

ANNUAL FINANCIAL REPORT

CITY OF ABERNATHY, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2012

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CITY OF ABERNATHY
Abernathy, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2012

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INTRODUCTORY SECTION

CITY OF ABERNATHY
Abernathy, Texas

September 30, 2012

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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P.O. Box 93550
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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, 2012, 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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Abernathy, Texas as of September 30, 2012, 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 10, 2013, 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.

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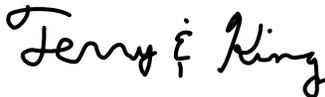


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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, identified as Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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. 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 black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs
January 10, 2013

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, 2012. 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 \$300,745 or approximately 8%, net assets of our governmental activities increased by \$336,147 or 12%.
- During the year, the City had expenses that were \$336,147 less than the \$1,676,388 generated in tax and other revenues for governmental programs. This compares to the prior year when expenses were less than revenues by \$76,811. The current year's large increase in net assets is largely due to grants received for capital expenditures in the amount of \$249,807.
- In the City's business type activities, revenues increased \$144,762 to \$958,142 (or 18%) while expenses decreased \$18,854 to \$657,397 (or 3%.) The City received a one time oil and gas lease payment in the amount of \$177,140 in the current year.
- Total cost of all of the City's programs was \$1,997,638, an increase of \$17,581.
- The General Fund reported a surplus this year of \$101,361.
- The resources available for appropriation were \$60,388 more than budgeted for the General Fund. Expenditures were less than the budgeted amounts for an overall favorable variance in spending of \$152,545.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail

than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole -- The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the differences between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

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

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

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

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

- *Governmental funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee – Reporting the City's Fiduciary Responsibilities

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

THE CITY AS A WHOLE

The City's combined net assets changed from a year ago—*increasing* from \$6,452,286 to \$7,089,178. 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 \$7,089,178 at September 30, 2012. (See Table A-1).

Table A-1
City of Abernathy's Net Assets

	Governmental Activities			Business-type Activities			Total		
	2012	2011	Percentage Change	2012	2011	Percentage Change	2012	2011	Percentage Change
Current assets:									
Cash and Investments	798,975	697,295	15%	899,109	492,091	83%	1,698,084	1,189,386	43%
Accounts Receivable, net	58,079	67,787	-14%	118,787	132,805	-11%	176,866	200,592	-12%
Taxes Receivable, net	16,524	10,478	58%	-	-	0%	16,524	10,478	58%
Due from Other Governments	19,786	772	2463%	-	-	0%	19,786	772	2463%
Due from Other Funds	-	-	0%	218,426	213,253	2%	218,426	213,253	2%
Capital Credits	-	-	0%	9,714	9,714	0%	9,714	9,714	0%
Total current assets:	893,364	776,332	15%	1,246,036	847,863	47%	2,139,400	1,624,195	32%
Noncurrent assets:									
Land	-	-	0%	672,558	672,558	0%	672,558	672,558	0%
Infrastructure	1,730,050	1,365,805	27%	-	-	0%	1,730,050	1,365,805	27%
Less accumulated depreciation, infrastructure	(393,453)	(340,496)	16%	-	-	0%	(393,453)	(340,496)	16%
Buildings	554,178	554,178	0%	802,301	802,301	0%	1,356,479	1,356,479	0%
Less accumulated depreciation, buildings	(201,728)	(188,900)	7%	(348,265)	(327,887)	6%	(549,993)	(516,787)	6%
Water System	-	-	0%	2,014,041	2,014,041	0%	2,014,041	2,014,041	0%
Less accumulated depreciation, water system	-	-	0%	(940,084)	(880,816)	7%	(940,084)	(880,816)	7%
Sewer System	-	-	0%	1,535,264	1,535,264	0%	1,535,264	1,535,264	0%
Less accumulated depreciation, sewer system	-	-	0%	(962,769)	(922,629)	4%	(962,769)	(922,629)	4%
Vehicles	194,592	194,592	0%	387,610	253,680	53%	582,202	448,272	30%
Less accumulated depreciation, vehicles	(158,867)	(141,236)	12%	(211,531)	(185,344)	14%	(370,398)	(326,580)	13%
Furniture & Equipment	1,420,812	1,420,812	0%	-	-	0%	1,420,812	1,420,812	0%
Less accumulated depreciation, furniture & equipment	(707,790)	(644,269)	10%	-	-	0%	(707,790)	(644,269)	10%
Total noncurrent assets	2,437,794	2,220,486	10%	2,949,125	2,961,168	0%	5,386,919	5,181,654	4%
Total Assets	3,331,158	2,996,818	11%	4,195,161	3,809,031	10%	7,526,319	6,805,849	11%
Current liabilities:									
Accounts Payable	17,049	12,629	35%	7,834	14,668	-47%	24,883	27,297	-9%
Accrued Wages	5,706	5,674	1%	4,668	4,643	1%	10,374	10,317	1%
Accrued Interest	-	-	0%	1,379	-	100%	1,379	-	100%
Due to Other Funds	218,426	213,253	2%	-	-	0%	218,426	213,253	2%
Customer Deposits	-	-	0%	54,522	53,499	2%	54,522	53,499	2%
Total current liabilities	241,181	231,556	4%	68,403	72,810	-6%	309,584	304,366	2%
Noncurrent Liabilities:									
Due within one year	11,991	11,431	5%	16,795	-	100%	28,786	11,431	152%
Due in more than one year	25,774	37,766	-32%	72,997	-	100%	98,771	37,766	162%
Total current liabilities	37,765	49,197	-23%	89,792	-	100%	127,557	49,197	159%
Net Assets:									
Invested in capital assets, net of related debt	2,400,029	2,171,289	11%	2,859,333	2,961,168	-3%	5,259,362	5,132,457	2%
Unrestricted	652,183	544,776	20%	1,177,633	775,053	52%	1,829,816	1,319,829	39%
Total Net Assets	3,052,212	2,716,065	12%	4,036,966	3,736,221	8%	7,089,178	6,452,286	10%

