

LaFollett and Abbott PLLC
Certified Public Accountants

Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

March 25, 2014

To the City Council and Management
of the City of Anna, Texas

Subject: Management Letter

In planning and performing our audit of the financial statements of the City of Anna, Texas (the City), for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated March 25, 2014, on the financial statements of the City. The recommendations should in no way be construed as derogatory towards management.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendations.

Sincerely,

LaFollett and Abbott PLLC

LaFollett and Abbott, PLLC

Management Letter Points

Prior Year Recommendation

- We recommend the City provide management for the Economic Development Corporation (EDC) and Community Development Corporation (CDC) with access and training for the City's accounting software. The EDC and CDC are currently recording checks and deposits on excel spreadsheets. New debt issuances, asset acquisitions, and other transactions are also handled outside of the City's finance department. Although cash transactions are periodically forwarded for recording in the City's accounting software, there remains a disconnect in knowing if all EDC and CDC transactions have been properly recorded.

Status of Prior Year Recommendation

The finance staff now works closer with the EDC and CDC for matters related to debt, acquisitions, and agreements. The City still experiences significant delays in recording transactions into the accounting system. We also noted that one CDC cash account had not been reconciled to the system balance and caused an \$18,000 understatement of cash at fiscal year-end 2013.

We have a recurring recommendation to enter and reconcile EDC and CDC transactions in a timely manner.

Current Year Recommendations

- We recommend the City perform more year-end reconciliation and closing procedures before audit fieldwork begins.

Audit adjustments were needed for: cash, accounts payable, fixed assets, and transfers in and out. These adjustments should be identified and posted by the City through normal closing procedures.

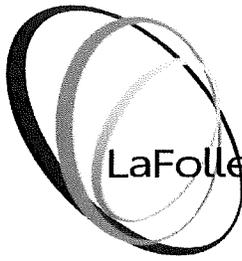
- We recommend the City deposit new debt proceeds into the appropriate fund considering which fund will be obligated to repay the debt.

Proceeds from the \$4,210,000 Series 2012 Tax and Revenue Certificates of Obligation were deposited into the Capital Projects Fund, but the Utility Fund will be obligated to repay the debt and the funds are being used for Utility Fund improvements. Although the City has properly reflected amounts due to the Utility Fund from the Capital Projects Fund, best practice would have all the debt's activity recorded in the Utility Fund.

Management's Responses to Findings

- Staff developed a strategy to work with the EDC/CDC at the close of the FY 12 audit to make improvements in the timely reconciliation of financial data and transactions. As we began to implement to plan, it became apparent that the plan needed to be altered. As such, a formal agreement between the EDC/CDC and the City has been reached. This agreement calls for the EDC/CDC to provide prior month financial information to the City on or about the 15th of every month. City staff will enter this information to our accounting program and perform monthly reconciliations.

- Each year City staff has taken a greater role in year-end procedures and reconciliations. This is evidenced by the decline in auditor's adjustments each year. In FY 13, there was a significant increase in capital projects. This exposed a weakness and opportunity to improve year-end closings etc. City staff is developing a year-end checklist for each fund that will guide us in ensuring we don't miss any procedures at year-end.
- Staff is working with an accounting consultant to implement best practices in accounting for capital projects that are related to General Fund vs. Utility (Enterprise) Fund activities.



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Rod Abbott, CPA – Partner

March 25, 2014

To the City Council of the
City of Anna, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anna (the “City”), for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 21, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note A to the financial statements.

The City adopted new applications of accounting policies during 2013 as follows: Presentation of financial results for the Anna Economic Development Corporation and Anna Community Development Corporation changed from a discrete presentation to a blended presentation as these component units became special revenue funds for the City effective October 1, 2012.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of long-term debt in Note F to the financial statements. This disclosure provides detail of debt terms, future payments, interest rates, and other information for each debt.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The following summarizes uncorrected misstatements of the financial statements:

Property tax revenue understated by \$8,546

Deferred tax revenue overstated by \$8,546

Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management has corrected all other such misstatements. The following misstatements detected as a result of audit procedures were corrected by management: See separate listing of audit adjustments provided to management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated March 25, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Tom Bean, Texas
March 25, 2014

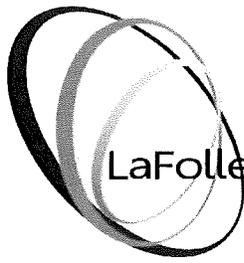
CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2013

**CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor’s Report.....	1-2
<u>Required Supplementary Information:</u>	
Management’s Discussion and Analysis.....	3-8
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position.....	9-10
Statement of Activities.....	11
<u>Fund Financial Statements</u>	
Fund Balance Sheets – Governmental Funds.....	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position – Proprietary Fund.....	16
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	18
Notes to Basic Financial Statements.....	19-36
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule – General Fund.....	37
Schedule of TMRS Pension Funding Progress	38
<u>Combining Statements</u>	
Non-Major Governmental Type Funds – Balance Sheets –	39
Non-Major Governmental Type Funds – Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –	40
COMPLIANCE AND INTERNAL CONTROLS SECTION	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Anna, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Anna, Texas (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activity, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of September 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 37 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. The retirement system funding information on page 38 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Anna, Texas internal control over financial reporting and compliance.



Tom Bean, Texas
March 25, 2014

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

Our discussion and analysis of City of Anna's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY13 by \$34,168,260. This is an increase of \$3,394,927 over FY12's net position value of \$30,773,333. Unrestricted net position at the close of FY13 is \$3,898,524 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$7,828 from FY12's unrestricted net asset value of \$3,906,352.
- Although the City's total net position increase of \$3,394,927 is much higher than FY12's \$48,099 increase, FY13's result included non-recurring grants, intergovernmental revenue, and capital contributions totaling \$3,150,545. The majority of these funds assisted in utility relocation projects and park improvements.
- The City's governmental funds reported on page 12 have an ending fund balance of \$3,284,331, which is a decrease of \$1,736,114 in comparison with FY12 ending fund balances of \$5,020,445. \$1,489,156 of this decrease was attributable to a planned capital assets transfer to the City's proprietary fund from the Capital Projects Fund. \$1,742,740 of the governmental-type fund balance is classified as "unassigned" and available for spending at the City's discretion and in compliance with the City's financial policies.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9-11). 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 Position 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 9. 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 Position 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 position and changes in them. The City's net position (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 position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, 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 Position and the Statement of Activities, the City has two kinds of activities:

Governmental Type Activities – City services such as police and fire protection, street maintenance, parks, economic and community development, 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 Position and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 13 and 15.

