 or 27%.
- During the year, the City had expenses that were \$566,812 less than the \$2,111,956 generated in tax and other revenues for governmental programs. This compares to the prior year when expenses were less than revenues by \$139,777. The current 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 increased \$8,256 to \$674,179 (or 1%) while expenses increased \$21,129 to \$644,073 (or 3%.)
- Total cost of all of the City's programs was \$2,189,217, an increase of \$457,189.
- The General Fund reported a surplus this year of \$84,850.
- The resources available for appropriation were \$113,683 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$22,266.

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 \$5,641,428 to \$6,238,346. 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 \$6,238,346 at September 30, 2010. (See Table A-1).

Table A-1
City of Abernathy's Net Assets

	Governmental Activities			Business-type Activities			Total		
	2010	2009	Percentage Change	2010	2009	Percentage Change	2010	2009	Percentage Change
Current assets:									
Cash and Investments	530,479	462,020	15%	546,339	450,910	21%	1,076,818	912,930	18%
Accounts Receivable, net	66,704	83,264	-20%	110,172	106,797	3%	176,876	190,061	-7%
Taxes Receivable, net	6,663	16,028	-58%	-	-	0%	6,663	16,028	-58%
Due from Other Governments	46,606	-	100%	-	-	0%	46,606	-	100%
Due from Other Funds	-	-	0%	226,230	211,103	7%	226,230	211,103	7%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
Total current assets:	650,452	561,312	16%	892,455	778,524	15%	1,542,907	1,339,836	15%
Noncurrent assets:									
Land	-	-	0%	672,558	672,558	0%	672,558	672,558	0%
Infrastructure	1,331,022	796,160	67%	-	-	0%	1,331,022	796,160	67%
Less accumulated depreciation, infrastructure	(294,904)	(261,598)	13%	-	-	0%	(294,904)	(261,598)	13%
Buildings	554,178	554,178	0%	802,301	802,301	0%	1,356,479	1,356,479	0%
Less accumulated depreciation, buildings	(176,071)	(163,042)	8%	(307,346)	(286,804)	7%	(483,417)	(449,846)	7%
Water System	-	-	0%	1,753,841	1,753,841	0%	1,753,841	1,753,841	0%
Less accumulated depreciation, water system	-	-	0%	(832,499)	(784,929)	6%	(832,499)	(784,929)	6%
Sewer System	-	-	0%	1,507,614	1,507,614	0%	1,507,614	1,507,614	0%
Less accumulated depreciation, sewer system	-	-	0%	(882,727)	(842,825)	5%	(882,727)	(842,825)	5%
Vehicles	170,744	167,430	2%	219,119	213,119	3%	389,863	380,549	2%
Less accumulated depreciation, vehicles	(115,979)	(115,394)	1%	(160,005)	(137,842)	16%	(275,984)	(253,236)	9%
Furniture & Equipment	1,420,812	1,379,508	3%	-	-	0%	1,420,812	1,379,508	3%
Less accumulated depreciation, furniture & equipment	(574,191)	(502,725)	14%	-	-	0%	(574,191)	(502,725)	14%
Total noncurrent assets	2,315,611	1,854,517	25%	2,772,856	2,897,033	-4%	5,088,467	4,751,550	7%
Total Assets	2,966,063	2,415,829	23%	3,665,311	3,675,557	0%	6,631,374	6,091,386	9%
Current liabilities:									
Accounts Payable	19,518	19,151	2%	11,069	6,841	62%	30,587	25,992	18%
Accrued Wages	5,298	7,137	-26%	4,335	5,165	-16%	9,633	12,302	-22%
Due to Other Funds	226,230	211,103	7%	-	-	0%	226,230	211,103	7%
Customer Deposits	-	-	0%	50,815	49,565	3%	50,815	49,565	3%
Total current liabilities	251,046	237,391	6%	66,219	61,571	8%	317,265	298,962	6%
Noncurrent Liabilities:									
Due within one year	26,566	26,440	0%	-	45,000	-100%	26,566	71,440	-63%
Due in more than one year	49,197	79,556	-38%	-	0%	0%	49,197	79,556	-38%
Total current liabilities	75,763	105,996	-29%	-	45,000	-100%	75,763	150,996	-50%
Net Assets:									
Invested in capital assets, net of related debt	2,239,848	1,748,521	28%	2,772,856	2,852,033	-3%	5,012,704	4,600,554	9%
Unrestricted	399,406	323,921	23%	826,236	716,953	15%	1,225,642	1,040,874	18%
Total Net Assets	2,639,254	2,072,442	27%	3,599,092	3,568,986	1%	6,238,346	5,641,428	11%

Net assets of the City's governmental activities increased by 27% (\$2,639,254 compared to \$2,072,442). 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 \$323,921 at September 30, 2009 to \$399,406 at the end of this year. Net assets of the City's business-type activities increased by 1% from \$3,568,986 to \$3,599,092.

