

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2006

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FOR THE YEAR ENDED SEPTEMBER 30, 2006

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Anna, Texas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2007, on our consideration of the City of Anna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, pension funding data, and budgetary comparison information on pages 3 through 9 and pages 30 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on them.

Gregg & Company CPAs

Tom Bean, Texas
February 5, 2007

**CITY OF ANNA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of City of Anna's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY06 by \$25,606,704. This is an increase of \$11,374,770 over FY05's net asset value of \$14,231,934. Unrestricted net assets at the close of FY06 are \$4,808,511 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$3,388,139 over FY05's unrestricted net asset value of \$1,420,372.
- The City's total net assets increased by \$11,374,770, or 80%, as a result of this year's operations. Non-cash capital contributions of streets and water lines valued at \$9,423,787 are responsible for the large increase in assets for FY06.
- The City's governmental funds reported on page 12 have an ending fund balance of \$4,047,348, an increase of \$2,931,711 in comparison with the prior year. The majority of the increase is attributable to \$2,846,575 of other financing sources (debt proceeds). \$3,623,875 of the \$4,047,348 fund balance is available for spending at the City's discretion (unreserved fund balance).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

Reporting the City as a Whole – Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 10. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The statement of Net Assets includes all the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions, 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City's however, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – City services such as police and fire protection, street maintenance, and City administration are reported here. City property taxes finance most of these activities.

Business-Type Activities - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The services are supported by monthly charges to citizens.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary--use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 13 and 15.

Proprietary Funds – The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The full-accrual basis of accounting is used for all proprietary type funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Sixty-three percent (63%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

City of Anna-Statement of Net Assets

| | <u>FY06</u> | <u>FY05</u> |
|---------------------------------------|---------------------|---------------------|
| Current and other assets | \$10,369,310 | \$ 4,826,872 |
| Capital assets | <u>26,531,760</u> | <u>15,625,393</u> |
| Total assets | <u>\$36,901,070</u> | <u>\$20,452,265</u> |
| Current payables & other liabilities | \$1,114,873 | \$ 764,027 |
| L-T liabilities | <u>10,179,493</u> | <u>5,456,304</u> |
| Total Liabilities | <u>\$11,294,366</u> | <u>\$ 6,220,331</u> |
| Net assets: | | |
| Invested in capital assets, | | |
| Net of related debt | \$16,095,456 | \$ 9,935,510 |
| Restricted for capital imp.'s & other | 4,702,737 | 2,876,052 |
| Unrestricted | <u>4,808,511</u> | <u>1,420,372</u> |
| Total net assets | <u>\$25,606,704</u> | <u>\$14,231,934</u> |

City of Anna-Statement of Activities

| | | |
|-----------------------------------|---------------------|---------------------|
| Revenues: | | |
| Program revenues | <u>FY06</u> | <u>FY05</u> |
| Water Fund charges for services | \$2,473,438 | \$ 1,823,347 |
| General Fund charges for services | 1,058,837 | 799,823 |
| Grants and contributions | 9,423,787 | 4,068,070 |
| General revenues | <u>3,399,602</u> | <u>1,943,523</u> |
| Total Revenues | <u>\$16,355,664</u> | <u>\$ 8,634,763</u> |
| Expenses: | | |
| Water, sewer, and sanitation | \$2,356,221 | \$ 1,732,011 |
| Inspections | 585,371 | 636,834 |
| General government | 567,835 | 517,284 |
| Streets | 596,261 | 321,067 |
| Police, ambulance, and fire | 672,377 | 298,217 |
| Parks and other | <u>202,829</u> | <u>67,473</u> |
| Total Expenses | <u>\$4,980,894</u> | <u>\$ 3,572,886</u> |
| Increase in Net Assets | <u>\$11,374,770</u> | <u>\$ 5,061,877</u> |

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net assets of the City's governmental activities increased from \$5,009,647 to \$11,735,652. 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 is \$3,590,154 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues and other financing sources for the City's general fund were \$3,529,412, while total expenses were \$2,671,117. This resulted in an excess of revenues over expenditures of \$858,295 from current operations (see page 14). Last year's result was an excess of expenditures over revenues of \$186,125.

Excluding capital contributions, revenues for the City's water fund were \$3,745,815, while total expenses were \$2,356,221. This resulted in an excess of revenues over expenditures of \$1,389,594. Last year's result was an excess of revenues over expenditures of \$892,870.

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$4,047,348 compared to \$1,115,637 in FY05. This represents an increase of \$2,931,711. The City created new capital projects and debt service funds during 2006 to properly account for new governmental asset construction that is financed by borrowed funds. The largest increases in FY06 general fund expenditures came from the police department and fire department. The largest increases in FY06 general fund revenues came from local property taxes and franchise taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2006 amounts to \$26,531,760 compared to \$15,625,393 (net of accumulated depreciation) at September 30, 2005. This investment in capital assets includes land, buildings and improvements, street improvements, water and sewer systems, equipment and vehicles. The total increase in the City's net investment in capital assets for the current fiscal year was \$10,906,367. Major capital asset activity during FY06 related to the on-going improvements to the water and sewer system financed through the Greater Texoma Utility Authority, land and equipment purchases, and \$9,423,787 of contributed streets, equipment, and water infrastructure.

Long-term Debt

At year-end, the City had total notes, bonds and contractual obligations debt outstanding of \$10,299,756. Two new governmental activities notes totaling \$2,885,000 were acquired by purchase park land and make other asset improvements. Two old GTUA bonds with a principal balance of \$2,805,000 were refunded with the issuance of a new \$2,885,000 GTUA bond. More water system improvements were funded by the issuance of another new \$2,035,000 GTUA bond. Bond, note, and contractual obligation principal payments totaled \$204,451 and all payments were made when due.

The City also has various capital leases for equipment with a year-end payable balance of \$136,548. No new capital lease agreements were created during the year. Capital lease principal payments totaled \$39,128 and all payments were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Since early 2002 the City has experienced significant single family residential development. That development has continued through the first half of calendar year 2006. Since that time the rate of residential growth has declined significantly. This slowdown appears to be a regional phenomenon, although the extent of decline in Anna appears to be greater than in most of the Dallas-Fort Worth metro area. The following chart summarizes recent residential development patterns.