Change in Fund Financial Statements Presentation

In prior years, the City's Economic Development Corporation (EDC) and Community Development Corporation (CDC) were presented as discrete component units of the City. Their financial results were only presented on the full accrual, government-wide financial statements. Effective October 1, 2012, the CDC and EDC became non-major, blended special revenue funds for the City. Accordingly, beginning governmental-type fund balances have been restated to include EDC and CDC equity.

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-one percent (61%) of the City's net position are invested in capital assets; land, streets, parks, buildings, water/sewer infrastructure, vehicles and 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.

The following tables summarize the Statement of Net Position and Changes in Net Position for the year ended September 30, 2013:

	Governmental Activities		Business-type Activities		Total	
	FY13	FY12	FY13	FY12	FY13	FY12
Current and other assets	\$ 4,414,716	\$ 5,630,237	\$ 11,493,608	\$ 6,758,629	\$ 15,908,324	\$ 12,388,866
Capital assets	18,465,950	16,167,945	32,164,793	30,778,837	50,630,743	46,946,782
Total assets	<u>22,880,666</u>	<u>21,798,182</u>	<u>43,658,401</u>	<u>37,537,466</u>	<u>66,539,067</u>	<u>59,335,648</u>
Long-term liabilities outstanding	6,854,813	7,277,605	22,935,997	19,194,300	29,790,810	26,471,905
Other liabilities	915,924	374,823	1,664,073	1,715,587	2,579,997	2,090,410
Total liabilities	<u>7,770,737</u>	<u>7,652,428</u>	<u>24,600,070</u>	<u>20,909,887</u>	<u>32,370,807</u>	<u>28,562,315</u>
Net Position:						
Net investment in capital assets	11,698,639	11,028,181	9,228,796	11,584,537	20,927,435	22,612,718
Restricted	983,464	444,340	8,358,837	3,809,923	9,342,301	4,254,263
Unrestricted	2,427,826	2,673,233	1,470,698	1,233,119	3,898,524	3,906,352
Total net position	<u>\$ 15,109,929</u>	<u>\$ 14,145,754</u>	<u>\$ 19,058,331</u>	<u>\$ 16,627,579</u>	<u>\$ 34,168,260</u>	<u>\$ 30,773,333</u>

	Governmental Activities		Business-type Activities		Total	
	FY13	FY12	FY13	FY12	FY13	FY12
Revenues:						
Program Revenues:						
Charges for services	\$ 1,147,988	\$ 921,352	\$ 5,573,401	\$ 4,880,931	\$ 6,721,389	\$ 5,802,283
Operating grants and contributions	10,531	76,729	-	-	10,531	76,729
Capital grants and contributions	2,665,841	382,003	484,704	-	3,150,545	382,003
General Revenues:						
Property taxes	2,483,857	2,392,504	-	-	2,483,857	2,392,504
Other taxes and franchise fees	1,502,779	886,810	-	-	1,502,779	886,810
Other	78,655	191,700	190,763	404,350	269,418	596,050
	<u>7,889,651</u>	<u>4,851,098</u>	<u>6,248,868</u>	<u>5,285,281</u>	<u>14,138,519</u>	<u>10,136,379</u>
Expenses:						
General government	885,833	965,092	-	-	885,833	965,092
Economic/Community Development	196,384	-	-	-	196,384	-
Police and court	1,526,399	1,364,060	-	-	1,526,399	1,364,060
Streets	940,941	888,763	-	-	940,941	888,763
Debt service - interest	270,057	196,169	-	-	270,057	196,169
Development and animal control	560,983	530,649	-	-	560,983	530,649
Parks	303,607	290,907	-	-	303,607	290,907
Fire	641,670	445,193	-	-	641,670	445,193
Ambulance	110,446	114,782	-	-	110,446	114,782
Water/Sewer/Sanitation	-	-	5,307,272	4,928,084	5,307,272	4,928,084
	<u>5,436,320</u>	<u>4,795,615</u>	<u>5,307,272</u>	<u>4,928,084</u>	<u>10,743,592</u>	<u>9,723,699</u>
Excess (deficiency) of revenues over expenditures before transfers	2,453,331	55,483	941,596	357,197	3,394,927	412,680
Transfers In (Out)	(1,489,156)	(364,582)	1,489,156	-	-	(364,582)
Increase in net position	964,175	(309,099)	2,430,752	357,197	3,394,927	48,098
Net position - October 1 (beginning)	14,145,754	13,841,270	16,627,579	16,270,382	30,773,333	30,111,652
Prior period adjustments	-	613,583	-	-	-	613,583
Net position - September 30 (ending)	<u>\$ 15,109,929</u>	<u>\$ 14,145,754</u>	<u>\$ 19,058,331</u>	<u>\$ 16,627,579</u>	<u>\$ 34,168,260</u>	<u>\$ 30,773,333</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from \$14,145,754 to \$15,109,929. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$2,427,826 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$3,284,331 compared to \$5,020,445 in FY12. This represents a decrease of \$1,736,114. \$1,489,156 of this decrease was attributable to a planned capital assets transfer to the City's proprietary fund from the Capital Projects Fund.

Revenues and other financing sources for the City's general fund were \$4,350,680, while total expenses and other financing uses were \$4,376,186. This resulted in an excess of expenditures over revenues of \$25,506 (see page 14). Last year's result was an excess of revenues over expenditures of \$339,761. The largest increases in FY13 general fund revenues came from development fees, impact fees, and building permits. The largest increases in FY13 general fund expenditures were related to capital outlays.

General Fund expenditures were \$316,668 more than budgeted. More than budgeted revenue for building permits necessitated more contract expense for the same department. Additionally, the City spent \$268,103 for a land purchase, but funds had been accumulating from restricted sources that allow for this expenditure.

Revenues for the City's Utility Fund were \$4,920,699, while total expenses were \$4,928,084. This resulted in income before transfers of \$456,892 (see page 17). This is better than 2012's result of a loss before contributions and transfers of \$7,385. The main reason for the improvement was a \$368,500 increase in developer and impact fees. Water, sewer, and sanitation charges for services also increased in the range of 5 to 10%. The FY13 unrestricted net position is \$1,470,698. Excluding depreciation expense, this unrestricted net position is equal to approximately six months of the Utility Fund's 2013 operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2013 amounts to \$50,630,743 compared to \$46,946,782 (net of accumulated depreciation) at September 30, 2012. This investment in capital assets includes land, buildings and improvements, street improvements, parks, water and sewer systems, equipment and vehicles. The net increase in the City's investment in capital assets for the current fiscal year was \$3,683,961. Some of the major capital asset expenditures during 2013 related to the ongoing F.M. 455 utilities relocation project, water system improvements, and park improvements.