Net assets of the City's governmental activities increased by 12% (\$3,052,212 compared to \$2,716,065). 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 \$544,776 at September 30, 2011 to \$652,183 at the end of this year. Net assets of the City's business-type activities increased by 8% from \$3,736,221 to \$4,036,966.

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

	Governmental Activities			Business-type Activities			Total		
	2012	2011	Percentage Change	2012	2011	Percentage Change	2012	2011	Percentage Change
Program Revenues:									
Charges for Services	466,307	469,799	-1%	787,533	776,279	1%	1,253,840	1,246,078	1%
Grants & Contributions	439,769	226,418	94%	-	-	0%	439,769	226,418	94%
General Revenues:									
Property Taxes	421,297	401,703	5%	-	-	0%	421,297	401,703	5%
Nonproperty Taxes	281,660	268,660	5%	-	-	0%	281,660	268,660	5%
Investment Earnings	5,478	6,182	-11%	4,472	5,964	-25%	9,950	12,146	-18%
Licenses and Permits	3,464	2,890	20%	-	-	0%	3,464	2,890	20%
Miscellaneous	13,413	4,965	170%	211,137	31,137	578%	224,550	36,102	522%
Transfers	45,000	-	100%	(45,000)	-	-100%	-	-	0%
	<u>1,676,388</u>	<u>1,380,617</u>	<u>21%</u>	<u>958,142</u>	<u>813,380</u>	<u>18%</u>	<u>2,634,530</u>	<u>2,193,997</u>	<u>20%</u>
Expenses:									
City Hall	148,145	98,004	51%	-	-	0%	148,145	98,004	51%
Legislative	950	2,584	-63%	-	-	0%	950	2,584	-63%
Administrative	208,681	159,556	31%	-	-	0%	208,681	159,556	31%
Sanitation	176,970	178,282	-1%	-	-	0%	176,970	178,282	-1%
Streets	160,765	138,907	16%	-	-	0%	160,765	138,907	16%
Fire	59,421	84,704	-30%	-	-	0%	59,421	84,704	-30%
Police	246,346	258,313	-5%	-	-	0%	246,346	258,313	-5%
Library	16,855	21,632	-22%	-	-	0%	16,855	21,632	-22%
Ambulance	161,942	153,815	5%	-	-	0%	161,942	153,815	5%
Judicial	24,916	22,329	12%	-	-	0%	24,916	22,329	12%
Parks	80,137	75,832	6%	-	-	0%	80,137	75,832	6%
Interest on Debt	2,410	3,688	-35%	-	-	0%	2,410	3,688	-35%
Homes for Citizens	52,703	106,160	-50%	-	-	0%	52,703	106,160	-50%
Water and Sewer	-	-	0%	641,781	660,618	-3%	641,781	660,618	-3%
Airport	-	-	0%	15,616	15,633	0%	15,616	15,633	0%
	<u>1,340,241</u>	<u>1,303,806</u>	<u>3%</u>	<u>657,397</u>	<u>676,251</u>	<u>-3%</u>	<u>1,997,638</u>	<u>1,980,057</u>	<u>1%</u>
Increase (Decrease) in Net Assets	336,147	76,811	338%	300,745	137,129	119%	636,892	213,940	198%
Beginning Net Assets	2,716,065	2,639,254	3%	3,736,221	3,599,092	4%	6,452,286	6,238,346	3%
Ending Net Assets	3,052,212	2,716,065	12%	4,036,966	3,736,221	8%	7,089,178	6,452,286	10%

The City's total revenues were \$2,634,530. A significant portion, 36%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (25%), non-property taxes (17%), charges for services (28%), and grants and contributions (26%).

The total cost of all programs and services was \$1,997,638; 33% of these costs were for the business-type activities. Expenses for governmental activities consisted of costs for city hall (11%), administration (16%), sanitation (13%), streets (12%), fire department (4%), police (18%), ambulance (12%), parks (6%), home grant expenditures (4%).

Governmental Activities

Revenue for the City's governmental activities increased by 21% (\$295,771), while total expenses increased 3% (\$36,435).