Building Permits – New Single Family Residential

| | |
|-------------------------------|-----|
| January 1 – December 31, 2000 | 19 |
| January 1 – December 31, 2001 | 29 |
| January 1 – December 31, 2002 | 220 |
| January 1 – December 31, 2003 | 350 |
| January 1 – December 31, 2004 | 523 |
| January 1 – December 31, 2005 | 513 |
| January 1 – December 31, 2006 | 366 |

On a percentage basis, Anna has been one of the fastest growing cities in the North Central Texas region over the past four years. The City’s estimated population as of September 30, 2006, was approximately 7,850 persons. Recent population trends are summarized below.

| | April, 2000 | 2001* | 2002* | 2003* | 2004* | 2005* | 2006* |
|-------------------|-------------|-------|-------|-------|-------|-------|-------|
| Population | 1,225 | 1,500 | 2,151 | 3,186 | 5,070 | 6,432 | 7,850 |
| % Increase | | 22.4% | 43.4% | 48.1% | 59.1% | 26.9% | 22.0% |

**Estimated*

Population growth is expected to continue but at a much slower pace in the 2006-2007 period. While several of the older and smaller subdivisions have been largely built out, other projects still have significant lot inventories and several others will be opened up in early 2007 (Sweetwater Crossing and Northpointe Crossing). Various economic factors affecting the Collin County area are expected to keep the residential development at a much lower pace than the past several years. The slower pace (probably in the 200-250 units per year range) will likely continue through FY 2008.

The long-anticipated up-tick in commercial development appears to be occurring. Retail and commercial activity that has been approved for FY 2007 includes:

- Willow Creek Plaza 10,000 s.f. strip center on W. White, just east of Slater Creek.
- Anna Corners Two buildings, total 20,000 s.f. of retail space just south of intersection of W. White Street and Central Expressway on west side of Central.
- Anna Center 13 acre retail tract, including 45,000 s.f. grocery store, at southeast corner of W. White Street and Ferguson Parkway.
- AutoZone 5,000 s.f. retail store on south side of W. White, adjacent to Anna Center.
- Miscellaneous Discussions are underway regarding a bank and title company location on W. White, a couple of fast-food locations, and an 8,000 s.f. retail strip center on N. Powell Parkway.

Residential development has significantly increased the ad valorem (property) tax base of the city. The following data summarize ad valorem tax revenues for recent years.

| | |
|---------|-------------|
| FY 2001 | \$150,809 |
| FY 2002 | \$192,383 |
| FY 2003 | \$288,103 |
| FY 2004 | \$407,430 |
| FY 2005 | \$693,504 |
| FY 2006 | \$1,148,140 |

The City Council approved a \$0.525 property tax rate (per \$100 of valuation) effective January 1, 2006, the same total tax rate as the prior year.

The sales tax revenue of the City increased by almost 40% in FY 2004 and by 34% in FY 2005. The major sales tax generators continued to be the truck stops on Central Expressway at W. White Street, but now supplemented by several food service establishments. The following chart summarizes recent sales tax revenue patterns:

| <u>Fiscal Year</u> | <u>1% Sales Tax Revenue</u> | <u>% Annual Increase</u> |
|--------------------|-----------------------------|--------------------------|
| FY 2001 | \$48,436.76 | 25.1% |
| FY 2002 | \$81,547.87 | 39.6% |
| FY 2003 | \$82,815.97 | 1.6% |
| FY 2004 | \$115,843.59 | 39.9% |
| FY 2005 | \$155,399.71 | 34.1% |
| FY 2006 | \$225,886.41 | 45.4% |

Source: Texas Comptroller's Office-Excludes street maintenance allocations

The FY 2006 increase was significantly and occurred without any increase in the number of retail stores or other sales tax generators. However, three alcoholic beverage sales outlets started operations during FY 2006 and the population of the community has continued to increase, probably generating greater revenues for existing businesses. Most of the new retail outlets will not be in business long enough in FY 2007 to make a significant contribution to increased sales tax revenue but should significantly affect the City's revenues in FY 2008 and succeeding years.

A critical revenue source for the City is permit revenue, consisting largely of building permits and other development permit/application fees. Permit revenues accounted for just over \$500,000 in income in FY 2003, approximately \$800,000 in FY 2004 and 2005, and over 700,000 in FY 2006. This revenue source is expected to slightly decline in FY 2007.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year. The operating budget for FY 2007 that was developed by City management and approved by the City's elected officials focused on using the City's available financial resources and not reducing reserves. The FY 2007 budget contains no contingency and is heavily dependent on permit fees. Therefore, it is critical that City management and council monitor revenue and spending patterns very closely and pay particular attention to residential housing permit patterns over the course of the fiscal year.

For the year ended September 30, 2006, the general fund balance is \$1,973,932. The general fund expense budget for 2007 of \$2,957,000 reflects a commitment by the City Council to maintain the current level of City services, with two significant changes – an increase in local law enforcement capability by increasing the current police officer contingent from six to eight officers and significantly increasing the City's financial support to fire prevention and protection

Significant capital improvements were made during the past fiscal year and even more are anticipated during the 2007 fiscal year. During the past year the City drilled a water well at the Geer Park site, after major problems in completing a well at the Fifth Street water plant. A major trunk line on Slater Creek to serve the north part of the community is under construction. Smith Street is being converted to an urban residential street, with concrete surface and storm drain. A segment of Rosamond Parkway from N. Powell Parkway westward almost to Slater Creek is also under construction. Additions to the City's water distribution and sewer collection systems were also constructed by developers in West Crossing and Northpointe Crossing subdivisions.

The City has reached agreement to purchase part of the assets of South Grayson Water Supply Corporation, including two water wells, a 300,000 gallon elevated storage tank, and 350 customers, at a cost of \$2 million. The City has authorized a loan from the Texas Water Development Board for \$5 million and an additional \$2 million in private long term financing to pay for the purchase of the South Grayson system and for water system improvements associated with developing the GTUA/NTMWD surface water supply system. In FY 2007 the City will also construct the Slater Creek trunk sewer south from W. White Street to the City's wastewater treatment plant.

In FY 2005 the City purchased a 25 acre tract in east Anna for a major park site and completed negotiations with the Anna ISD for a 32 acre park site west of and adjacent to the Anna High School site. A certificate of obligation was issued in FY 2006 to make infrastructure improvements required to serve these two park sites and also start development of recreation facilities at these sites. A trail connecting the high school with the elementary/middle school site via Slater Creek will also be constructed. The certificate of obligation will also fund a 3,000 square foot city meeting hall/office facility and a new public works building, to be completed in FY 2007

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 questions about this report or need additional financial information, contact City Hall, at 101 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