Long-term Debt

At year-end, the City had total notes, capital leases, bonds and contractual obligations outstanding of \$29,676,845. The City had one new \$4,210,000 debt issuance during 2013. The Utility Fund's new Series 2012 combination tax and revenue certificates of obligation were issued to finance water and sewer system improvements. The City made all required bond, capital lease, note, and contractual obligation principal payments for 2013 which totaled \$872,157.

At the end of FY13, the City's total long-term commitments for governmental activities were \$6,854,813 and total long-term commitments for the Utility Fund are \$22,935,997. Total long-term commitments for the City increased by \$3,318,905 from 2012 to 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

From 2008 to 2011, the taxable value of existing properties in Anna declined an average of 3% per year. This equates to a loss of over \$42 million in taxable value based on a year to year comparison. The value of existing properties stabilized in 2012, and valuation reports for the 2013 tax year show that the value of existing properties have increased for the first time since 2008. In addition to a modest 4% increase in the value of existing property, approximately \$30,000,000 in new construction was added to the tax roll last year. We remain guardedly optimistic that we will continue to see modest appreciation in the value of existing properties. This growth in taxable value corresponds to a significant increase in residential growth and population over the past 24 months. According to the most recent population estimates published by the North Central Texas Council of Governments, the City of Anna population as of January 1, 2013 was 9,360. In 2012, the City issued 333 single family building permits which equates to approximately 1,000 new city residents. In 2013, the City issued another 305 single family building permits. Through February of 2014, the City has issued 78 single family building permits. We forecast a similar pattern of growth for at least the next 12 months.

Of course with the growth in population comes a proportional increase in demand for municipal services that are funded primarily by property taxes. In order to fund the FY 2014 budget, the City adopted a tax rate of \$0.650332 per \$100 valuation which is identical to the tax rate adopted in FY 2013 and slightly greater than the effective tax rate of \$0.606872. When compared with other cities in our area, the City of Anna still has one of lowest per-capita property tax burdens.

In order to accommodate existing and projected growth, the City invested about \$20 million over the last decade to upgrade the water and sewer system. Up until four years ago, the City was able to pay about two-thirds of the outstanding water and sewer debt with impact fees that are paid by a home builder when a new home is constructed. As residential construction declined, the resulting revenue from impact fees fell dramatically. In October of 2009, utility rates were increased in order to generate the revenue necessary to cover the operating costs and debt service obligations of our utility fund. On October 1, 2011, the base rate for residential water customers increased from \$18 to \$22 per month and the base rate for residential sewer customers increased from \$18 to \$22 per month. On January 1, 2012, an additional customer charge of \$0.15 per 1000 gallons of water used was adopted to pay for the water production fees now being charged by the North Texas Groundwater Conservation District. While no additional rate increases occurred in FY 2013, the FY 2014 budget included a modest 4% increase to the base and volumetric water and sewer rates in order to ensure that our utility rates will continue to support our utility fund operating costs and debt obligations. This adjustment resulted in an estimated increase to the average monthly utility bill (combined water and sewer) of \$3.68. We do not anticipate any changes to the utility rate structure during FY 2015.

With the increase in growth the City experienced throughout 2013 and the stronger than expected growth seen through the early part of the 2014, the City issued new debt to finance water and sewer infrastructure improvements necessary to accommodate our growing community. The City continues to actively review its existing water and sewer rates. This evaluation is necessary to ensure that the City is able to meet its outstanding debt obligations and prepare for future capital improvements that will be necessary to maintain utility service to our community. In addition to reviewing our water and sewer rates, the City is actively managing its outstanding debt. We have a series of planned debt refundings that will allow us to take advantage of low rates and develop a more level and modest repayment structure.

Although the City has some challenges, there are many positive things happening in our community. The City continues to see consistent increases in the amount of sales tax revenue collected each year, which is a testament to the health of our local business climate. The sales tax revenue in FY 2013 was up 10% over the FY 2012 revenue. While we do not expect dramatic increases to continue, we do not anticipate any decrease in sales tax revenue in FY 14.

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 111 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

City of Anna, Texas
Statement of Net Position
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,517,027	\$ 2,169,466	\$ 9,686,493
Pooled investments	366,947	140,318	507,265
Accounts receivable - net	348,772	366,786	715,558
Inventory	-	210,483	210,483
Internal balances	(3,993,886)	3,993,886	-
Notes receivable - net	88,353	-	88,353
Prepaid bond issue costs	87,503	388,036	475,539
Restricted assets:			
Deposits held by GTUA	-	1,864,979	1,864,979
Other restricted cash	-	2,359,654	2,359,654
Non-depreciable capital assets:			
Land and easements	2,032,630	362,913	2,395,543
Construction in progress	2,268,690	1,573,835	3,842,525
Depreciable capital assets (net):			
Water and sewer systems	-	29,175,444	29,175,444
Buildings, machinery, and equipment	2,037,151	1,052,601	3,089,752
Park improvements	2,258,961	-	2,258,961
Streets and other infrastructure	9,868,518	-	9,868,518
Total assets	<u>\$ 22,880,666</u>	<u>\$ 43,658,401</u>	<u>\$ 66,539,067</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Net Position
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 761,056	\$ 221,583	\$ 982,639
Interest payable	30,442	801,525	831,967
Salaries payable	71,465	27,108	98,573
Accrued liabilities	52,961	22,763	75,724
Customer meter deposits	-	591,094	591,094
Non-current liabilities:			
Due within one year	529,346	545,997	1,075,343
Due in more than one year	6,325,467	22,390,000	28,715,467
Total liabilities	<u>7,770,737</u>	<u>24,600,070</u>	<u>32,370,807</u>
Net Position			
Net investment in capital assets	11,698,639	9,228,796	20,927,435
Restricted for:			
GTUA deposits	-	1,864,979	1,864,979
Water and sewer improvements	-	6,493,858	6,493,858
Capital projects and other	983,464	-	983,464
Unrestricted	2,427,826	1,470,698	3,898,524
Total net position	<u>\$ 15,109,929</u>	<u>\$ 19,058,331</u>	<u>\$ 34,168,260</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants and Contributions		Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary government:						
Governmental activities:						
Development and animal control	\$ 560,983	\$ 839,349	\$ -	\$ -	\$ 278,366	\$ 278,366
Highways, streets, and utilities	940,941	-	2,022,388	-	1,081,447	1,081,447
General government	885,833	20,839	-	-	(864,994)	(864,994)
Police and court	1,526,399	138,201	7,906	-	(1,380,292)	(1,380,292)
Fire	641,670	56,178	2,625	10,890	(571,977)	(571,977)
Economic and community development	196,384	30,000	-	-	(166,384)	(166,384)
Ambulance	110,446	-	-	-	(110,446)	(110,446)
Parks	303,607	63,421	-	632,563	392,377	392,377
Interest on long-term debt	270,057	-	-	-	(270,057)	(270,057)
Total governmental activities	5,436,320	1,147,988	10,531	2,665,841	(1,611,960)	(1,611,960)
Business-type activities:						
Water and Sewer - operating	5,307,272	5,573,401	-	484,704	-	750,833
Total business-type activities	5,307,272	5,573,401	-	484,704	-	750,833
Total primary government	10,743,592	6,721,389	10,531	3,150,545	(1,611,960)	(861,127)
General revenues:						
Property taxes					2,483,857	2,483,857
Sales taxes					1,149,297	1,149,297
Franchise taxes					353,482	353,482
Investment interest					39,256	34,636
Miscellaneous					39,399	19,085
Insurance recoveries					-	137,042
Transfers in (out)					(1,489,156)	1,489,156
Total general revenues and transfers					2,576,135	1,679,919
Change in net position					964,175	2,430,752
Net position - beginning (restated)					14,145,754	16,627,579
Net position - ending					\$ 15,109,929	\$ 19,058,331