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

	Governmental Activities			Business-type Activities			Total		
	2010	2009	Percentage Change	2010	2009	Percentage Change	2010	2009	Percentage Change
Program Revenues:									
Charges for Services	576,284	495,258	16%	627,038	607,324	3%	1,203,322	1,102,582	9%
Grants & Contributions	864,196	91,069	849%	-	5,169	-100%	864,196	96,238	798%
General Revenues:									
Property Taxes	397,570	365,662	9%	-	-	0%	397,570	365,662	9%
Nonproperty Taxes	261,997	277,949	-6%	-	-	0%	261,997	277,949	-6%
Investment Earnings	8,442	9,386	-10%	8,115	9,360	-13%	16,557	18,746	-12%
Licenses and Permits	2,192	3,779	-42%	-	-	0%	2,192	3,779	-42%
Miscellaneous	1,275	5,758	-78%	39,026	44,070	-11%	40,301	49,828	-19%
	<u>2,111,956</u>	<u>1,248,861</u>	<u>69%</u>	<u>674,179</u>	<u>665,923</u>	<u>1%</u>	<u>2,786,135</u>	<u>1,914,784</u>	<u>46%</u>
Expenses:									
City Hall	127,220	122,280	4%	-	-	0%	127,220	122,280	4%
Legislative	2,111	4,669	-55%	-	-	0%	2,111	4,669	-55%
Administrative	163,870	136,778	20%	-	-	0%	163,870	136,778	20%
Sanitation	200,045	203,497	-2%	-	-	0%	200,045	203,497	-2%
Streets	188,514	109,579	72%	-	-	0%	188,514	109,579	72%
Fire	75,699	60,219	26%	-	-	0%	75,699	60,219	26%
Police	246,091	228,053	8%	-	-	0%	246,091	228,053	8%
Library	22,390	20,017	12%	-	-	0%	22,390	20,017	12%
Ambulance	146,284	53,825	172%	-	-	0%	146,284	53,825	172%
Judicial	19,581	17,388	13%	-	-	0%	19,581	17,388	13%
Parks	76,706	26,535	189%	-	-	0%	76,706	26,535	189%
Homes for Citizens	276,633	-	100%	-	-	0%	276,633	-	100%
Depreciation	-	126,244	-100%	-	-	0%	-	126,244	-100%
Water and Sewer	-	-	0%	626,289	604,451	4%	626,289	604,451	4%
Airport	-	-	0%	17,784	18,493	-4%	17,784	18,493	-4%
	<u>1,545,144</u>	<u>1,109,084</u>	<u>39%</u>	<u>644,073</u>	<u>622,944</u>	<u>3%</u>	<u>2,189,217</u>	<u>1,732,028</u>	<u>26%</u>
Increase (Decrease) in Net Assets	566,812	139,777	306%	30,106	42,979	30%	596,918	182,756	227%
Beginning Net Assets	<u>2,072,442</u>	<u>1,932,665</u>	<u>7%</u>	<u>3,568,986</u>	<u>3,526,007</u>	<u>1%</u>	<u>5,641,428</u>	<u>5,458,672</u>	<u>3%</u>
Ending Net Assets	<u>2,639,254</u>	<u>2,072,442</u>	<u>27%</u>	<u>3,599,092</u>	<u>3,568,986</u>	<u>1%</u>	<u>6,238,346</u>	<u>5,641,428</u>	<u>11%</u>

The City's total revenues were \$2,786,135. A significant portion, 24%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (19%), non-property taxes (12%), charges for services (27%), and grants and contributions (41%).

The total cost of all programs and services was \$2,189,217; 29% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (8%), administration (11%), sanitation (13%), streets (12%), fire department (5%), police (16%), ambulance (9%), parks (5%), home grant expenditures (18%).

Governmental Activities

Revenue for the City's governmental activities increased by 69% (\$863,095), while total expenses increased 39% (\$436,060).