**City Of Anna
Statement of Net Assets
at September 30, 2006**

| | Primary Government | | | Component Units | | |
|--|----------------------------|-----------------------------|----------------------|------------------------------------|-------------------------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Total | Economic Develop Corporation | Community Develop Corporation | Volunteer Fire Dept. |
| | | | | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 3,418,908 | \$ 1,688,007 | \$ 5,106,915 | \$ 70,239 | \$ 365,154 | \$ 26,975 |
| Receivables - (net of allowances) | | | | | | |
| Receivables - Water/Sewer/Sanitation | - | 197,837 | 197,837 | - | - | - |
| Receivables - Property taxes | 53,879 | - | 53,879 | - | - | - |
| Receivables - Other | 58,013 | - | 58,013 | - | - | - |
| Deposits held by GTUA | - | 2,705,803 | 2,705,803 | - | - | - |
| Internal balances | 201,930 | (201,930) | - | - | - | - |
| Prepaid bond issue costs | 36,504 | 213,425 | 249,929 | - | - | - |
| Restricted assets: | | | | | | |
| Cash - Park improvements | 373,940 | - | 373,940 | - | - | - |
| Cash - Fire dept. improvements | 49,533 | - | 49,533 | - | - | - |
| Cash - Capital Improvement - Builders | - | 1,573,461 | 1,573,461 | - | - | - |
| Capital assets - (net of accum. depreciation): | | | | | | |
| Land | 836,318 | 143,883 | 980,201 | 459,176 | - | - |
| Water and sewer systems | - | 14,327,617 | 14,327,617 | - | - | - |
| Buildings, machinery and equipment | 474,388 | 128,370 | 602,758 | - | 1,168 | 183,810 |
| Park improvements | 47,790 | - | 47,790 | - | - | - |
| Streets and other infrastructure | 9,119,153 | - | 9,119,153 | - | - | - |
| Construction in progress | 393,930 | 1,060,311 | 1,454,241 | - | - | - |
| Total assets | 15,064,286 | 21,836,784 | 36,901,070 | 529,415 | 366,322 | 210,785 |
| LIABILITIES | | | | | | |
| Accounts Payable | 68,385 | 197,987 | 266,372 | - | - | - |
| Current portion of bonds payable | - | 187,000 | 187,000 | - | - | - |
| Current portion of notes & C/O payables | 68,459 | - | 68,459 | - | - | - |
| Current portion - Leases payable | 41,062 | - | 41,062 | 6,852 | - | - |
| Interest payable | 85,610 | 91,411 | 177,021 | - | - | - |
| Customer meter deposits | - | 374,959 | 374,959 | - | - | - |
| NON-CURRENT LIABILITIES | | | | | | |
| Uncompensated absences | 25,085 | 14,625 | 39,710 | - | - | - |
| L-T portion of bonds payable | - | 7,099,750 | 7,099,750 | - | - | - |
| L-T portion of notes & C/O payables | 2,944,547 | - | 2,944,547 | - | - | - |
| L-T portion of leases payable | 95,486 | - | 95,486 | 392,364 | - | - |
| Total liabilities | 3,328,634 | 7,965,732 | 11,294,366 | 399,216 | - | - |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 7,722,025 | 8,373,431 | 16,095,456 | 59,960 | 1,168 | 183,810 |
| Restricted for: | | | | | | |
| Capital Improvements - Builders | - | 1,573,461 | 1,573,461 | - | - | - |
| Capital Improvements - Park | 373,940 | - | 373,940 | - | - | - |
| Capital Improvements - Fire dept. | 49,533 | - | 49,533 | - | - | - |
| GTUA deposits | - | 2,705,803 | 2,705,803 | - | - | - |
| Unrestricted | 3,590,154 | 1,218,357 | 4,808,511 | 70,239 | 365,154 | 26,975 |
| Total net assets | \$ 11,735,652 | \$ 13,871,052 | \$ 25,606,704 | \$ 130,199 | \$ 366,322 | \$ 210,785 |

The notes to the financial statements are an integral part of this statement.

**CITY OF ANNA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units: | | |
|----------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|------------------------|-------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | Economic Develop Corp. | Community Develop Corp. | Volunteer Fire Dept. |
| | | | | | Governmental Activities | Business-type Activities | | | | |
| Governmental activities: | | | | | | | | | | |
| Inspections | \$ 585,371 | \$ 1,034,422 | - | - | \$ 449,051 | - | \$ 449,051 | - | - | - |
| General government | 567,835 | - | - | - | (567,835) | - | (567,835) | - | - | - |
| Highways and streets | 596,261 | - | - | \$ 6,147,116 | 5,550,855 | - | 5,550,855 | - | - | - |
| Fire | 190,714 | - | - | - | (190,714) | - | (190,714) | - | - | - |
| City Parks | 42,062 | - | - | - | (42,062) | - | (42,062) | - | - | - |
| Ambulance | 38,798 | - | - | - | (38,798) | - | (38,798) | - | - | - |
| Court | 58,215 | 24,415 | - | - | (33,800) | - | (33,800) | - | - | - |
| Police | 442,865 | - | - | 17,500 | (425,365) | - | (425,365) | - | - | - |
| Interest on long-term debt | 102,552 | - | - | - | (102,552) | - | (102,552) | - | - | - |
| | <u>2,624,673</u> | <u>1,058,837</u> | - | <u>6,164,616</u> | <u>4,598,780</u> | - | <u>4,598,780</u> | - | - | - |
| Business-type Activities: | | | | | | | | | | |
| Water & Sewer - Operating | 2,356,221 | 2,473,438 | - | 3,259,171 | - | \$ 3,376,388 | 3,376,388 | - | - | - |
| Total business-type activities | <u>2,356,221</u> | <u>2,473,438</u> | - | <u>3,259,171</u> | - | <u>3,376,388</u> | <u>3,376,388</u> | - | - | - |
| | <u>4,980,894</u> | <u>\$ 3,532,275</u> | - | <u>\$ 9,423,787</u> | <u>4,598,780</u> | - | <u>7,975,168</u> | - | - | - |
| Component units: | | | | | | | | | | |
| Economic Development Corp. | 22,029 | - | - | - | - | - | - | \$ (22,029) | - | - |
| Community Development Corp. | 146 | - | - | - | - | - | - | - | (146) | - |
| Volunteer Fire Department | 181,177 | - | \$ 158,116 | - | - | - | - | - | - | - |
| Total Component Units | <u>\$ 203,352</u> | - | <u>\$ 158,116</u> | - | - | - | - | <u>(22,029)</u> | <u>(146)</u> | <u>\$ (23,061)</u> |
| | | | | | | | | | | |
| | | | General revenues: | | | | | | | |
| | | | Developer fees | | 189,138 | | 1,324,389 | | | |
| | | | Property taxes | | 1,148,140 | | 1,148,140 | | | |
| | | | Sales taxes | | 282,358 | | 282,358 | 56,472 | 112,943 | |
| | | | Franchise taxes | | 296,363 | | 296,363 | | | |
| | | | Miscellaneous | | 49,727 | 19,623 | 69,350 | | | 7,200 |
| | | | Investment interest | | 161,499 | 110,732 | 272,231 | | 10,237 | 530 |
| | | | Gain on sold assets | | - | 6,771 | 6,771 | | | |
| | | | Transfers | | - | - | - | | | |
| | | | Total general rev's and transfers | | <u>2,127,225</u> | <u>1,272,377</u> | <u>3,399,602</u> | <u>56,472</u> | <u>123,180</u> | <u>7,730</u> |
| | | | Change in net assets | | <u>6,726,005</u> | <u>4,648,765</u> | <u>11,374,770</u> | <u>34,443</u> | <u>123,034</u> | <u>(15,331)</u> |
| | | | Net assets - beginning | | <u>5,009,647</u> | <u>9,222,287</u> | <u>14,231,934</u> | <u>95,756</u> | <u>243,288</u> | <u>226,116</u> |
| | | | Net assets - ending | | <u>\$ 11,735,652</u> | <u>\$ 13,871,052</u> | <u>\$ 25,606,704</u> | <u>\$ 130,199</u> | <u>\$ 366,322</u> | <u>\$ 210,785</u> |

The notes to the financial statements are an integral part of this statement.