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Balance Sheet - Governmental Type Funds
September 30, 2013

	Governmental Fund Types			Total Governmental Funds
	General	Capital Projects	Other Governmental	
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,883,680	\$ 4,978,422	\$ 654,925	\$ 7,517,027
Pooled investments	366,947	-	-	366,947
Accounts receivable - net	244,245	-	104,527	348,772
Notes receivable - net	-	-	88,353	88,353
Due from other funds	480,251	-	-	480,251
Total current assets	<u>2,975,123</u>	<u>4,978,422</u>	<u>847,805</u>	<u>8,801,350</u>
Liabilities				
Current liabilities:				
Accounts payable	167,542	593,188	326	761,056
Salaries payable	71,465	-	-	71,465
Other accrued liabilities	52,961	-	-	52,961
Due to other funds	-	4,472,536	1,600	4,474,136
Deferred revenue	62,411	-	94,990	157,401
Total current liabilities	<u>354,379</u>	<u>5,065,724</u>	<u>96,916</u>	<u>5,517,019</u>
Fund Balances				
Non-spendable	-	-	88,353	88,353
Restricted	232,160	-	662,951	895,111
Committed - Revenue stabilization	123,127	-	-	123,127
Committed - Building renovations	435,000	-	-	435,000
Unassigned	1,830,457	(87,302)	(415)	1,742,740
Total fund balances	<u>2,620,744</u>	<u>(87,302)</u>	<u>750,889</u>	<u>3,284,331</u>
Total liabilities and fund balances	<u>\$ 2,975,123</u>	<u>\$ 4,978,422</u>	<u>\$ 847,805</u>	<u>\$ 8,801,350</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended September 30, 2013

Fund balances of governmental funds (page 12)	\$	3,284,331
 Amounts reported for governmental activities in the Statement of Net Position (pages 9-10) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,465,950
Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(30,442)
Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.		87,502
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(6,854,813)
Revenue earned from a CDC long-term receivable is not all due in the current period and, therefore, is deferred in the fund financial statements.		88,353
Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the Statement of Net Position.		69,048
Net position of governmental activities (page 10)	<u>\$</u>	<u>15,109,929</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Other Governmental	
Revenues				
Taxes:				
Property	\$ 2,146,922	\$ -	\$ 350,057	\$ 2,496,979
Sales	574,649	-	574,648	1,149,297
Franchise	353,482	-	-	353,482
Intergovernmental	88,738	1,374,692	-	1,463,430
Grants	16,510	657,888	-	674,398
Building permits	566,587	-	-	566,587
Developer and impact fees	203,428	-	-	203,428
Court	117,518	-	-	117,518
Parks	63,421	-	-	63,421
Other development fees	69,334	-	-	69,334
Fire	56,178	-	-	56,178
Rentals	20,839	-	30,000	50,839
Investment earnings	11,875	19,600	7,781	39,256
Other revenue	12,352	-	11,547	23,899
Police	20,047	-	-	20,047
Total revenues	<u>4,321,880</u>	<u>2,052,180</u>	<u>974,033</u>	<u>7,348,093</u>
Expenditures				
Current:				
Police	1,290,492	-	-	1,290,492
Administrative and general	852,871	4,210	1,827	858,908
Fire	563,564	-	-	563,564
Development and animal control	559,414	-	-	559,414
Streets	201,294	-	-	201,294
Community and economic development	-	-	177,705	177,705
Parks	120,030	-	-	120,030
Ambulance	110,446	-	-	110,446
Court	108,391	-	-	108,391
Capital outlays	457,780	2,320,814	139,351	2,917,945
Debt service:				
Principal retirement	19,904	-	410,973	430,877
Interest expense	-	-	271,485	271,485
Total expenditures	<u>4,284,186</u>	<u>2,325,024</u>	<u>1,001,341</u>	<u>7,610,551</u>
Excess of revenues over (under) expenditures	37,694	(272,844)	(27,308)	(262,458)
Other financing sources (uses)				
Released seizure funds	15,500	-	-	15,500
Transfers in	13,300	1,692,232	50,000	1,755,532
Transfers (out)	(92,000)	(1,539,156)	(1,613,532)	(3,244,688)
Total other financing sources(uses)	<u>(63,200)</u>	<u>153,076</u>	<u>(1,563,532)</u>	<u>(1,473,656)</u>
Net changes in fund balances	(25,506)	(119,768)	(1,590,840)	(1,736,114)
Fund balances - beginning (restated)	2,646,250	32,466	2,341,729	5,020,445
Fund balances - ending	<u>\$ 2,620,744</u>	<u>\$ (87,302)</u>	<u>\$ 750,889</u>	<u>\$ 3,284,331</u>

The accompanying notes are an integral part of these financial statements.