- Property tax rates remained constant at \$0.5382 per \$100. The ad valorem tax levy for the previous fiscal year was \$399,476, compared to \$420,263 for the current year. Total tax collections increased 5%, from \$394,022 in the prior year to \$411,898.
- The City's grant and contribution revenue increased from \$226,418 in the prior period to \$439,769 in the current period.
- The cost of all *governmental* activities this year was \$1,340,241 compared to \$1,303,806 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 \$421,297 because some of the costs were paid by those who directly benefited from the programs (\$466,307) or by nonproperty taxes (\$281,660). Overall, the City's governmental program revenues, including intergovernmental aide and fees for services, increased in 2012 from \$1,380,617 to \$1,676,388.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) increased 18% (\$958,142 from \$813,380) and expenses *decreased* 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 \$635,659, which is an increase from the prior year's total of \$534,298. The following items effecting fund balance should be noted:

- Ad valorem tax revenues increased \$17,362 and non-property tax revenues increased \$13,000.
- Grant revenues increased \$234,288.
- The City expended \$364,245 for street paving in the current fiscal period while in the previous fiscal year, \$58,632 was expended for capital assets. \$249,807 of these capital expenditures were paid for with grant funds in the current year.
- The City expended grant funds in the amount of \$52,703 to build homes for citizens in the current year.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual revenues were \$60,388 more than final budget amounts and expenditures were \$152,545 below the final budget amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had \$9,311,407 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 \$498,175, or 6%, over last year.

This year's major additions amounted to \$498,175:

- \$364,245 was expended for street paving.
- A pickup for the water department was purchased for \$24,336.
- A backhoe was purchased for the water & sewer department for \$109,594.

Table A-3
Fixed Assets

	Governmental Activities				Business-type Activities			
	2011	Additions	Deletions/ Reclassifications	2012	2011	Additions	Deletions	2012
Land	-	-	-	-	672,558	-	-	672,558
Construction in Progress	-	-	-	-	-	-	-	-
Infrastructure	1,365,805	364,245	-	1,730,050	-	-	-	-
Buildings	554,178	-	-	554,178	802,301	-	-	802,301
Water System	-	-	-	-	2,014,041	-	-	2,014,041
Sewer System	-	-	-	-	1,535,264	-	-	1,535,264
Vehicles	194,592	-	-	194,592	253,680	133,930	-	387,610
Furniture and Equipment	1,420,813	-	-	1,420,813	-	-	-	-
Accumulated Depreciation	(1,314,901)	(146,938)	-	(1,461,839)	(2,316,676)	(145,973)	-	(2,462,649)
Net Capital Assets	2,220,487	217,307	-	2,437,794	2,961,168	(12,043)	-	2,949,125

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 2012, the City had \$127,556 of total debt outstanding. \$28,786 of this is due within one year. \$37,765 of this debt is for a fire truck which is accounted for in the general fund. The remaining \$89,791 is a new lease acquired in the water & sewer fund for the purchase of a backhoe. More detailed information about the City's long-term debt activity is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year.

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

The rising cost of employee health insurance has continued to be a major financial concern for several years. Insurance costs for fiscal year 2013 are projected to increase by 5%. The rising cost of fuel and oil has also affected the City by increased cost of goods.

It is planned that the City's Net Assets at the end of the fiscal year ending September 30, 2013 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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and Investments	\$ 798,975	\$ 899,109	\$ 1,698,084
Accounts Receivable, net	58,079	118,787	176,866
Taxes Receivable, Net	16,524	-	16,524
Due from Other Governments	19,786	-	19,786
Due from Other Funds	-	218,426	218,426
Capital Credits	-	9,714	9,714
Capital Assets:			
Land	-	672,558	672,558
Buildings & Improvements, net	352,450	454,036	806,486
Infrastructure	1,336,597	-	1,336,597
Utility Systems & Equipment, net	-	1,646,452	1,646,452
Furniture & Equipment, net	748,747	176,079	924,826
<u>TOTAL ASSETS</u>	\$ 3,331,158	\$ 4,195,161	\$ 7,526,319
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 17,049	\$ 7,834	\$ 24,883
Accrued Wages	5,706	4,668	10,374
Accrued Interest	-	1,379	1,379
Due to Other Funds	218,426	-	218,426
Noncurrent Liabilities:			
Customer Deposits	-	54,522	54,522
Due within one year	11,991	16,795	28,786
Due in more than one year	25,774	72,997	98,771
<u>Total Liabilities</u>	\$ 278,946	\$ 158,195	\$ 437,141
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,400,029	\$ 2,859,333	\$ 5,259,362
Unrestricted	652,183	1,177,633	1,829,816
<u>Total Net Assets</u>	\$ 3,052,212	\$ 4,036,966	\$ 7,089,178
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 3,331,158	\$ 4,195,161	\$ 7,526,319