- Property tax rates remained the same at \$0.50 per \$100. The ad valorem tax levy for the previous fiscal year was \$360,921, compared to \$393,600 for the current year. Total tax collections increased 2%, from \$358,381 in the prior year to \$398,206.
- The City's grant and contribution revenue increased from \$91,069 in the prior period to \$864,196 in the current period.
- The cost of all *governmental* activities this year was \$1,545,144 compared to \$1,109,084 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 \$397,570 because some of the costs were paid by those who directly benefited from the programs (\$576,284) or by nonproperty taxes (\$261,997). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, increased in 2010 from \$1,248,861 to \$2,111,956.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) increased 1% (\$674,179 from \$665,923) and expenses *increased* by 3%.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$392,743, which is an increase from the prior year's total of \$307,893. The following items effecting fund balance should be noted:

- The City's property tax revenues increased \$42,944.
- Grant revenues increased \$771,193.
- The City expended \$603,161 for capital items in the current fiscal period while in the previous fiscal year, \$112,584 was expended for capital assets. This was primarily expenditures of grant funds.
- The City expended grant funds in the amount of \$276,633 to build homes for citizens.

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 \$113,683 more than final budget amounts and expenditures were \$22,266 below the final budget amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had \$8,432,189 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 \$585,480, or 7%, over last year.

This year's major additions amounted to \$609,161:

- \$12,567 was expended for a baseball field parking lot.
- \$534,861 was expended on infrastructure related to the Safe Routes to School Grant.
- A wind turbine was purchased for \$20,000 with use of grant funds.
- \$8,738 was expended on police department equipment with use of grant funds.
- Grant revenue was used to purchase a police vehicle for \$19,000.
- A code enforcement vehicle was purchased for \$7,995.
- A water and sewer department pickup engine was purchased for \$6,000.

Table A-3
Fixed Assets

	Governmental Activities				Business-type Activities			
	2009	Additions	Deletions/ Reclassifications	2010	2009	Additions	Deletions	2010
Land	-	-	-	-	672,558	-	-	672,558
Construction in Progress	62,019	-	(62,019)	-	-	-	-	-
Infrastructure	734,141	534,861	62,019	1,331,021	-	-	-	-
Buildings	554,178	-	-	554,178	802,301	-	-	802,301
Water System	-	-	-	-	1,753,841	-	-	1,753,841
Sewer System	-	-	-	-	1,507,614	-	-	1,507,614
Vehicles	167,430	26,995	(23,681)	170,744	213,119	6,000	-	219,119
Furniture and Equipment	1,379,508	41,305	-	1,420,813	-	-	-	-
Accumulated Depreciation	(1,042,759)	(142,067)	23,681	(1,161,145)	(2,052,401)	(130,176)	-	(2,182,577)
Net Capital Assets	1,854,517	461,094	-	2,315,611	2,897,032	(124,176)	-	2,772,856

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 2010, the City had \$75,762 of total debt outstanding. \$26,566 of this is due within one year. The funding for the payment of the capital leases comes from general revenues and funding for the payment on the bonds come from water utilities collected for debt repayment. 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 2011 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 values decreased approximately \$3 million. Therefore, the property tax rate has been increase from \$0.50/\$100 valuation to \$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 2011 are projected to increase by 17%. The rising cost of fuel and oil has also affected the City by increased cost of goods.

Revenues are expected to be \$113,000 less than fiscal year 2010. It is projected that General Fund revenues will decrease \$166,000 and water/sewer fund revenues will increase \$53,000.

It is planned that the City's Net Assets at the end of the fiscal year ending September 30, 2011 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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Investments	\$ 530,479	\$ 546,339	\$ 1,076,818
Accounts Receivable, net	66,704	110,172	176,876
Taxes Receivable, Net	6,663	-	6,663
Due from Other Governments	46,606	-	46,606
Due from Other Funds	-	226,230	226,230
Capital Credits	-	9,714	9,714
Capital Assets:			
Land	-	672,558	672,558
Buildings & Improvements, net	378,107	494,955	873,062
Infrastructure	1,036,118	-	1,036,118
Utility Systems & Equipment, net	-	1,546,229	1,546,229
Furniture & Equipment, net	901,386	59,114	960,500
	<u>\$ 2,966,063</u>	<u>\$ 3,665,311</u>	<u>\$ 6,631,374</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 19,518	\$ 11,069	\$ 30,587
Accrued Wages	5,298	4,335	9,633
Due to Other Funds	226,230	-	226,230
Noncurrent Liabilities:			
Customer Deposits	-	50,815	50,815
Due within one year	26,566	-	26,566
Due in more than one year	49,197	-	49,197
	<u>\$ 326,809</u>	<u>\$ 66,219</u>	<u>\$ 393,028</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,239,848	\$ 2,772,856	\$ 5,012,704
Unrestricted	399,406	826,236	1,225,642
<u>Total Net Assets</u>	<u>\$ 2,639,254</u>	<u>\$ 3,599,092</u>	<u>\$ 6,238,346</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 2,966,063</u>	<u>\$ 3,665,311</u>	<u>\$ 6,631,374</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2010