City of Anna, 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, 2013

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14)	\$ (1,736,114)
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 expense in the current period.	1,747,915
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	553,426
The decrease in accrued interest is not a source of current financial resources and, therefore is not reported in the governmental funds.	1,428
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	430,877
The increase in accrued compensated absences does not use current financial resources and, therefore is not reported in the governmental funds.	(8,085)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to decrease net position.	(19,283)
Governmental funds report the costs of issuing new debt in the year for which it is incurred, but this cost is amortized over the life of the debt for the government-wide financial statements.	(5,989)
Change in net position of governmental activities (page 11)	\$ 964,175

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Net Position - Proprietary Fund (Utility Fund)
September 30, 2013

Assets	<u>Utility Fund</u>
Current assets:	
Cash and cash equivalents	\$ 2,169,466
Accounts receivable - net	366,786
Inventory	210,483
Restricted pooled investments	140,318
Restricted cash for capital improvements	2,359,654
Due from other funds	3,993,886
Total current assets	<u>9,240,593</u>
Noncurrent assets:	
Deferred charges - prepaid bond issue costs	388,036
Restricted deposits held in trust with GTUA	1,864,979
Capital assets (non-depreciable):	
Land and easements	362,913
Construction in progress	1,573,835
Capital assets (net of depreciation):	
Plants, machinery, and equipment	<u>30,228,045</u>
Total capital assets	<u>32,164,793</u>
Total noncurrent assets	<u>34,417,808</u>
Total assets	<u><u>\$ 43,658,401</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 221,583
Salaries payable	27,108
Other liabilities	22,763
Bond interest payable	801,525
Customer deposits	591,094
Current portion of long-term debt	545,997
Total current liabilities	<u>2,210,070</u>
Noncurrent liabilities:	
Bonds and notes payable	<u>22,390,000</u>
Total liabilities	<u>24,600,070</u>
Net Position	
Net investment in capital assets	9,228,796
Restricted - GTUA deposits	1,864,979
Restricted - water and sewer improvements	6,493,858
Unrestricted	1,470,698
Total net position	<u><u>\$ 19,058,331</u></u>

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2013

	2013
Operating revenues:	
Water income	\$ 2,362,035
Sewer income	1,487,160
Sanitation income	642,015
Developer and impact fees	788,500
Connect, install, and tap fees	140,010
Water customer late fees	112,989
Groundwater production fees	40,692
Miscellaneous revenue	19,085
Total operating revenues	5,592,486
Operating expenses:	
Personnel and benefits	796,820
Sanitation contract	564,113
Utilities	412,056
Supplies, repairs, and maintenance	379,111
N. Texas Municipal Water District contract	302,436
Other contractual services	378,255
Other operating expenses	277,721
Bad debt	51,115
Depreciation	1,165,380
Total operating expenses	4,327,007
Operating income	1,265,479
Non-operating revenues (expenses):	
Interest expense	(955,155)
Bond amortization	(25,110)
Insurance recoveries for damaged assets	137,042
Interest income	34,636
Total non-operating revenues (expenses)	(808,587)
Income before contributions and transfers	456,892
Contributed capital assets	484,704
Transfers in	1,489,156
Change in net position	2,430,752
Total net position - beginning	16,627,579
Total net position - ending	\$ 19,058,331

The accompanying notes are an integral part of these financial statements.

City of Anna, Texas
Statement of Cash Flows - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2013

	2013
Operating Activities:	
Receipts from customers and users	\$ 5,589,734
Payments to suppliers	(2,494,643)
Payments to employees	(578,593)
Net cash provided (used) by operating activities	2,516,498
Capital and Related Financing Activities:	
Cash to restricted capital improvements and GTUA accounts	(661,600)
Cash paid for acquisition and construction of capital assets	\$ (577,207)
Interest paid on long-term debt	(921,768)
Principal payments on debt	(446,278)
Net cash provided (used) by capital and related financing activities	(2,606,853)
Investing Activities:	
Insurance proceeds for damaged assets	137,042
Interest received	34,636
Net cash provided (used) by investing activities	171,678
Net increase (decrease) in cash and cash equivalents	81,323
Cash and cash equivalents, October 1	2,088,143
Cash and cash equivalents, September 30	\$ 2,169,466
Reconciliation of Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Operating income (loss)	\$ 1,265,479
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	1,165,380
Decrease (increase) in accounts receivable	48,363
Decrease (increase) in inventory	(160,655)
Decrease (increase) in other assets	47,365
Increase (decrease) in accounts payable	32,800
Increase (decrease) in other liabilities	56,886
Increase (decrease) in customer deposits	60,880
Net cash provided by operating activities	\$ 2,516,498
Non-cash capital activities:	
Transfer of capital assets from the Capital Projects Fund	\$ 1,489,156

The accompanying notes are an integral part of these financial statements.

CITY OF ANNA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The City of Anna, Texas (the "City") is a Home Rule Charter city that operates under a Council-Manager form of government. The City provides the following services: public safety, ambulance, streets, sanitation, planning and zoning, and general administrative services. Other services include water, sewer, and sanitation operations.

The financial statements of the City of Anna are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements. The following is a summary of the more significant policies:

1. The Reporting Entity

The accompanying financial statements present all funds relevant to the operations of the City and its component units as defined by GASB *Statement 61: The Financial Reporting Entity: Omnibus an amendment to of GASB Statements 14 and 34*. Component units are fiscally dependent upon the City and there is potential for a financial burden or benefit relationship.

Based on the criterion stated above, the Anna Community Development Corporation ("CDC") and the Anna Economic Development Corporation ("EDC") are component units of the City. The CDC and EDC are nonprofit organizations established to act on behalf of the City of Anna under the Development Corporation Act of 1979, section 4B and 4A, respectively. Both component units are considered special revenue funds of the City and are presented as blended governmental-type funds. The blended methodology was selected after evaluation of the "substantively the same" and financial burden or benefit relationship criteria. It should be noted that when the blended method is used, transactions of the component unit are presented as if they were executed directly by the primary government.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all the non-fiduciary activities of the primary government and its component units. *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 City 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*. Separate financial statements are provided for governmental funds and proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Major individual governmental funds are required to be reported in separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Gross receipts and sales taxes are considered measurable when in the hands of intermediary collecting government and are recognized as revenue at that time. 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.

Proprietary funds distinguish operating revenues and expenses from *non-operating items*. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues and expenses. 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted funds first, then unrestricted resources as they are needed.

4. 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 City, for financial purposes, includes all of the funds relevant to the operations of the City of Anna. Funds designated as "major" funds for the City each year are considered particularly important due to the level of activity in these funds. The General Fund is always considered a major fund for the City. For 2013, the Capital Projects Fund and Utility Fund are also major funds. The various funds are grouped, in the financial statements in this report, into two fund categories as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

Special Revenue Funds

The Anna CDC is a special revenue fund that accounts for the accumulation of State of Texas 4A sales tax revenues and related community development expenditures. The Anna EDC is a special revenue fund that accounts for the accumulation of State of Texas 4B sales tax revenues and related economic development expenditures.

PROPRIETARY FUND TYPES

Utility Fund

Accounts 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 Utility Fund accounts for the water, sewer, and sanitation services provided by the City.

5. Cash and Cash Equivalents

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. Other deposits with longer maturities are classified as investments.