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

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	\$ 148,145	\$ 23,911	\$ -	\$ -	\$ (124,234)	-	(124,234)
Legislative	950	-	-	-	(950)	-	(950)
Administrative	208,681	-	31,247	-	(177,434)	-	(177,434)
Sanitation	176,970	273,522	-	-	96,552	-	96,552
Streets	160,765	-	-	249,807	89,042	-	89,042
Fire	59,421	-	31,099	-	(28,322)	-	(28,322)
Police	246,346	-	-	-	(246,346)	-	(246,346)
Library	16,855	6,026	-	-	(10,829)	-	(10,829)
Ambulance	161,942	128,487	74,913	-	41,458	-	41,458
Judicial	24,916	34,361	-	-	9,445	-	9,445
Parks	80,137	-	-	-	(80,137)	-	(80,137)
Interest on Long-Term Debt	2,410	-	-	-	(2,410)	-	(2,410)
Homes for Citizens	52,703	-	52,703	-	-	-	-
Total Government Activities	\$ 1,340,241	\$ 466,307	\$ 189,962	\$ 249,807	\$ (434,165)	\$ -	\$ (434,165)
Business-type Activities							
Water and Sewer	\$ 641,781	\$ 778,858	\$ -	\$ -	\$ -	\$ 137,077	\$ 137,077
Airport	15,616	8,675	-	-	-	(6,941)	(6,941)
Total Business-Type Activities	\$ 657,397	\$ 787,533	\$ -	\$ -	\$ -	\$ 130,136	\$ 130,136
Total Primary Government	\$ 1,997,638	\$ 1,253,840	\$ 189,962	\$ 249,807	\$ (434,165)	\$ 130,136	\$ (304,029)
General Revenues							
Property Taxes, Levied for General Purpose					421,297	-	421,297
Nonproperty Taxes:					281,660	-	281,660
Investment Earnings					5,478	4,472	9,950
Licenses and Permits					3,464	-	3,464
Miscellaneous					13,413	211,137	224,550
Transfers					45,000	(45,000)	-
Total General Revenue					770,312	170,609	940,921
Change in Net Assets					336,147	300,745	636,892
Net Assets -- Beginning					2,716,065	3,736,221	6,452,286
Net Assets -- Ending					\$ 3,052,212	\$ 4,036,966	\$ 7,089,178

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2012

	General Fund	Total Governmental Funds
ASSETS		
Cash	\$ 69,642	\$ 69,642
Certificates of Deposit	729,333	729,333
Property Taxes Receivable, net	16,524	16,524
Accounts Receivable	58,079	58,079
Due from Other Governments	<u>19,786</u>	<u>19,786</u>
<u>TOTAL ASSETS</u>	<u>\$ 893,364</u>	<u>\$ 893,364</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 17,049	\$ 17,049
Accrued Wages	5,706	5,706
Due to Other Funds	218,426	218,426
Deferred Revenues	<u>16,524</u>	<u>16,524</u>
<u>Total Liabilities</u>	<u>257,705</u>	<u>257,705</u>
FUND EQUITIES		
Fund Balance-Unassigned	<u>635,659</u>	<u>635,659</u>
<u>Total Fund Equities</u>	<u>635,659</u>	<u>635,659</u>
<u>TOTAL LIABILITIES & FUND EQUITIES</u>	<u>\$ 893,364</u>	<u>\$ 893,364</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, 2012

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 635,659
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	16,524
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,437,794
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(37,765)</u>
Net Assets of Governmental Activities -- Statement of Net Assets	<u>\$ 3,052,212</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, 2012

	General Fund	Total Governmental Funds
REVENUES:		
Property Taxes (Including Penalty & Interest)	\$ 415,250	\$ 415,250
Sales Taxes	168,014	168,014
Franchise Taxes	113,646	113,646
Licenses and Permits	3,464	3,464
Leases and Rents	23,911	23,911
Court Fees	34,361	34,361
Fire	31,099	31,099
Mosquito Spraying	16,017	16,017
Interest Income	5,478	5,478
Ambulance	203,400	203,400
Sanitation	257,504	257,504
Library	6,026	6,026
Grant Revenues	333,757	333,757
Miscellaneous	13,414	13,414
<u>Total Revenues</u>	1,625,341	1,625,341
EXPENDITURES		
Current		
City Hall	138,857	138,857
Legislative	950	950
Administrative	200,816	200,816
Sanitation Department	175,012	175,012
Streets	465,189	465,189
Fire Department	41,253	41,253
Police Department	228,716	228,716
Library	16,855	16,855
Ambulance	157,842	157,842
Judicial	24,916	24,916
Parks	52,030	52,030
Homes for Citizens	52,703	52,703
Principal on Long-Term Debt	11,431	11,431
Interest on Long-Term Debt	2,410	2,410
<u>Total Expenditures</u>	1,568,980	1,568,980
Excess of Revenues Over (Under) Expenditures	56,361	56,361
OTHER FINANCING SOURCES (USES)		
Transfers In	45,000	45,000
Transfers Out	-	-
<u>Total Other Sources (Uses)</u>	45,000	45,000
Net Change in Fund Balances	101,361	101,361
Fund Balance--Beginning of Year	534,298	534,298
<u>Fund Balance--End of Year</u>	\$ 635,659	\$ 635,659