**CITY OF ANNA
BALANCE SHEET
GOVERNMENTAL TYPE FUNDS
SEPTEMBER 30, 2006**

| <u>ASSETS</u> | Governmental Fund Types | | | Total Governmental |
|--------------------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| | General | Capital Projects | (non-major) Debt Service | |
| Current assets: | | | | |
| Cash | \$ 1,345,492 | \$ 2,061,520 | \$ 11,896 | \$ 3,418,908 |
| Accounts receivable: (Net) | | | | |
| Property taxes | 53,879 | - | - | 53,879 |
| Franchise taxes | 52,046 | - | - | 52,046 |
| Court fines | 2,027 | - | - | 2,027 |
| Other | 3,940 | - | - | 3,940 |
| Due from Water Fund | 201,930 | - | - | 201,930 |
| Total current assets: | <u>1,659,314</u> | <u>2,061,520</u> | <u>11,896</u> | <u>3,732,730</u> |
| Restricted assets: Cash | | | | |
| Cash for park improvements | 373,940 | - | - | 373,940 |
| Cash for fire dept. improvements | 49,533 | - | - | 49,533 |
| Total restricted assets: | <u>423,473</u> | <u>-</u> | <u>-</u> | <u>423,473</u> |
| Total assets: | <u><u>2,082,787</u></u> | <u><u>2,061,520</u></u> | <u><u>11,896</u></u> | <u><u>4,156,203</u></u> |
| <u>LIABILITIES</u> | | | | |
| Current liabilities: | | | | |
| Accounts payable | 68,385 | - | - | 68,385 |
| Deferred tax and court revenue | 40,470 | - | - | 40,470 |
| Total current liabilities: | <u>108,855</u> | <u>-</u> | <u>-</u> | <u>108,855</u> |
| <u>FUND BALANCES</u> | | | | |
| Reserved - Park improvements | 373,940 | - | - | 373,940 |
| Reserved - Fire dept. improvements | 49,533 | - | - | 49,533 |
| Unreserved | 1,550,459 | 2,061,520 | 11,896 | 3,623,875 |
| Total fund balances: | <u>1,973,932</u> | <u>2,061,520</u> | <u>11,896</u> | <u>4,047,348</u> |
| Total liabilities and fund balances: | <u><u>\$ 2,082,787</u></u> | <u><u>\$ 2,061,520</u></u> | <u><u>\$ 11,896</u></u> | <u><u>\$ 4,156,203</u></u> |

The notes to the financial statements are an integral part of this statement.

City of Anna
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
For the Year Ended September 30, 2006

| | |
|--|---------------------|
| Fund balances of governmental funds | \$ 4,047,348 |
|--|---------------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

| | |
|---|------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | \$ 10,871,579 |
| Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds | \$ (85,610) |
| Prepaid debt issuance costs are not financial resources, and, therefore, are not reported in the funds. | \$ 36,504 |
| Long-term liabilities , including bonds payable, are not due and payable in the current period and are therefore not reported in the funds. | \$ (3,174,639) |
| Property taxes not received for at year-end are shown as deferred income on the fund financial statement, but the amount should not be shown as a liability on the statement of net assets. | <u>\$ 40,470</u> |

| | |
|--|----------------------|
| Net assets of governmental activities | \$ 11,735,652 |
|--|----------------------|

The notes to the financial statements are an integral part of this statement.

CITY OF ANNA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

| | Governmental Fund Types | | | Total Governmental |
|---|-------------------------|---------------------|-----------------------------|-----------------------|
| | General | Capital Projects | (Non-major) Debt Service | |
| Revenues: | | | | |
| Property tax | \$ 1,186,370 | - | - | \$ 1,186,370 |
| Building permits | 775,774 | - | - | 775,774 |
| Franchise tax | 296,363 | - | - | 296,363 |
| Sales tax | 282,358 | - | - | 282,358 |
| Inspection fees | 258,648 | - | - | 258,648 |
| Capital imp.'s and expansion fees | 189,138 | - | - | 189,138 |
| Interest revenue | 68,646 | \$ 80,957 | \$ 11,896 | 161,499 |
| Penalties and interest | 32,167 | - | - | 32,167 |
| Court fines | 22,388 | - | - | 22,388 |
| Other revenue | 17,560 | - | - | 17,560 |
| Total revenues | <u>3,129,412</u> | <u>80,957</u> | <u>11,896</u> | <u>3,222,265</u> |
| Expenditures: Operating | | | | |
| Inspection department | 572,154 | - | - | 572,154 |
| Administrative & general | 542,373 | - | - | 542,373 |
| Police | 398,167 | - | - | 398,167 |
| Fire department | 149,304 | - | - | 149,304 |
| Streets | 97,673 | - | - | 97,673 |
| Courts | 56,907 | - | - | 56,907 |
| Ambulance | 38,798 | - | - | 38,798 |
| Parks | 38,046 | - | - | 38,046 |
| Capital outlay | 704,174 | 466,012 | - | 1,170,186 |
| Debt Service: | | | | - |
| Interest expense | 16,942 | - | - | 16,942 |
| Principal retirement | 56,579 | - | - | 56,579 |
| Total expenditures | <u>2,671,117</u> | <u>466,012</u> | <u>-</u> | <u>3,137,129</u> |
| Excess of revenues over (under) expenditures | <u>458,295</u> | <u>(385,055)</u> | <u>11,896</u> | <u>85,136</u> |
| Other financing sources (uses): | | | | |
| Note proceeds | <u>400,000</u> | <u>2,446,575</u> | <u>-</u> | <u>2,846,575</u> |
| Excess of revenues and other sources over (under) expenditures | 858,295 | 2,061,520 | 11,896 | 2,931,711 |
| Fund balances beginning, October 1 | <u>1,115,637</u> | <u>-</u> | <u>-</u> | <u>1,115,637</u> |
| Fund balances ending, September 30 | <u>\$ 1,973,932</u> | <u>\$ 2,061,520</u> | <u>\$ 11,896</u> | <u>\$ 4,047,348</u> |

The notes to the financial statements are an integral part of this statement.