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	
Government Activities:							
City Hall	\$ 127,220	\$ 25,805	\$ -	\$ 23,030	\$ (78,385)	-	(78,385)
Legislative	2,111	-	-	-	(2,111)	-	(2,111)
Administrative	163,870	-	-	-	(163,870)	-	(163,870)
Sanitation	200,045	252,568	-	-	52,523	-	52,523
Streets	188,514	-	-	534,861	346,347	-	346,347
Fire	75,699	32,546	-	-	(43,153)	-	(43,153)
Police	246,091	-	1,502	27,738	(216,851)	-	(216,851)
Library	22,390	10,444	-	-	(11,946)	-	(11,946)
Ambulance	146,284	236,619	-	-	90,335	-	90,335
Judicial	19,581	18,302	432	-	(847)	-	(847)
Parks	76,706	-	-	-	(76,706)	-	(76,706)
Homes for Citizens	276,633	-	276,633	-	-	-	-
Total Government Activities	\$ 1,545,144	\$ 576,284	\$ 278,567	\$ 585,629	\$ (104,664)	\$ -	\$ (104,664)
Business-type Activities							
Water and Sewer	\$ 626,289	\$ 611,768	\$ -	\$ -	\$ -	\$ (14,521)	\$ (14,521)
Airport	17,784	15,270	-	-	-	(2,514)	(2,514)
Total Business-Type Activities	\$ 644,073	\$ 627,038	\$ -	\$ -	\$ -	\$ (17,035)	\$ (17,035)
Total Primary Government	\$ 2,189,217	\$ 1,203,322	\$ 278,567	\$ 585,629	\$ (104,664)	\$ (17,035)	\$ (121,699)
General Revenues							
Property Taxes, Levied for General Purpose					397,570	-	397,570
Nonproperty Taxes					261,997	-	261,997
Investment Earnings					8,442	8,115	16,557
Licenses and Permits					2,192	-	2,192
Miscellaneous					1,275	39,026	40,301
Total General Revenue					671,476	47,141	718,617
Change in Net Assets					566,812	30,106	596,918
Net Assets -- Beginning					2,072,442	3,568,986	5,641,428
Net Assets -- Ending					\$ 2,639,254	\$ 3,599,092	\$ 6,238,346

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2010

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 64,900	\$ 64,900
Certificates of Deposit	465,579	465,579
Property Taxes Receivable, net	6,663	6,663
Accounts Receivable	66,704	66,704
Due from Other Governments	<u>46,606</u>	<u>46,606</u>
<u>TOTAL ASSETS</u>	<u>\$ 650,452</u>	<u>\$ 650,452</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 19,518	\$ 19,518
Accrued Wages	5,298	5,298
Due to Other Funds	226,230	226,230
Deferred Revenues	<u>6,663</u>	<u>6,663</u>
<u>Total Liabilities</u>	<u>257,709</u>	<u>257,709</u>
FUND EQUITIES		
Fund Balance-Unassigned	<u>392,743</u>	<u>392,743</u>
<u>Total Fund Equities</u>	<u>392,743</u>	<u>392,743</u>
<u>TOTAL LIABILITIES & FUND EQUITIES</u>	<u>\$ 650,452</u>	<u>\$ 650,452</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2010

Total Fund Balances -- Governmental Funds Balance Sheet	\$	392,743
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		6,663
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,315,611
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds		<u>(75,763)</u>
Net Assets of Governmental Activities -- Statement of Net Assets	\$	<u>2,639,254</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, 2010