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, 2012

Net Change in Fund Balances -- Total Governmental Funds	\$ 101,361
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.	364,245
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(146,938)
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.	6,047
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>11,432</u>
Change in Net Assets -- Statement of Activities	<u>\$ 336,147</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2012

	Proprietary Funds		
	Water and Sewer	Airport	Total
ASSETS			
<u>Current Assets:</u>			
Cash and Investments	\$ 775,728	\$ 123,381	\$ 899,109
Accounts Receivable	119,574	-	119,574
Allowance for Uncollectible	(787)	-	(787)
Due from Other Funds	230,455	-	230,455
<u>Total Current Assets</u>	<u>\$ 1,124,970</u>	<u>\$ 123,381</u>	<u>\$ 1,248,351</u>
<u>Noncurrent Assets:</u>			
Capital Credits	\$ 9,714	\$ -	\$ 9,714
Land	456,321	216,237	672,558
Vehicles & Equipment (net of depreciation)	2,070,901	205,666	2,276,567
<u>Total Fixed Assets</u>	<u>\$ 2,536,936</u>	<u>\$ 421,903</u>	<u>\$ 2,958,839</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 3,661,906</u>	 <u>\$ 545,284</u>	 <u>\$ 4,207,190</u>
 LIABILITIES & NET ASSETS			
<u>Current Liabilities</u>			
Accounts Payable	\$ 7,725	\$ 109	\$ 7,834
Accrued Wages	4,668	-	4,668
Accrued Interest	1,379	-	1,379
Due to Other Funds	-	12,029	12,029
<u>Total Current Liabilities</u>	<u>\$ 13,772</u>	<u>\$ 12,138</u>	<u>\$ 25,910</u>
<u>Other Liabilities</u>			
Customer Deposits	\$ 54,022	\$ 500	\$ 54,522
Due within one year	16,795	-	16,795
Due in more than one year	72,997	-	72,997
<u>Total Other Liabilities</u>	<u>\$ 143,814</u>	<u>\$ 500</u>	<u>\$ 144,314</u>
 NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,437,430	\$ 421,903	\$ 2,859,333
Unrestricted	1,066,890	110,743	1,177,633
<u>Total Net Assets</u>	<u>\$ 3,504,320</u>	<u>\$ 532,646</u>	<u>\$ 4,036,966</u>
 <u>TOTAL LIABILITIES & NET ASSETS</u>	 <u>\$ 3,661,906</u>	 <u>\$ 545,284</u>	 <u>\$ 4,207,190</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, 2012

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Operating Revenues</u>			
Water Revenue	\$ 585,156	\$ -	\$ 585,156
Sewer Revenue	155,315	-	155,315
Water/Sewer Permits	2,265	-	2,265
Reconnect and Late Fees	36,122	-	36,122
Rental Income	-	8,675	8,675
<u>Total Operating Revenues</u>	<u>778,858</u>	<u>8,675</u>	<u>787,533</u>
<u>Operating Expenses</u>			
Salaries	223,199	-	223,199
Payroll Taxes	15,775	-	15,775
Retirement Costs	11,270	-	11,270
Supplies	34,918	-	34,918
Repairs & Maintenance	65,754	1,231	66,985
Utilities & Fuel	77,339	1,200	78,539
Insurance	55,192	919	56,111
Professional Fees	6,175	-	6,175
Miscellaneous	18,452	-	18,452
Depreciation	133,707	12,266	145,973
<u>Total Operating Expenses</u>	<u>641,781</u>	<u>15,616</u>	<u>657,397</u>
<u>Operating Income (Loss)</u>	137,077	(6,941)	130,136
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	3,904	568	4,472
Miscellaneous Income	125,557	86,959	212,516
Interest Expense	(1,379)	-	(1,379)
Transfers In/(Out)	-	(45,000)	(45,000)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>128,082</u>	<u>42,527</u>	<u>170,609</u>
Change in Net Assets	265,159	35,586	300,745
NET ASSETS			
Net Assets, Beginning of Year	<u>3,239,161</u>	<u>497,060</u>	<u>3,736,221</u>
Net Assets, End of Year	<u>3,504,320</u>	<u>532,646</u>	<u>4,036,966</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

STATEMENT OF CASH FLOWS--
PROPRIETARY FUNDS
For the Year Ended September 30, 2012