6. Inventory

City inventory is maintained for water meters and other supplies in the Utility Fund. Inventory is recorded at cost with value adjusted on the first in, first out methodology.

7. Capital Assets

Property, plant and equipment used in governmental fund type operations are shown on the statement of net position, rather than governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The service lives by type of asset are follows:

<u>Asset Category</u>	<u>Depreciable Life in Years</u>
Buildings	20
Water & Sewer System infrastructure	35
Equipment	3-20
Streets	20

8. Long Term Liabilities

Long-term liabilities expected to be financed from governmental fund types are shown on the statement of net position, 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.

9. Due To and From Funds

Outstanding balances between funds at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

10. Compensated Absences

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.

11. Fund Balances

The City has adopted Governmental Accounting Standards Board (GASB) *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes in the fund financial statements for governmental type funds. It does not apply for the government-wide financial statements or proprietary type funds.

GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council (the City's highest level of decision-making authority),

Assigned - fund balance classification authorized for City Manager use to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications, and other funds that have total negative fund balances.

12. 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.

13. 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 - CASH, CASH EQUIVALENTS, AND POOLED INVESTMENTS

As of September 30, 2013, 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, 2013, City's deposits held in its depository banks totaled \$12,551,612 with \$788,650 insured by the Federal Deposit Insurance Corporation. Securities have been pledged in the City's name by the depository banks to collateralize 100% of all remaining deposits.

Summary of deposits with financial institutions:	
Primary government cash and cash equivalents	\$ 9,686,493
Primary government pooled investments	507,265
Restricted cash	2,359,654
Less: petty cash	(1,800)
Deposits with financial institutions	<u>12,551,612</u>
Add: petty cash	1,800
Total primary government cash and other deposits	<u>\$ 12,553,412</u>

The Texas State Comptroller of Public Accounts exercises oversight responsibility over TexPool (pooled investments). Oversight includes the ability to significantly influence operations, designations of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Standard and Poor's rates TexPool at AAAM.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

To maintain the rating, weekly portfolio information must be submitted to Standard and Poor’s and the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The City’s pooled investments at September 30, 2013, are comprised of governmental investment pools in the Texas Local Government Investment Pool (TexPool) as follows:

	<u>Carrying Amount & Fair Value</u>
<u>Public fund investment pools:</u>	
TexPool General Account	\$ 328,083
TexPool Building Fund	38,864
TexPool Sewer Capital Improvement Fund	<u>140,318</u>
Total public funds investment pools:	\$ 507,265

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires collateralization of certificates of deposit or demand deposits, to be held by an independent safekeeping agent. The safekeeping bank may not be within the same holding company as the banks from with the securities are pledged. City deposits over and above amounts insured by the Federal Deposit Insurance Corporation (FDIC) are collateralized by securities held by the City’s safekeeping agent.

Interest rate risk

Through its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of investments within its investment portfolio to a maturity period no greater than three years for the Debt Service Fund, no greater than the final expenditure date for bond proceeds held in a Capital Projects Funds, and no greater than 270 days for all other funds.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the City’s investment policy, to mitigate credit risk, funds shall be invested in the following types of investments: 1) state or local investment pools 2) direct obligations of the U.S. government 3) bonds with maturities less than two years and guaranteed by the U.S. government 4) certificates of deposits with maturities less than two years 5) repurchase agreements collateralized with U.S. treasury securities with terms less than 90 days 6) SEC registered, AM-rated money market mutual funds with a dollar-weighted average portfolio maturity of 90 days or less, and 7) fixed rate or discount notes with a maturity of two years or less pledged or otherwise guaranteed by any of the following federal agencies: Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Student Loan Marketing Association, and the Federal Home Loan Mortgage Corporation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The City investment policy requires investment funds to be fully collateralized.

NOTE C – 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 2012/2013 tax year was \$2,438,503. At September 30, 2013, \$2,420,674 of the tax has been collected, which is 99.3%.

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of the levy on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available.

Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City’s availability period is sixty days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are levied by October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. The penalty is 6% for the first month, and increased 1% per month up to a 12% maximum. Under state law, property taxes levied on real property constitutes a lien on the real property which cannot be forgiven without specific approval of the state legislature.

NOTE D - RECEIVABLES

Receivables at September 30, 2013, consisted of the following:

	Primary Government			
	General Fund	Capital Projects Fund	Other Governmental-Type Funds	Proprietary Fund
Property tax	\$ 40,814	\$ -	\$ 6,637	\$ -
Sales tax	97,891	-	97,890	-
Franchise tax and other	83,943	-	-	-
Court fines	441,547	-	-	-
Loans (long-term)	-	-	88,353	-
Utility bills	-	-	-	474,627
Gross receivables	664,195	-	192,880	474,627
Less: Allowance for uncollectibles	(419,950)	-	-	(107,841)
Net receivables	\$ 244,245	\$ -	\$ 192,880	\$ 366,786

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

GOVERNMENTAL FUND TYPE ACTIVITIES

Governmental fund type capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 1,764,527	\$ 268,103	\$ -	\$ 2,032,630
Construction in progress	86,768	2,251,630	(69,708)	2,268,690
Depreciable assets:				
Park improvements	2,916,332	43,260	-	2,959,592
Buildings	1,375,278	12,024	69,708	1,457,010
Furniture and fixtures	165,987	44,714	-	210,701
Streets and drainage	14,520,181	760,068	-	15,280,249
Machinery and equipment	2,058,655	91,572	(101,934)	2,048,293
Totals at historical cost	22,887,728	3,471,371	(101,934)	26,257,165
Less: Accumulated depreciation	(6,719,786)	(1,170,030)	98,601	(7,791,215)
Governmental fund type capital assets, net	\$ 16,167,942	\$ 2,301,341	\$ (3,333)	\$ 18,465,950

PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land and easements	\$ 362,913	\$ -	\$ -	\$ 362,913
Construction in progress	507,719	1,532,026	(465,909)	1,573,835
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	486,244	-	-	486,244
Equipment	774,712	392,171	(28,660)	1,138,223
Water treatment system	5,994,665	-	-	5,994,665
GTUA water improvements	16,851,929	127,705	-	16,979,634
GTUA sewer improvements	939,796	-	-	939,796
Water and sewer system	11,888,533	499,435	465,909	12,853,877
Totals at historical cost	37,812,131	2,551,337	(28,660)	40,334,807
Less: Accumulated depreciation	(7,033,294)	(1,165,380)	28,660	(8,170,014)
Proprietary fund type activities capital assets, net	\$ 30,778,837	\$ 1,385,957	\$ -	\$ 32,164,793

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation for proprietary type funds are included in both the fund financial statements and on the statement of activities. Depreciation expense was charged to functions/programs of the primary government as follows:

<i>Governmental activities:</i>	
Streets	\$ 734,008
Parks	183,577
Police	127,516
General government	26,925
Fire	78,106
Economic development	18,329
Inspections	1,569
Total depreciation expense - governmental activities	<u>\$ 1,170,030</u>
 <i>Business-type activities:</i>	
Water and sewer	<u>\$ 1,165,380</u>
Total depreciation expense - business-type activities	<u>\$ 1,165,380</u>

NOTE F - LONG-TERM DEBT

The City has outstanding general obligation bonds, revenue bonds, notes payable, capital leases, and certificates of obligation for the acquisition of capital assets and the construction of major capital facilities.