City of Anna
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, 2006

Net change in fund balances --total governmental funds **\$ 2,931,711**

Amounts reported for governmental activities in the statement of activities 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 estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. The individual amounts are as follows:

| | |
|-------------------------------|------------------|
| Capital related items | 1,170,186 |
| Depreciation and amortization | <u>(603,614)</u> |
| | 566,572 |

| | |
|--|------------------|
| Capital contributions are a source of current financial resources and, therefore, are not reported as income in the governmental funds | <u>6,164,616</u> |
|--|------------------|

| | |
|--|-----------------|
| Accrued interest does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds | <u>(85,610)</u> |
|--|-----------------|

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items and, in this case represents repayments of principal.

| | |
|------------------------------|---------------|
| Debt issuance | (2,846,575) |
| Accrued compensated absences | (25,085) |
| Principal payments | <u>56,579</u> |
| | (2,815,081) |

Governmental funds report some prior year tax revenues as income in the current year, and current year property taxes still receivable are deferred revenues in the General Fund. However, in the statement of activities the revenue is recognized in the year in which it is earned. The net effect of these adjustments to tax revenues is:

| | |
|---|--------------|
| Net taxes receivable earned in prior years | (38,230) |
| Net taxes receivable earned in current year | <u>2,027</u> |
| | (36,203) |

Change in net assets of governmental activities **\$ 6,726,005**

The notes to the financial statements are an integral part of this statement.

**CITY OF ANNA
STATEMENT OF NET ASSETS
PROPRIETARY TYPE FUNDS (WATER)
SEPTEMBER 30, 2006**

| <u>ASSETS</u> | <u>2006</u> |
|--|---------------|
| Current assets: | |
| Cash | \$ 1,688,007 |
| Accounts receivable: (Net of allowances) | |
| Water/Sewer/Sanitation | 197,837 |
| Prepaid bond issue costs | 213,425 |
| Total current assets: | 2,099,269 |
| Restricted assets: | |
| Cash restricted for capital improvements | 1,573,461 |
| Deposits held by GTUA - Reserve | 293,575 |
| Deposits held by GTUA - Other deposits | 2,412,228 |
| Total restricted assets: | 4,279,264 |
| Capital assets: | |
| Land | 143,883 |
| Buildings, machinery and equip. (net of acc. depreciation) | 128,370 |
| Water and Sewer System (net of acc. depreciation) | 14,327,617 |
| Construction in progress | 1,060,311 |
| Total capital assets: (net) | 15,660,181 |
| Total assets: | \$ 22,038,714 |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | \$ 197,987 |
| Uncompensated absences | 14,625 |
| Customer deposits | 374,959 |
| Due to the General Fund | 201,930 |
| Current portion of long-term bonds & C/O payable | 187,000 |
| Bond interest payable | 91,411 |
| Total current liabilities: | 1,067,912 |
| Long-term Liabilities: | |
| Bonds and contractual obligations payable | 7,099,750 |
| Total long-term liabilities: | 7,099,750 |
| Total liabilities: | 8,167,662 |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 8,373,431 |
| Restricted - GTUA deposits | 2,705,803 |
| Restricted - Water & Sewer improvements | 1,573,461 |
| Unrestricted | 1,218,357 |
| Total net assets: | \$ 13,871,052 |

The notes to the financial statements are an integral part of this statement.

CITY OF ANNA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUND TYPE (WATER FUND)
For the year ended September 30, 2006

| | 2006 |
|--|---------------|
| Operating Revenue: | |
| Water income | \$ 1,211,916 |
| Developer fees for capital improvements | 1,135,251 |
| Sewer income | 751,727 |
| Sanitation income | 313,202 |
| Meter connect and install fees | 127,230 |
| Water customer late fees | 60,413 |
| Miscellaneous revenue | 19,623 |
| Water and sewer tap fees | 8,950 |
| Total operating revenues | 3,628,312 |
| Operating Expenses: | |
| Employees and related benefits costs | 495,248 |
| Depreciation expense | 482,569 |
| Utilities and telephone | 401,327 |
| Sanitation contract | 255,625 |
| Water system supplies, repair, and maintenance | 127,785 |
| Sewer system supplies, repair, and maintenance | 88,307 |
| Other contract services | 77,618 |
| Administrative | 55,677 |
| Legal | 27,541 |
| Bad debt | 2,925 |
| Total operating expenses | 2,014,622 |
| Operating Income (Loss) | 1,613,690 |
| Non-Operating Revenue (Expense): | |
| Interest income | 110,732 |
| Gain on sold assets | 6,771 |
| Bond amortization | (11,628) |
| Interest expense | (329,971) |
| Total Non-Operating Income (Loss) | (224,096) |
| Income (Loss) before transfers and capital contributions | 1,389,594 |
| Contributed capital - Subdivision builders | 3,259,171 |
| Change in net assets | 4,648,765 |
| Net assets beginning, October 1 | 9,222,287 |
| Net assets ending, September 30 | \$ 13,871,052 |

The notes to the financial statements are an integral part of this statement.

City of Anna, Texas
Statement of Cash Flows - Proprietary Funds (Water Fund)
For the Year Ended September 30, 2006

| | 2006 |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from customers and users | \$ 3,617,378 |
| Payments to suppliers | (915,540) |
| Payments to employees | (480,623) |
| Net cash provided (used) by operating activities | 2,221,215 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Cash paid for acquisition and construction of capital assets | (923,703) |
| Principal paid on capital debt | (197,000) |
| Proceeds from the sale of capital assets | 6,771 |
| Interest paid on capital debt | (326,290) |
| Net cash provided (used) by capital and related financing activities | (1,440,222) |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES: | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest received | 110,732 |
| Net cash provided (used) by investing activities | 110,732 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 891,725 |
| CASH AND CASH EQUIVALENTS, OCTOBER 1 | 796,282 |
| CASH AND CASH EQUIVALENTS, SEPTEMBER 30 | \$ 1,688,007 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ 1,613,690 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 482,569 |
| Bad debt expense | 2,925 |
| Decrease (increase) in accounts receivable | (10,934) |
| Decrease (increase) in prepaid items | (90,101) |
| Increase (decrease) in unearned revenue | (37,397) |
| Increase in customer deposits | 80,874 |
| Increase in compensated absences payable | 14,625 |
| Increase (decrease) in accounts payable | 164,964 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 2,221,215 |
| NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES: | |
| Capital contributions from homebuilders | \$ 3,259,171 |

The notes to the financial statements are an integral part of this statement.

CITY OF ANNA, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2006

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The City of Anna, Texas (the "City") operates under a Council-Mayor form of government and provides the following services: streets, sanitation, police, planning and zoning, and general administrative services. Other services include water and sewer operations.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. The Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Anna.

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.

Based on the criterion stated above, the Anna Community Development Corporation, Anna Economic Development Corporation, and Anna Volunteer Fire Department are component units of the City and the financial statements are presented in a separate column with the financial statements of the City.

2. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two fund categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

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

Debt Service Fund

Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Capital Projects Fund

Accounts for the acquisition and construction of governmental type assets from expenditures of debt proceeds, capital grants, or other sources restricted for governmental type asset acquisition.

PROPRIETARY 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.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued, unless those pronouncements conflict with or contradict GASB pronouncements.

3. Properties, Plant and Equipment and Debt

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. Public domain (infrastructure) general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and similar assets that are immovable and of value only to the City are have not been capitalized in the past, but new infrastructure is capitalized beginning October 1, 2003.

Long-term liabilities expected to be financed from governmental fund types are shown on the statement of net assets, rather than governmental funds. Principal payments for this debt are expensed on the fund financial statement, but this expense is removed for the government-wide statement of activities.

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City will not pay any unused amounts when employees separate from service with the City. Vacation pay is accrued in the government-wide and proprietary financial statements.

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The service lives by type of asset are follows:

| | |
|-------------------------|------------|
| Machinery and equipment | 3-10 years |
| Streets | 20 years |
| Buildings | 20 years |
| Water and sewer system | 35 years |

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all of the eligibility requirements imposed by the provider have been met.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes or other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting government and are recognized as revenue at that time.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility services receivables related to water, wastewater, and sanitation services are recorded at year-end.

5. Budget and Budgetary Accounting

The official city budget is prepared for adoption for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

6. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end.

NOTE B - PROPRIETARY FUNDS PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment of the Water Fund at Sept. 30, 2006:

| | <u>Oct. 1,</u> <u>2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Sept. 30,</u> <u>2006</u> |
|--------------------------------|-------------------------------|--------------------|--------------------|---------------------------------|
| <u>Non-depreciable assets:</u> | | | | |
| Land | \$10,500 | \$133,383 | -- | \$143,883 |
| <u>Depreciable assets:</u> | | | | |
| Buildings | 550 | 28,000 | -- | 28,550 |
| Water and sewer system | 8,214,055 | 2,433,905 | -- | 10,647,960 |
| Water treatment system | 4,260,438 | 1,525,854 | -- | 5,786,292 |
| Equipment | 226,431 | 7,578 | (\$7,266) | 226,743 |
| Furniture | 5,620 | -- | -- | 5,620 |
| Construction in progress | 533,204 | 782,449 | (255,342) | 1,060,311 |
| Accum. depreciation | <u>(1,763,875)</u> | <u>(482,569)</u> | <u>7,266</u> | <u>(2,239,178)</u> |
| | <u>\$11,486,923</u> | <u>\$4,428,600</u> | <u>(\$255,342)</u> | <u>\$15,660,181</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE C - ASSETS OF GOVERNMENTAL TYPE ACTIVITIES

The following is a summary of changes in the assets for governmental type activities as of Sept. 30, 2006:

| | Oct. 1, <u>2005</u> | <u>Additions</u> | <u>Deductions</u> | Sept. 30, <u>2006</u> |
|--------------------------------|------------------------|--------------------|-------------------|--------------------------|
| <u>Non-depreciable assets:</u> | | | | |
| Land | \$363,214 | \$473,104 | -- | \$836,318 |
| <u>Depreciable assets:</u> | | | | |
| Park improvements | 31,999 | 21,657 | -- | 53,656 |
| Buildings | 148,761 | -- | -- | 148,761 |
| Furniture & fixtures | 40,010 | 3,047 | -- | 43,057 |
| Streets and drainage | 3,294,409 | 6,536,313 | -- | 9,830,722 |
| Machinery & equipment | 585,557 | 67,488 | (\$1,239) | 651,806 |
| Construction in progress | 160,737 | 233,193 | -- | 393,930 |
| Accum. depreciation | <u>(486,217)</u> | <u>(601,693)</u> | <u>1,239</u> | <u>(1,086,671)</u> |
| | <u>\$4,138,470</u> | <u>\$6,733,109</u> | <u>--</u> | <u>\$10,871,579</u> |

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation was allocated to each governmental function as follows:

| | |
|--------------------|------------------|
| General Government | \$ 11,995 |
| Police | 36,684 |
| Inspections | 10,921 |
| Fire | 41,410 |
| Streets | 496,667 |
| Parks | <u>4,016</u> |
| Total: | <u>\$601,693</u> |

NOTE D - CHANGES IN LONG-TERM DEBT

Water Fund

Below is the long-term debt activity of the Water Fund for the year ended Sept. 30, 2006:

| | Oct. 1 <u>2005</u> | <u>Additions</u> | <u>Deductions</u> | Sept. 30 <u>2006</u> |
|-------------------------------------|-----------------------|--------------------|----------------------|-------------------------|
| <u>General Water</u> | | | | |
| Revenue bonds | \$ 39,500 | -- | (\$3,500) | \$ 36,000 |
| General obligation enterprise bonds | 48,000 | -- | (3,500) | 44,500 |
| Uncompensated Absences | -- | \$14,625 | -- | 14,625 |
| <u>GTUA Water</u> | | | | |
| Revenue bonds | <u>5,281,250</u> | <u>4,920,000</u> | <u>(2,995,000)</u> | <u>7,206,250</u> |
| | <u>\$5,368,750</u> | <u>\$4,934,625</u> | <u>(\$3,002,000)</u> | <u>\$7,301,375</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Debt for Governmental Activities

The following is a summary of the long-term debt transactions of governmental type activities for the year ended September 30, 2006:

| | Oct. 1 | | | Sept. 30 |
|-----------------------|------------------|--------------------|-------------------|--------------------|
| | <u>2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>2006</u> |
| Limited Tax Note | -- | \$ 405,000 | -- | \$405,000 |
| Tax & Limited Surplus | | | | |
| Revenue C/O | -- | 2,480,000 | -- | 2,480,000 |
| Truck note | \$145,458 | | (\$17,451) | 128,007 |
| Uncompensated | | | | |
| Absences | -- | 25,085 | -- | 25,085 |
| Capital leases | <u>175,675</u> | <u>--</u> | <u>(39,128)</u> | <u>136,547</u> |
| | <u>\$321,133</u> | <u>\$2,910,085</u> | <u>(\$56,579)</u> | <u>\$3,174,639</u> |

NOTE E - LONG-TERM COMMITMENTS OF THE CITY

WATER FUND COMMITMENTS

Under the terms of long term water supply and sewer service contracts between the City and Greater Texoma Utility Authority (GTUA), the city recognizes that GTUA has an undivided ownership interest in the City's water system and sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance and sale of GTUA bonds. The City has an obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds.

Under terms of the contracts the City's obligation to make payments to GTUA, as well as GTUA's Ownership interest in the facilities terminates, when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

The current principal obligation of the 1997 GTUA contract is \$175,000, with interest rates varying between 3.35% and 5.5%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 1997 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2018.