	Proprietary Funds		
	Water and Sewer	Airport	Total
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers	\$ 919,456	\$ 95,634	\$ 1,015,090
Payments to Suppliers	(264,527)	(3,487)	(268,014)
Payments to Employees	(250,219)	-	(250,219)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>404,710</u>	<u>92,147</u>	<u>496,857</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Payments on Interfund Balances	(5,019)	(154)	(5,173)
Transfer to Other Fund	-	(45,000)	(45,000)
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>(5,019)</u>	<u>(45,154)</u>	<u>(50,173)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Fixed Assets	(133,930)	-	(133,930)
Proceeds from issuance of Long-Term Debt	109,594	-	109,594
Payments on Long-Term Debt	(19,802)	-	(19,802)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(44,138)</u>	<u>-</u>	<u>(44,138)</u>
<u>Cash Flows from Investing Activities</u>			
Interest Earned on Investments	3,904	568	4,472
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>3,904</u>	<u>568</u>	<u>4,472</u>
Net Increase (Decrease) in Cash & Cash Equivalents	359,457	47,561	407,018
Cash & Cash Equivalents--Beginning of Year	416,271	75,820	492,091
<u>Cash & Cash Equivalents--End of Year</u>	<u>775,728</u>	<u>123,381</u>	<u>899,109</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss)	137,077	(6,941)	130,136
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:			
Depreciation	133,707	12,266	145,973
Miscellaneous Revenues	125,557	86,959	212,516
(Increase) Decrease in Receivables	14,018	-	14,018
Increase (Decrease) in Liabilities	(5,649)	(137)	(5,786)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>404,710</u>	<u>92,147</u>	<u>496,857</u>

The accompanying notes are an integral part of this statement.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

Note A: Summary of Significant Accounting Policies

The City of Abernathy, Texas was incorporated under the provisions of the State of Texas. The City operates under a Council form of government and provides the following services as authorized by its charter: police and fire protection, sanitation and recreation, public works, and general administrative services. In addition, the City owns and operates a water and sewer system.

The basic financial statements of the City of Abernathy have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants (AICPA), and by the Financial Accounting Standards Board (FASB), when applicable. Proprietary funds apply FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

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. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
September 30, 2012

Note A: Summary of Significant Accounting Policies (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2012

Note A: Summary of Significant Accounting Policies--Continued

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. The fund equity is segregated in invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

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

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

3. Financial Statement Amounts

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments for the City are reported at fair value.

b. Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2012, the amount deemed uncollectible by this estimate was \$34,701. 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 5
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3

e. Receivable and Payable Balances

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

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

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

f. 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.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

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 7
September 30, 2012

Note C: Deposits and Investments (continued)

Cash Deposits

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$1,698,084 and the bank balance was \$1,742,423. The City's cash deposits from April 2012 through September 30, 2012 were not 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, 2012 included certificates of deposit (\$1,419,797).

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 8
September 30, 2012

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 exposed to custodial credit risk due to not having adequate securities pledged against the City's deposits.

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 9
September 30, 2012

Note D: Capital Assets

Capital asset activity for the period ended September 30, 2012, was as follows:

Governmental Activities:	Balance <u>10-1-11</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-12</u>
Buildings & Improvements	\$ 554,178	-	-	\$ 554,178
City Park	574,692	-	-	574,692
Street Paving	1,365,805	364,245	-	1,730,050
Vehicles	194,592	-	-	194,592
Furniture & Equipment	<u>846,120</u>	<u>-</u>	<u>-</u>	<u>846,120</u>
Total Capital Assets	<u>\$3,535,387</u>	<u>\$ 364,245</u>	<u>\$ -</u>	<u>\$ 3,899,632</u>

Less Accumulated
Depreciation:

Buildings & Improvements	\$ 188,900	\$ 12,829	-	\$ 201,729
City Park	132,190	28,106	-	160,296
Street Paving	340,494	52,958	-	393,452
Vehicles	141,237	17,631	-	158,868
Furniture & Equipment	<u>512,080</u>	<u>35,414</u>	<u>-</u>	<u>547,494</u>
Total Accumulated Depreciation	<u>\$1,314,901</u>	<u>\$ 146,938</u>	<u>\$ -</u>	<u>\$ 1,461,839</u>
Net Capital Assets	<u>\$2,220,486</u>	<u>\$ 217,307</u>	<u>\$ -</u>	<u>\$ 2,437,793</u>

Business-Type Activities: Water & Sewer	Balance <u>10-1-11</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>9-30-12</u>
Land	\$ 456,321	-	-	\$ 456,321
Buildings & Improvements	319,552	-	-	319,552
Water System	2,014,041	-	-	2,014,041
Sewer System	1,535,265	-	-	1,535,265
Vehicles	<u>253,680</u>	<u>133,930</u>	<u>-</u>	<u>387,610</u>
Total Capital Assets	<u>\$ 4,578,859</u>	<u>\$133,930</u>	<u>\$ -</u>	<u>\$ 4,712,789</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2012

Note D: Capital Assets (continued)

<u>Less Accumulated Depreciation:</u>	<u>Balance 10-1-11</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-12</u>
Buildings& Improvements	\$ 63,071	\$ 8,112	-	\$ 71,183
Water System	880,816	59,268	-	940,084
Sewer System	922,629	40,140	-	962,769
Vehicles	<u>185,344</u>	<u>26,187</u>	<u>-</u>	<u>211,531</u>
Total Accumulated Depreciation	<u>\$ 2,051,860</u>	<u>\$ 133,707</u>	<u>\$ -</u>	<u>\$ 2,185,567</u>
Net Capital Assets	<u>\$ 2,526,999</u>	<u>\$ 223</u>	<u>\$ -</u>	<u>\$ 2,527,222</u>