The following is a schedule of future debt service requirements to maturity:

Fiscal Year Ended	Total		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 961,649	\$ 1,272,157	\$ 415,652	\$ 257,292	\$ 545,997	\$ 1,014,865
2015	1,462,776	1,177,494	422,776	241,032	1,040,000	936,462
2016	1,517,903	1,137,794	444,153	224,566	1,073,750	913,228
2017	1,516,236	1,108,705	408,736	252,868	1,107,500	855,837
2018	1,495,724	1,255,035	389,474	312,194	1,106,250	942,841
2019-2023	7,807,057	6,005,481	2,087,057	1,327,613	5,720,000	4,677,868
2024-2028	8,345,500	2,940,101	1,983,000	499,682	6,362,500	2,440,419
2029-2033	5,038,750	963,410	590,000	43,100	4,448,750	920,310
2034-2038	1,126,250	293,618	-	-	1,126,250	293,618
2039-2040	405,000	35,709	-	-	405,000	35,709
	<u>\$ 29,676,844</u>	<u>\$ 16,189,504</u>	<u>\$ 6,740,848</u>	<u>\$ 3,158,347</u>	<u>\$ 22,935,997</u>	<u>\$ 13,031,157</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of the terms of the City's long-term debt at September 30, 2013:

Governmental Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2013	Due Within One Year
2005 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 1,865,000	\$ 110,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	970,000	85,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	250,000	20,000
Capital lease for Groundmaster	70,758	2010	2013	5.38%	-	-
2011 Tax Revenue Certificates of Obligation	360,000	2011	2/15/2026	3.34%	352,000	8,000
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	790,000	35,000
Fire rescue truck note	55,000	2009	2/3/2014	5.00%	12,115	12,115
EDC - Note payable	335,000	2012	11/14/2021	4.465%	284,210	29,504
EDC - Note payable	410,400	2008	2018	5%	244,523	36,762
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	396,000	2012	2/15/2018	3.25%	333,000	64,000
CDC - Sales Tax Revenue Bonds- Series 2012B	\$ 1,655,000	2012	2032	3.30%	1,640,000	15,000
Compensated absences					113,965	113,965
Total Governmental Activities					\$ 6,854,813	\$ 529,346

Business-Type Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2013	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ 5,000	\$ 5,000
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	15,000	5,000
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,180,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,550,000	95,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	620,000	30,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	915,000	45,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	1,905,000	95,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,210,000	50,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	440,000	20,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	537,500	23,750
CGMA Pipeline Project Phase II	2,168,750	2008	9/30/2040	5.68%-5.83	2,168,750	-
CGMA Pipeline Project Phase III	1,250,000	2008	10/1/2036	2.67%-5.62%	1,105,000	47,500
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,065,000	25,000
2012 combination tax and revenue certificates of obligation	4,210,000	2013	2/15/2033	1.5%-2.5%	4,210,000	-
Backhoe note	\$ 87,344	2009	2/2/2014	5%	9,747	9,747
Total Business-Type Activities					22,935,997	545,997
Total general debt (Governmental Type and Business-Type Activities)					\$ 29,790,810	\$ 1,075,343

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-term debt activity for the year ended September 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 1,975,000	\$ -	\$ (110,000)	\$ 1,865,000	\$ 110,000
2007 Certificate of Obligation	1,055,000	-	(85,000)	970,000	85,000
2007 Revenue Bond	270,000	-	(20,000)	250,000	20,000
2011 Tax Revenue Certificates of Obligation	360,000	-	(8,000)	352,000	8,000
EDC - FY12 Bank note payable - 4.465% a.p.r. Matures 11/14/2021 - Original issue - \$335,000	312,427	-	(28,217)	284,210	29,504
Capital lease for Groundmaster	19,904	-	(19,904)	-	-
EDC - FY08 Bank note payable - 5% a.p.r. - Matures 2019 - Original amount was \$380,300	279,754	-	(35,231)	244,523	36,762
2009 Tax and Revenue Certificate of Obligation	825,000	-	(35,000)	790,000	35,000
Fire rescue truck note	23,642	-	(11,527)	12,115	12,115
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	396,000	-	(63,000)	333,000	64,000
CDC Sales Tax Revenue Bonds- Series 2012B	1,655,000	-	(15,000)	1,640,000	15,000
Other liabilities	105,878	8,087	-	113,965	113,965
Total Governmental activity long term liabilities	\$ 7,277,605	\$ 8,087	\$ (430,879)	\$ 6,854,813	\$ 529,346

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 10,000	\$ -	\$ (5,000)	\$ 5,000	\$ 5,000
1976 General Obligation Water Bonds	20,000	-	(5,000)	15,000	5,000
2005 GTUA contract	2,180,000	-	-	2,180,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	1,640,000	-	(90,000)	1,550,000	95,000
Series 2007 GTUA contract revenue bonds	650,000	-	(30,000)	620,000	30,000
2007 GTUA contract	960,000	-	(45,000)	915,000	45,000
2007 GTUA contract	1,995,000	-	(90,000)	1,905,000	95,000
2007 GTUA contract	3,260,000	-	(50,000)	3,210,000	50,000
2008 GTUA contract	460,000	-	(20,000)	440,000	20,000
CGMA Pipeline Project Phase I	560,000	-	(22,500)	537,500	23,750
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,150,000	-	(45,000)	1,105,000	47,500
2009 combination tax and revenue refunding bond	4,090,000	-	(25,000)	4,065,000	25,000
2012 combination tax and revenue certificates of obligation	-	4,210,000	-	4,210,000	-
Backhoe note	28,525	-	(18,778)	9,747	9,747
Total business-type activities long term liabilities	\$ 19,172,275	\$ 4,210,000	\$ (446,278)	\$ 22,935,997	\$ 545,997

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CONTRACTUAL OBLIGATIONS WITH GREATER TEXOMA UTILITY AUTHORITY

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 of GTUA bonds.