	General Fund	Total Governmental Funds
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 406,935	\$ 406,935
Sales Taxes	144,718	144,718
Franchise Taxes	117,279	117,279
Licenses and Permits	2,192	2,192
Leases and Rents	23,928	23,928
Court Fees	18,733	18,733
Fire	32,546	32,546
Mosquito Spraying	16,153	16,153
Interest Income	8,442	8,442
Ambulance	236,619	236,619
Sanitation	236,415	236,415
Library	10,443	10,443
Grant Revenues	862,262	862,262
Miscellaneous	4,657	4,657
<u>Total Revenues</u>	<u>2,121,322</u>	<u>2,121,322</u>
EXPENDITURES		
Current		
City Hall	117,732	117,732
Legislative	2,111	2,111
Administrative	150,350	150,350
Sanitation Department	198,087	198,087
Streets	163,302	163,302
Fire Department	72,808	72,808
Police Department	257,559	257,559
Library	22,390	22,390
Ambulance	139,892	139,892
Judicial	19,581	19,581
Parks	61,166	61,166
Homes for Citizens	276,633	276,633
Capital Outlay	554,861	554,861
<u>Total Expenditures</u>	<u>2,036,472</u>	<u>2,036,472</u>
Excess of Revenues Over (Under) Expenditures	84,850	84,850
OTHER FINANCING SOURCES (USES)		
Transfers In	-	-
Transfers Out	-	-
<u>Total Other Sources (Uses)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	84,850	84,850
Fund Balance--Beginning of Year	<u>307,893</u>	<u>307,893</u>
<u>Fund Balance--End of Year</u>	<u>\$ 392,743</u>	<u>\$ 392,743</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, 2010

Net Change in Fund Balances -- Total Governmental Funds	\$ 84,850
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.	603,161
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(142,067)
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.	(9,365)
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>30,233</u>
Change in Net Assets -- Statement of Activities	<u>\$ 566,812</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2010

	Proprietary Funds		
	Water and Sewer	Airport	Total
ASSETS			
<u>Current Assets:</u>			
Cash and Investments	\$ 484,187	\$ 62,152	\$ 546,339
Accounts Receivable	112,796	-	112,796
Allowance for Uncollectible	(2,624)	-	(2,624)
Due from Other Funds	238,413	-	238,413
<u>Total Current Assets</u>	<u>\$ 832,772</u>	<u>\$ 62,152</u>	<u>\$ 894,924</u>
<u>Noncurrent Assets:</u>			
Capital Credits	\$ 9,714	\$ -	\$ 9,714
Land	456,321	216,237	672,558
Vehicles & Equipment (net of depreciation)	1,870,100	230,198	2,100,298
<u>Total Fixed Assets</u>	<u>\$ 2,336,135</u>	<u>\$ 446,435</u>	<u>\$ 2,782,570</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 3,168,907</u>	 <u>\$ 508,587</u>	 <u>\$ 3,677,494</u>
 LIABILITIES & NET ASSETS			
<u>Current Liabilities</u>			
Accounts Payable	\$ 11,069	\$ -	\$ 11,069
Accrued Wages	4,335	-	4,335
Due to Other Funds	-	12,183	12,183
<u>Total Current Liabilities</u>	<u>\$ 15,404</u>	<u>\$ 12,183</u>	<u>\$ 27,587</u>
<u>Other Liabilities</u>			
Customer Deposits	\$ 50,315	\$ 500	\$ 50,815
<u>Total Other Liabilities</u>	<u>\$ 50,315</u>	<u>\$ 500</u>	<u>\$ 50,815</u>
 NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,326,421	\$ 446,435	\$ 2,772,856
Unrestricted	776,767	49,469	826,236
<u>Total Net Assets</u>	<u>\$ 3,103,188</u>	<u>\$ 495,904</u>	<u>\$ 3,599,092</u>
 <u>TOTAL LIABILITIES & NET ASSETS</u>	 <u>\$ 3,168,907</u>	 <u>\$ 508,587</u>	 <u>\$ 3,677,494</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, 2010

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Operating Revenues</u>			
Water Revenue	\$ 437,067	\$ -	\$ 437,067
Sewer Revenue	137,280	-	137,280
Water/Sewer Permits	5,761	-	5,761
Reconnect and Late Fees	31,660	-	31,660
Rental Income	-	15,270	15,270
<u>Total Operating Revenues</u>	<u>611,768</u>	<u>15,270</u>	<u>627,038</u>
<u>Operating Expenses</u>			
Salaries	245,187	-	245,187
Payroll Taxes	17,564	-	17,564
Retirement Costs	15,883	-	15,883
Supplies	32,477	-	32,477
Repairs & Maintenance	43,328	2,222	45,550
Utilities & Fuel	76,219	1,590	77,809
Insurance	51,985	1,021	53,006
Professional Fees	12,881	-	12,881
Miscellaneous	12,854	685	13,539
Depreciation	117,911	12,266	130,177
<u>Total Operating Expenses</u>	<u>626,289</u>	<u>17,784</u>	<u>644,073</u>
<u>Operating Income (Loss)</u>	<u>(14,521)</u>	<u>(2,514)</u>	<u>(17,035)</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	7,312	803	8,115
Miscellaneous Income	34,100	5,024	39,124
Interest Expense	(98)	-	(98)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>41,314</u>	<u>5,827</u>	<u>47,141</u>
Change in Net Assets	26,793	3,313	30,106
NET ASSETS			
Net Assets, Beginning of Year	3,076,395	492,591	3,568,986
Net Assets, End of Year	3,103,188	495,904	3,599,092