<u>Business-Type Activities: Airport</u>	<u>Balance 10-1-11</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-12</u>
Land	\$ 216,237	-	-	\$ 216,237
Buildings & 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 Depreciation:</u>	<u>Balance 10-1-11</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-12</u>
Buildings & Improvements	<u>\$ 264,817</u>	<u>12,266</u>	<u>-</u>	<u>277,083</u>
Total Accumulated Depreciation	<u>\$ 264,817</u>	<u>\$ 12,266</u>	<u>\$ -</u>	<u>\$ 277,083</u>
Net Capital Assets	<u>\$ 434,169</u>	<u>\$ (12,266)</u>	<u>\$ -</u>	<u>\$ 421,903</u>

Depreciation was charged to functions as follows:

City Hall	\$ 9,288
Administration	7,865
Sanitation	1,958
Streets	59,821
Fire	18,168
Police	17,631
Ambulance	4,101
Parks	28,106
Water & Sewer	133,707
Airport	<u>12,266</u>
	<u>\$292,911</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2012

Note E: Loans

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

During the year ended September 30, 2007, the City financed \$89,827 for the purchase of a Firestar Pumper Truck. Terms of the lease include an interest rate of 4.9% for eight annual installments of \$13,842 with the first installment due May 1, 2008. This lease is accounted for in the General Fund.

During the year ended September 30, 2012, the City financed \$109,594 for the purchase of a John Deere Backhoe. Terms of the lease include an interest rate of 3.3% for 6 annual installments of \$19,803 with the first installment due at signing of the lease. This lease is accounted for in the Water & Sewer Fund.

Changes in long-term obligations for the year ended September 30, 2012 are as follows:

<u>Governmental Funds:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Lease	\$ 49,197	\$ -	\$ 11,432	\$ 37,765	\$ 11,991
<u>Total Governmental Funds:</u>	<u>\$ 49,197</u>	<u>\$ -</u>	<u>\$ 11,432</u>	<u>\$ 37,765</u>	<u>\$ 11,991</u>

Debt service requirements on long-term debt at September 30, 2012 are as follows:

Year Ending September 30,	<u>Governmental Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,991	\$ 1,850	\$ 13,841
2014	12,579	1,262	13,841
2015	<u>13,195</u>	<u>646</u>	<u>13,841</u>
Total	<u>\$ 37,765</u>	<u>\$ 3,758</u>	<u>\$ 41,523</u>

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2012

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>
Capital Lease	\$ -	\$ 109,594	\$ 19,803	\$ 89,791	\$ 16,795
<u>Total Enterprise Funds:</u>	\$ -	\$ 109,594	\$ 19,803	\$ 89,791	\$ 16,795

Debt service requirements on long-term debt at September 30, 2012 are as follows:

Year Ending September 30,	<u>Enterprise Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 16,795	\$ 3,008	\$ 19,803
2014	17,357	2,446	19,803
2015	17,939	1,864	19,803
2016	18,540	1,263	19,803
2015	<u>19,160</u>	<u>643</u>	<u>19,803</u>
Total	\$ <u>89,791</u>	\$ <u>9,224</u>	\$ <u>99,015</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.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

Upon retirement, benefits depend on the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2012

Note F: Pension Plan (continued)

In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an Updated Service Credit. This monetary credit is determined by hypothetically re-computing the member’s account balance by assuming that the current deposit rate of the City has always been in effect. The computation also assumes that the member’s salary has always been the member’s average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member’s actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

At retirement, the benefit is calculated as if the sum of the employee’s contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member’s retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows for the plan/calendar years ended December 31, 2010, 2011, and 2012:

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.

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2012

Note F: Pension Plan (continued)

Contributions

Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate 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 benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010 valuation is effective for rates beginning January 2012).

Annual Pension Cost: The City's contributions to the TMRS plan for the years ended September 30, 2012, 2011, and 2010 were \$24,678, \$35,762, and \$35,042, respectively, which equaled the required contributions each year. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 24,678
Interest on NPO	-
Adjustment to the ARC	-
Annual Pension Cost	<u>\$ 24,678</u>
Contributions Made	<u>(24,678)</u>
Increase (decrease) in net pension obligation	\$ -
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

Trend Information for the Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2010	\$ 35,042	100%	\$ 0
September 30, 2011	35,762	100%	0
September 30, 2012	24,678	100%	0

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2012

Note F: Pension Plan (continued)

	<u>12/31/09</u>	<u>Actuarial Information</u>	
		<u>12/31/10 – prior to restructuring</u>	<u>12/31/10 Restructured</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent Of payroll	Level percent Of payroll	Level Percent Of payroll
GASB 25 Equivalent Single Amortization period	23.2 years-Closed period	21.8 years-Closed period	21.7 years-Closed period
Amortization Period for new Gains/Losses	25 years	25 years	19 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.5%	7.5%	7.0%
Projected salary increases	Varies by age And service	Varies by age And service	Varies by age And service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.9%	0.9%	0.9%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Schedule of Funding Information