The current principal obligation of the 2000 GTUA contract is \$570,000, with interest rates varying between 4.5% and 8.2%. Principal payments are due annually on November 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 2000 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2021.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The current principal obligation of the first of the 2004 GTUA contract revenue bonds is \$975,000, with interest rates varying between 2.5% and 6.0%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 2004 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2019.

New for fiscal year 2006, Series 2005 GTUA revenue bonds in the amount \$2,885,000 were issued for the purpose of refunding two older GTUA bond issues. The bonds have a fixed interest rate of 4.42%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2028. The current principal obligation of the 2005 GTUA refunding contract revenue bonds is \$2,780,000. At the time of refunding, debt for the Series 2002 GTUA contract revenue bonds with a principal balance of \$1,830,000 was defeased. Also at the time of refunding, debt for the Series 2004 GTUA contract revenue bonds with a principal balance of \$975,000 was defeased. As a result, these debts have been removed from liabilities in the City's Water Fund. The advanced refunding was undertaken to take advantage of low fixed interest rates.

Also new for fiscal year 2006 is another GTUA bond issuance in the amount \$2,035,000 for the purpose of financing water system improvements. The bonds have a fixed interest rate of 5.26%. Principal payments are due annually on November 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2026. The current principal obligation of the 2005 GTUA contract revenue bonds is \$2,035,000.

On December 13, 2004, the City, along with the Cities of Anna, Howe, and Melissa, entered into a long-term contractual obligation contract with GTUA for the purpose of providing funds for the construction, acquisition, and improvement of water system facilities. Phase I funding for the 2005 contract was \$2,800,000 of which twenty-five percent (25%) or \$700,000 pertained to the City. The Phase I contract has interest rates varying between 2.29% and 5.74%. As of September 30, 2006, the total principal balance for the obligation was \$671,250. The City's obligation to GTUA under the 2005 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2028. At that time the undivided interest in the property transfers from GTUA to the City.

Commitments Related to the 2005 GTUA Contractual Obligation Project

Phase II funding of \$8,675,000 for the 2005 contract began in July of 2006 and represents total funding for all four cities involved. Phase II funding will not be repaid as a typical GTUA contractual obligation. No funding repayments are due until the cities' begin pumping water from the constructed water line in approximately one year. Then each city will be billed by the municipal water alliance based on each city's percentage of total pumped water. The water alliance's billing rates will be calculated to provide funds necessary to cover principal, interest, and production costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The City also has two long-term contractual obligations with Capmark Financial. The current principal obligations of these two 1976 Series revenue bonds are \$80,500, with an interest rate of 5%. Principal payments are due annually on May 1st and January 1st. Interest payments are due semi-annually on January 1st and July 1st and also on March 1st and September 1st. The City's obligation to GMAC under the 1976 bonds expires with the retirement of the bonds in the fiscal year ending September 30, 2016.

The following is a schedule of future debt service of all water fund long-term commitments:

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------|--------------------|--------------------|---------------------|
| 2007 | \$188,750 | \$399,210 | \$587,960 |
| 2008 | 260,500 | 353,117 | 613,617 |
| 2009 | 265,500 | 341,123 | 606,623 |
| 2010 | 282,250 | 328,204 | 610,454 |
| 2011 | 299,000 | 314,324 | 613,324 |
| Thereafter | <u>5,990,750</u> | <u>2,516,956</u> | <u>8,507,706</u> |
| | <u>\$7,286,750</u> | <u>\$4,252,934</u> | <u>\$11,539,684</u> |

GOVERNMENTAL TYPE ACTIVITIES COMMITMENTS

For fiscal year 2006, the City obtained a \$405,000 Limited Tax Note payable to finance the purchase of park land. The current principal obligation of the note is \$405,000. The note has a fixed interest rate of 4.19%. Principal payments are due annually on November 15th. Interest payments are due semi-annually on February 15th and August 15th. The last payments are due in fiscal year 2013.

For fiscal year 2006, the City issued \$2,480,000 of Combination Tax and Limited Surplus Revenue certificates of obligation to finance improvements to streets, parks, city hall, and other. The current principal obligation of the note is \$2,480,000. The certificates have variable interest rates from 3.5% to 5.25%. Principal payments are due annually on February 15th. Interest payments are due semi-annually on February 15th and August 15th. The last payments are due in fiscal year 2026.

The City has a note payable to Independent Bank that financed the purchase of a fire truck. The current principal obligation of the note is \$128,006. The note has a fixed interest rate of 5.625%. Payments are made monthly and the last payments are due in fiscal year 2012.

The following is a schedule of future debt service of all governmental activities type notes and certificates of obligation:

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------|--------------------|--------------------|--------------------|
| 2007 | \$ 68,459 | \$205,523 | \$273,982 |
| 2008 | 174,508 | 124,376 | 298,884 |
| 2009 | 175,651 | 117,428 | 293,079 |
| 2010 | 176,843 | 110,432 | 287,275 |
| 2011 | 183,104 | 103,262 | 286,366 |
| Thereafter | <u>2,234,441</u> | <u>818,586</u> | <u>3,053,027</u> |
| | <u>\$3,013,006</u> | <u>\$1,479,607</u> | <u>\$4,492,613</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE F - FUND EQUITY – RESERVED

\$2,705,803 of Water Fund net assets is reserved GTUA deposits that will be used for water and sewer system capital improvements and repayment of contractual obligations. \$1,573,461 of Water Fund net assets is reserved developer fees paid by homebuilders that will be used for water and sewer system capital improvements and debt service related to such improvements. \$373,940 of the General Fund fund balance is reserved for improvements of City parks. \$49,533 of the General Fund fund balance is reserved for fire department improvements.

NOTE G - CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of September 30, 2006, the City maintains banking accounts at Texas Star Bank, Independent Bank, and the state-operated Texpool system. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC.

At September 30, 2006 the City's deposits held in its depository banks totaled \$7,103,049 with \$200,000 insured by the Federal Deposit Insurance Corporation. Securities have been pledged by the depository banks to collateralize 100% of all remaining deposits. For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Reconciliation of balance sheet cash:

| | |
|--|--------------------|
| Primary government cash on balance sheet | \$5,106,915 |
| Restricted cash on balance sheet | 1,996,934 |
| (less) Petty cash on balance sheet | <u>(800)</u> |
| Deposits with financial institutions: | <u>\$7,103,049</u> |

NOTE H – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Collin County Tax Assessor/Collector. The total property tax levy for the 2005 tax year is \$1,111,162. At September 30, 2006, \$1,096,197 of the tax has been collected, which is 98.65 percent.