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, 2010

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers	\$ 643,743	\$ 20,294	\$ 664,037
Payments to Suppliers	(230,343)	(5,518)	(235,861)
Payments to Employees	(274,299)	-	(274,299)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>139,101</u>	<u>14,776</u>	<u>153,877</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Payments on Interfund Balances	(14,010)	(1,117)	(15,127)
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>(14,010)</u>	<u>(1,117)</u>	<u>(15,127)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Fixed Assets	(6,000)	-	(6,000)
Payments on Certificates of Obligation	(45,436)	-	(45,436)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(51,436)</u>	<u>-</u>	<u>(51,436)</u>
<u>Cash Flows from Investing Activities</u>			
Interest Earned on Investments	7,312	803	8,115
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>7,312</u>	<u>803</u>	<u>8,115</u>
Net Increase (Decrease) in Cash & Cash Equivalents	80,967	14,462	95,429
Cash & Cash Equivalents--Beginning of Year	403,220	47,690	450,910
<u>Cash & Cash Equivalents--End of Year</u>	<u>484,187</u>	<u>62,152</u>	<u>546,339</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	(14,521)	(2,514)	(17,035)
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:			
Depreciation	117,911	12,266	130,177
Miscellaneous Revenues	34,100	5,024	39,124
(Increase) Decrease in Receivables	(3,375)	-	(3,375)
Increase (Decrease) in Liabilities	4,986	-	4,986
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>139,101</u>	<u>14,776</u>	<u>153,877</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2010

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, 2010

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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2010

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2010, the amount deemed uncollectible by this estimate was \$31,846. 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, 2010

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, 2010

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, 2010

Note C: Deposits and Investments (continued)

Cash Deposits

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,076,818 and the bank balance was \$1,138,414. The City's cash deposits at September 30 and throughout the year were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

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

The 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, 2010 included certificates of deposit (\$956,766).

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, 2010

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, 2010

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2010, was as follows:

Governmental Activities:	Balance <u>10-1-09</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-10</u>
Buildings	\$ 554,178	-	-	\$ 554,178
Construction in Progress	62,019	-	(62,019)	-
City Park	562,126	12,566	-	574,692
Street Paving	734,141	534,862	62,019	1,331,022
Vehicles	167,430	26,995	(23,681)	170,744
Furniture & Equipment	<u>817,382</u>	<u>28,738</u>	<u>-</u>	<u>846,120</u>
Total Capital Assets	<u>\$ 2,897,276</u>	<u>\$ 603,161</u>	<u>\$ (23,681)</u>	<u>\$ 3,476,756</u>
 <u>Less Accumulated Depreciation:</u>				
Buildings	\$ 163,042	\$ 13,029	-	\$ 176,071
City Park	75,978	28,106	-	104,084
Street Paving	261,597	33,306	-	294,903
Vehicles	115,394	24,266	(23,681)	115,979
Furniture & Equipment	<u>426,748</u>	<u>43,360</u>	<u>-</u>	<u>470,108</u>
Total Accumulated Depreciation	<u>\$ 1,042,759</u>	<u>\$ 142,067</u>	<u>\$ -</u>	<u>\$ 1,161,145</u>
Net Capital Assets	<u>\$ 1,854,517</u>	<u>\$ 461,094</u>	<u>\$ -</u>	<u>\$ 2,315,611</u>
 Business-Type Activities:				
<u>Water & Sewer</u>	Balance <u>10-1-09</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-10</u>
Land	\$ 456,321	-	-	\$ 456,321
Buildings	319,552	-	-	319,552
Water System	1,753,841	-	-	1,753,841
Sewer System	1,507,615	-	-	1,507,615
Vehicles	<u>213,119</u>	<u>6,000</u>	<u>-</u>	<u>219,119</u>
Total Capital Assets	<u>\$ 4,250,448</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 4,256,448</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2010

Note D: Capital Assets (continued)