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ 380,203	\$ 608,864	62.4%	\$ 228,661	\$ 422,397	54.1%
12/31/2009	\$ 435,509	\$ 687,713	63.3%	\$ 252,204	\$ 481,410	52.4%
12/31/2010 – Prior To Restructuring	\$ 494,698	\$ 719,169	68.8%	\$ 224,471	\$ 483,756	46.4%
12/31/2010 – Restructured	\$ 732,144	\$ 858,444	85.3%	\$ 126,300	\$ 483,756	26.1%

CITY OF ABERNATHY
Abernathy, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2012

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 offers this benefit to active employees and retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period proceeding the month of death). Retired employees are insured for \$7,500. This coverage is an "other postemployment benefit," or OPEB. For the years ended September 30, 2012, 2011, and 2010, the City's contributions to the SDBF were \$1,427, \$1,900, and \$1,881, respectively which equaled the required contributions each year.

Note H: Litigation

There was no litigation pending or in progress against the City at September 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 397,320	\$ 397,320	\$ 415,250	\$ 17,930
Sales Taxes	135,000	135,000	168,014	33,014
Franchise Taxes	110,000	110,000	113,646	3,646
Licenses and Permits	2,500	2,500	3,464	964
Leases and Rents	20,000	20,000	23,911	3,911
Court Fees	21,080	21,080	34,361	13,281
Fire	31,000	31,000	31,099	99
Mosquito Spraying	16,000	16,000	16,017	17
Interest Income	8,500	8,500	5,478	(3,022)
Ambulance	220,000	220,000	203,400	(16,600)
Sanitation	259,800	259,800	257,504	(2,296)
Library	5,500	5,500	6,026	526
Grant Revenues	302,703	333,953	333,757	(196)
Miscellaneous	4,300	4,300	13,414	9,114
<u>Total Revenues</u>	<u>1,533,703</u>	<u>1,564,953</u>	<u>1,625,341</u>	<u>60,388</u>
<u>Expenditures</u>				
<u>Current</u>				
City Hall	113,972	158,256	138,857	19,399
Legislative	2,700	2,700	950	1,750
Administrative	181,618	222,074	200,816	21,258
Sanitation Department	192,850	192,850	175,012	17,838
Streets	384,880	465,312	465,189	123
Fire Department	45,873	54,853	41,253	13,600
Police Department	280,875	282,742	228,716	54,026
Library	21,239	21,239	16,855	4,384
Ambulance	158,400	159,949	157,842	2,107
Judicial	22,065	25,065	24,916	149
Parks	62,678	69,932	52,030	17,902
Homes for Citizens	52,703	52,703	52,703	-
Principal on Long-Term Debt	11,435	11,435	11,431	4
Interest on Long-Term Debt	2,415	2,415	2,410	5
<u>Total Expenditures</u>	<u>1,533,703</u>	<u>1,721,525</u>	<u>1,568,980</u>	<u>152,545</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	-	45,000	45,000	-
Transfers Out	-	-	-	-
<u>Total Other Sources (Uses)</u>	<u>-</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Net Change in Fund Balances	-	(111,572)	101,361	212,933
Fund Balance, Beginning of Year	<u>534,298</u>	<u>534,298</u>	<u>534,298</u>	<u>-</u>
<u>Fund Balance, End of Year</u>	<u>\$ 534,298</u>	<u>\$ 422,726</u>	<u>\$ 635,659</u>	<u>\$ 212,933</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2012

Years Ended September 30	Balance 10/01/11	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/12
2001 and Prior	\$ 4,641	\$ -	\$ 180	\$ (166)	\$ 4,295
2004	1,799	-	128	-	1,671
2005	1,492	-	128	-	1,364
2006	1,802	-	176	-	1,626
2007	2,120	-	427	-	1,693
2008	2,681	-	806	-	1,875
2009	4,978	-	1,663	-	3,315
2010	8,256	-	2,993	-	5,263
2011	17,015	-	7,050	-	9,965
2012	<u>-</u>	<u>420,263</u>	<u>398,347</u>	<u>(1,758)</u>	<u>20,158</u>
<u>Totals</u>	<u>\$ 44,784</u>	<u>\$ 420,263</u>	<u>\$ 411,898</u>	<u>\$ (1,924)</u>	<u>\$ 51,225</u>

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Independent Auditors' Report

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

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

We have audited the financial statements of the governmental activities, 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, 2012, which collectively comprise the City of Abernathy's basic financial statements and have issued our report thereon dated January 10, 2013. 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.



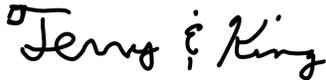
Independent Auditors' Report
Page 2

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 10, 2013

CITY OF ABERNATHY
Abernathy, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2012

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes Reported None

Noncompliance material to financial statements noted? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF ABERNATHY
Abernathy, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2012

<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, 2012

Not Applicable – None Required