NOTE I - PROPERTY TAXES RECEIVABLE

Delinquent property taxes at September 30, 2006, are as follows:

| <u>Tax Year</u> | <u>Amount</u> |
|--------------------------------------|-----------------|
| 2004 & prior | \$27,708 |
| <u>2005</u> | <u>34,840</u> |
| Subtotal | 62,548 |
| Less allowance for doubtful accounts | <u>(8,669)</u> |
| Total | <u>\$53,879</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE J - INSURANCE COVERAGE

Insurance bond ordinances state in part that "So long as any of the Bonds herein authorized are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of the Bonds of the kind and in the amounts which are usually carried by private companies operating similar properties, and that during such time all policies of insurance shall be maintained in force and kept current as to premium payments." Insurance in effect at September 30, 2006 as reflected by the policies on file, is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions.

NOTE K – CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The City is currently in litigation with individuals that were the beneficiary of a local Texas Capital Fund grant project. These individuals did not provide documentation to the Texas Department of Agriculture required to close the project and have refused to make required monthly payments on a loan that was part of the project. The City was also a guarantor of the project.

The City's agreement with the Texas Department of Agriculture included an understanding that the City was in litigation with these individuals and was making every reasonable effort to close the project and secure the funds necessary to make the loan payments. The State suspended the loan payment requirements, but the City could not apply for similar funding for a six-month period. Subsequent to the fiscal year-end, the State has released the City from any liability associated with this loan.

NOTE L – CAPITAL LEASES FOR GOVERNMENTAL ACTIVITIES

| <u>Year Ended</u> <u>September 30,</u> | <u>Capital Lease</u> <u>Payments</u> |
|---|---|
| 2007 | \$ 48,334 |
| 2008 | 22,352 |
| 2009 | 22,352 |
| 2010 | 22,352 |
| 2011 | 22,352 |
| Thereafter | <u>22,352</u> |
| Total | 160,094 |
| Less :Interest portion (4.6 to 5.3%) | <u>(23,546)</u> |
| Present value of future minimum lease payments | <u>\$136,548</u> |
| Cost of Equipment | \$243,798 |

CITY OF ANNA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the year ended September 30, 2006

| | Actual | Original Budget | Final Budget | Variance Favorable (Unfavorable) |
|---|---------------------|---------------------|---------------------|--|
| Revenues: | | | | |
| Property tax | \$ 1,186,370 | \$ 1,099,317 | \$ 1,140,109 | \$ 46,261 |
| Building permits | 775,774 | 782,280 | 782,280 | (6,506) |
| Franchise tax | 296,363 | 138,750 | 240,300 | 56,063 |
| Sales tax | 282,358 | 215,625 | 281,500 | 858 |
| Inspection fees | 258,648 | 100,000 | 100,000 | 158,648 |
| Park/Fire capital improvement fees | 189,138 | - | - | 189,138 |
| Interest revenue | 68,646 | 11,750 | 11,750 | 56,896 |
| Penalties and interest - property tax | 32,167 | 11,104 | 11,104 | 21,063 |
| Municipal court | 22,388 | 185,110 | 23,250 | (862) |
| Other revenue | 17,560 | 6,609 | 6,609 | 10,951 |
| Total revenues | 3,129,412 | 2,550,545 | 2,596,902 | 532,510 |
| Expenditures: | | | | |
| Capital outlay | 704,174 | 310,163 | 322,223 | (381,951) |
| Inspections | 572,154 | 605,159 | 605,159 | 33,005 |
| Administrative and general | 542,373 | 586,106 | 549,902 | 7,529 |
| Police | 398,167 | 386,309 | 390,059 | (8,108) |
| Fire department | 149,304 | 23,375 | 163,991 | 14,687 |
| Streets | 97,673 | 178,500 | 107,000 | 9,327 |
| Debt service | 73,521 | 73,521 | 73,521 | - |
| Municipal court | 56,907 | 149,929 | 147,304 | 90,397 |
| Ambulance | 38,798 | 38,798 | 38,798 | - |
| Parks | 38,046 | 18,250 | 31,250 | (6,796) |
| Total expenditures | 2,671,117 | 2,370,110 | 2,429,207 | (241,910) |
| Excess of Revenues over (under) expenditures | 458,295 | 180,435 | 167,695 | 290,600 |
| Other financing sources (uses): Debt proceeds | 400,000 | - | - | 400,000 |
| Excess of revenues and other sources over (under) expenditures and other uses | 858,295 | 180,435 | 167,695 | 690,600 |
| Fund balances beginning, October 1 | 1,115,637 | 1,115,637 | 1,115,637 | - |
| Fund balances ending, September 30 | <u>\$ 1,973,932</u> | <u>\$ 1,296,072</u> | <u>\$ 1,283,332</u> | <u>\$ 690,600</u> |

See accountant's report and notes to the financial statements.

**CITY OF ANNA
PENSION FUNDING DATA
AS OF DECEMBER 31, 2005**

Pension Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 811 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P.O. Box 149153, Austin, Texas 78714-9153.

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

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the government, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the government matching ratio is currently 1.5 to 1, both as adopted by the governing body of the government. Under the state law governing TMRS, the actuary annually determines the government contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll on an open basis from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to government matching percent, which are the obligation of the government as of

See accountant's report and notes to the financial statements.

an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the government to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the government periodically adopts updated service credits and increases its annuities in effect, the increased unfunded (overfunded) actuarial liability (asset) is to be amortized over a 25-year period. Currently, the unfunded actuarial liability is being amortized over the plan's 25-year period. The unit credit actuarial cost method is used for determining the government contribution rate. Both the employees and the government make contributions monthly. Since the government needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Annual Pension Cost

For the year ended September 30, 2006, the government's annual pension cost of \$38,175 for TMRS was equal to the government's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return, (b) no projected salary increases, and (c) no cost-of-living adjustments. An inflation rate of 3.5% was used in computing (a) and (b). The actuarial value of TMRS assets was determined using market values.

| <u>Fiscal Year Funding</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|----------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 09/30/04 | \$14,746 | 100% | \$0 |
| 09/30/05 | \$26,569 | 100% | \$0 |
| 09/30/06 | \$38,175 | 100% | \$0 |

Schedule of Funding Progress for TMRS
(Dollar amounts in thousands)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b)-(a)</u> | <u>Percentage Funded Ratio (a)/(b)</u> | <u>Percentage Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|------------------------------------|--|---------------------------------------|--|
| 12/31/03 | \$23 | \$30 | \$7 | 76.9% | \$404 | 1.7% |
| 12/31/04 | \$59 | \$65 | \$6 | 90.2% | \$588 | 1.1% |
| 12/31/05 | \$121 | \$126 | \$5 | 95.8% | \$789 | 0.7% |

See accountant's report and notes to the financial statements.

COMPLIANCE AND INTERNAL CONTROLS SECTION

GREGG & COMPANY

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TEXAS SOCIETY OF CPAs

MEMBER
AMERICAN INSTITUTE OF CPAs

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

To the City Council
City of Anna, Texas

We have audited the financial statements of City of Anna, Texas, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 5, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Anna, Texas financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determinations 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Anna internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Gregg & Company CPAs

Tom Bean, Texas
February 5, 2007