<u>Less Accumulated</u> <u>Depreciation:</u>	Balance <u>10-1-09</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-10</u>
Buildings	\$ 46,520	\$ 8,276	-	\$ 54,796
Water System	784,930	47,570	-	832,500
Sewer System	842,825	39,902	-	882,727
Vehicles	<u>137,841</u>	<u>22,163</u>	<u>-</u>	<u>160,004</u>
Total Accumulated Depreciation	<u>\$ 1,812,116</u>	<u>\$ 117,911</u>	<u>\$ -</u>	<u>\$1,930,027</u>
Net Capital Assets	<u>\$ 2,438,332</u>	<u>\$(111,911)</u>	<u>\$ -</u>	<u>\$2,326,421</u>

Business-Type

<u>Activities:</u> <u>Airport</u>	Balance <u>10-1-09</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-10</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>10-1-09</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-10</u>
Buildings and Improvements	\$ 240,285	<u>12,266</u>	<u>-</u>	<u>252,551</u>
Net Capital Assets	<u>\$ 458,701</u>	<u>\$ (12,266)</u>	<u>\$ -</u>	<u>\$ 446,435</u>

Depreciation was charged to functions as follows:

City Hall	\$ 9,488
Administration	13,520
Sanitation	1,958
Streets	40,170
Fire	18,168
Police	24,265
Ambulance	6,392
Parks	28,106
Water & Sewer	117,911
Airport	<u>12,266</u>
	<u>\$272,244</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2010

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, 2009, the City financed \$8,000 for the purchase of a 2003 truck with Vista Bank. Terms of the note include an interest rate of 7%. This note was paid off in the current period.

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.

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.

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 carried an interest rate of 6% and was retired in the current period.

Changes in long-term obligations for the year ended September 30, 2010 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>
Note Payable	\$ 4,888	\$ -	\$ 4,888	\$ -	\$ -
Capital Leases:					
Pumper Truck	70,482	-	10,388	60,094	10,897
Street Grader	<u>30,626</u>	<u>-</u>	<u>14,958</u>	<u>15,668</u>	<u>15,668</u>
<u>Total Governmental Funds:</u>	<u>\$ 105,996</u>	<u>\$ -</u>	<u>\$ 30,234</u>	<u>\$ 75,762</u>	<u>\$ 26,565</u>

Debt service requirements on long-term debt at September 30, 2010 are as follows:

Year Ending September 30,	<u>Governmental Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 26,565	\$ 3,689	\$ 30,254
2012	11,431	2,411	13,842
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>\$ 75,762</u>	<u>\$ 9,860</u>	<u>\$ 85,622</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2010

Note E: Loans (continued)

<u>Enterprise Funds:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Certificate of Obligation	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ -
<u>Total Enterprise Funds:</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2010

Note F: Pension Plan (continued)

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.

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, 2008, 2009, and 2010:

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, 2010

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, 2009 valuation is effective for rates beginning January 2011).

Actuarial Information

	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</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	25 years-	24 years-	23 years-
	Closed period	Closed period	Closed period
Asset valuation method	Amortized cost	Amortized cost	10-year Smoothed Market
Assumptions			
Investment return	7.0%	7.5%	7.5%
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>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>
Actuarial Value of Assets	\$333,964	\$380,203	\$ 435,509
Actuarial Accrued Liability (AAL)	522,792	608,864	687,713
Unfunded (Over-funded)			
Actuarial Accrued Liability (UAAL)	188,828	228,661	252,204
Funded Ratio	63.9%	62.4%	63.3%
Annual Covered Payroll	371,367	422,397	481,410
UAAL as a Percentage of Covered Payroll	50.8%	54.1%	52.4%

The City's pension plan contributions to TMRS for the years ended September 30, 2010, 2009, and 2008 were \$35,042, \$30,292, and \$28,294, 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 2009 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2009. A summary of actuarial assumptions and definitions can be found in the December 31, 2009 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, 2010

Note G: Supplemental Death Benefits Plan

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

The City 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, 2010, the City's contributions to the SDBF were \$1,881 which equaled the required contributions.

Note H: Litigation

There was no litigation pending or in progress against the City at September 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2010

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 374,875	\$ 374,875	\$ 406,935	\$ 32,060
Sales Taxes	129,000	129,000	144,718	15,718
Franchise Taxes	110,000	110,000	117,279	7,279
Licenses and Permits	4,000	4,000	2,192	(1,808)
Leases and Rents	20,000	20,000	23,928	3,928
Court Fees	15,100	15,100	18,733	3,633
Fire	32,600	32,600	32,546	(54)
Mosquito Spraying	16,000	16,000	16,153	153
Interest Income	6,000	6,000	8,442	2,442
Ambulance	200,000	200,000	236,619	36,619
Sanitation	226,800	226,800	236,415	9,615
Library	5,000	5,000	10,443	5,443
Grant Revenues	417,738	862,262	862,262	-
Miscellaneous	6,002	6,002	4,657	(1,345)
<u>Total Revenues</u>	<u>1,563,115</u>	<u>2,007,639</u>	<u>2,121,322</u>	<u>113,683</u>
<u>Expenditures</u>				
<u>Current</u>				
City Hall	107,238	118,018	117,732	286
Legislative	3,250	3,250	2,111	1,139
Administrative	156,272	156,272	150,350	5,922
Sanitation Department	197,700	197,700	198,087	(387)
Streets	120,425	142,212	163,302	(21,090)
Fire Department	76,100	77,100	72,808	4,292
Police Department	267,329	275,324	257,559	17,765
Library	21,463	21,463	22,390	(927)
Ambulance	144,200	144,200	139,892	4,308
Judicial	21,722	21,722	19,581	2,141
Parks	57,416	69,983	61,166	8,817
Homes for Citizens	390,000	276,633	276,633	-
Capital Outlay	-	554,861	554,861	-
<u>Total Expenditures</u>	<u>1,563,115</u>	<u>2,058,738</u>	<u>2,036,472</u>	<u>22,266</u>
Net Change in Fund Balances	-	(51,099)	84,850	135,949
Fund Balance, Beginning of Year	<u>307,893</u>	<u>307,893</u>	<u>307,893</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ 307,893</u>	<u>\$ 256,794</u>	<u>\$ 392,743</u>	<u>\$ 135,949</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2010

Years Ended September 30	Balance 10/01/09	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/10
2001 and Prior	\$ 3,173	\$ -	\$ 42	\$ (49)	\$ 3,082
2002	777	-	83	(1)	693
2003	1,300	-	250	(2)	1,048
2004	2,507	-	403	(3)	2,101
2005	3,271	-	1,345	(3)	1,923
2006	4,033	-	1,990	(2)	2,041
2007	5,783	-	3,022	(1)	2,760
2008	7,326	-	3,226	(2)	4,098
2009	16,027	-	8,773	(57)	7,197
2010	<u>-</u>	<u>393,600</u>	<u>379,072</u>	<u>(961)</u>	<u>13,567</u>
<u>Totals</u>	<u>\$ 44,197</u>	<u>\$ 393,600</u>	<u>\$ 398,206</u>	<u>\$ (1,081)</u>	<u>\$ 38,510</u>

Terry & King, CPAs, P.C.

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Ryan R. King, CPA

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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, 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, 2010, which collectively comprise the City of Abernathy's basic financial statements and have issued our report thereon dated January 7, 2011. 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 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, 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.



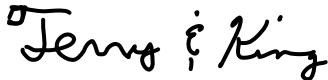
Independent Auditors' Report
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Abernathy's financial statements are free 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 7, 2011

Terry & King, CPAs, P.C.

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Independent Auditors' Report

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Abernathy with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. City of Abernathy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Abernathy's management. Our responsibility is to express an opinion on City of Abernathy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about City of Abernathy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Abernathy's compliance with those requirements.

In our opinion, City of Abernathy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.



Internal Control Over Compliance

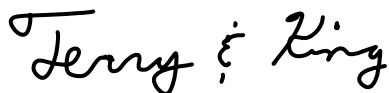
The management of City of Abernathy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Abernathy's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 7, 2011

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Reported

Noncompliance material to financial Statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required To be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Safe Routes to School Program - ARRA

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF ABERNATHY
Abernathy, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2010

<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, 2010

Not Applicable – None Required

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Texas Department of Community Affairs:			
Home Investment Partnership Program	14.239	M-07 SG-48-0100	\$ 276,633
Total U.S. Department of Housing and Urban Development			<u>276,633</u>
<u>U.S. Department of Energy</u>			
Passed Through Texas Comptroller of Public Accounts:			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	DE-EE0000893 - 3888MM	23,030
Total U.S. Department of Energy			<u>23,030</u>
<u>U.S. Department of Transportation</u>			
Passed Through Texas Department of Transportation:			
Safe Routes to School Program - ARRA	20.205	0905-12-036	534,861
Total U.S. Department of Transportation			<u>534,861</u>
<u>U.S. Department of Justice</u>			
Passed Through Office of the Governor Criminal Justices Division:			
Edward Byrne Memorial Justice Assistance (JAG) - ARRA	16.803	2202301	27,738
Total U.S. Department of Justice			<u>27,738</u>
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>			<u>\$ 862,262</u>

The accompanying notes are an integral part of this schedule.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Abernathy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.