The City has a contractual 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.

Collin Grayson Municipal Alliance Transmission Water Pipeline

In 2004, the City, along with the City of Van Alstyne, Howe, and Melissa, formed a group called the Collin Grayson Municipal Alliance ("CGMA"). CGMA entered into a long-term contractual obligation with GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to CGMA cities. The cost of the pipeline is being funded in four phases.

Each CMGA city was required to make payments to GTUA in an amount equivalent to 25% of the total obligation to cover their portion of the cost of the obligation until the pipeline project was completed. As water continues to flow to each CGMA city, the City shall be charged it's percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities. The sum of the four (4) fractional amounts shall always equal 100% of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs.

At the end of the contractual obligation with GTUA, the City will own an undivided interest in the transmission water pipeline based on the percentage of water it utilized and paid for during the contract term. The contract will expire and the transfer of ownership will occur during the fiscal year ended September 30, 2040, as long as no new debt is issued.

CDC Series 2012A Sales Tax Revenue Refunding Bonds

On August 23, 2012, Series 2012A Sales Tax Revenue Refunding Bonds were obtained by the CDC in the amount of \$396,000. \$377,983 of the proceeds from the sale of the bonds were used to refund the CDC's outstanding Texas Leverage Fund Loan in order to restructure such indebtedness. The issuance's net present value has the CDC incurring \$3,382 of additional costs after paying all issuance and other costs on the Bonds. The refunded loan and interest due thereon, are to be paid from funds deposited with the Escrow Agent. The entire refunded loan principal was redeemed on August 23, 2012. Debt service for the sales tax revenue bonds will be funded from pledged state tax revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CDC Series 2012B Sales Tax Revenue Bonds

On August 23, 2012, Series 2012B Sales Tax Revenue Bonds were obtained by the CDC in the amount of \$1,655,000. Proceeds from the sale of the bonds are to be used for City of Anna parks and other open space improvements. Debt service for the sales tax revenue bonds will be funded from the pledge of net revenue to be received from the State of Texas sales taxes received by the CDC.

Series 2012, \$4,210,000 Combination Tax and Revenue Certificates of Obligation

Dated December 20, 2012, these proprietary fund certificates of obligation were issued to fund water and sewer system improvements. Proceeds of the debt are recorded in, and expended by the Capital Projects Fund. This twenty- year debt has interest rates of 1.5% to 2.5% that will be paid each February and August 15th. Average yield is 2.24%. Principal is paid every February 15th. The debt is to be repaid with Utility Fund revenues. Final maturity is on February 15, 2033.

NOTE G – PRIOR PERIOD ADJUSTMENTS

The Anna CDC and Anna EDC are component units of the City. Prior to fiscal year 2013, the EDC and CDC were discretely presented in a separate column in the government wide financial statements. Effective October 1, 2012, both component units are considered special revenue funds of the City and are presented as blended governmental-type funds. This change in presentation requires that CDC and EDC equity at the beginning of fiscal year 2013 be incorporated into the governmental-type fund balances and governmental-type activities net position as follows:

<u>Governmental Fund Types</u>		
Fund balances - beginning as previously reported	\$	2,733,904
Adjustment to include beginning EDC fund balance		351,517
Adjustment to include beginning CDC fund balance		1,935,024
Fund balances - beginning as adjusted	\$	<u>5,020,445</u>
<u>Government-wide effects</u>		<u>Governmental</u>
		<u>Activities</u>
Net Position - beginning as previously reported	\$	13,532,171
Adjustment to include beginning EDC net position		630,488
Adjustment to include beginning CDC net position		(16,905)
Net Position - beginning as adjusted	\$	<u>14,145,754</u>

NOTE H – FUND BALANCES AND RESTRICTED NET POSITION

Governmental-Type Fund Balances

The City authorized the City Administrator to designate certain fund balances as assigned. Excluding unassigned fund balances, the following describes the City’s fund balance classifications at September 30, 2013:

Non-spendable Fund Balance

The CDC Special Revenue Fund has \$88,353 long-term note receivable due from a local business and is thus classified as non-spendable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted Fund Balances

All fund balances in spendable form for the Capital Projects, Debt Service, and Special Revenue funds are restricted for the intended purpose of these funds. Restricted Fund Balances of \$232,160 for the General Fund represents assets restricted by law or by agreements with third parties.

The following describes the various fund balance restrictions for the General Fund:

Impact fees for park improvements	\$	113,901
Eastside Park improvements		12,507
Fire Department improvements		29,203
State Seizure funds held in trust		4,095
Impact fees for street improvements		22,055
Public Education Government Fees		25,214
Child safety programs		6,533
Municipal court building security		11,728
Court bond funds held in trust		4,373
Municipal court technology		1,658
Sweetwater Crossing funds held in trust		876
Law enforcement officer training fund		17
	\$	<u>232,160</u>

Committed Fund Balances

The City Council has committed \$123,127 of General Fund fund balance for 2014 revenue stabilization in the event of budget shortfalls. This contingency amount must be expended in accordance with Section 7.08 of the Anna City Charter. The City Council has also committed \$435,000 of General Fund fund balance for 2014 City building renovations.

Negative Fund Balances

The Capital Projects Fund has a negative \$87,302 fund balance at September 30, 2013 that was caused by the timing of payables to construction contractors. The City annual budget is adopted and amended as necessary to ensure any negative fund balances are only temporary in nature. The Debt Service Fund also has \$415 negative fund balance that is considered inconsequential.

Proprietary Fund Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At September 30, 2013, the City's proprietary fund net position was restricted for the following purposes:

- The Utility Fund has restricted deposits held in trust by GTUA in the amount of \$1,864,979 that will be used for water and sewer system capital improvements and repayment of contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- The Utility Fund has restricted net position in the form of cash deposits, pooled investments, and due from other fund balances totaling \$6,493,858 that will be used for water and sewer system capital improvements and debt service related to such improvements. Amounts due from the Capital Projects Fund are restricted because that fund holds assets related to Utility Fund’s FY13 debt issuance at September 30 2013. The balance is comprised of the following Statement of Net Position balances:

Restricted pooled investments	\$	140,318
Restricted cash for capital improvements		2,359,654
Due from other funds		3,993,886
	\$	<u>6,493,858</u>

NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2013 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Utility	\$ 202,080	For services earned/paid on behalf of other fund.
General	Capital Projects	278,171	For services earned/paid on behalf of other fund.
Utility	Debt Service	1,600	For services earned/paid on behalf of other fund.
Utility	Capital Projects	4,194,366	For Utility Fund debt proceeds held by another fund.

The net internal balances between governmental and proprietary type funds presented above is \$3,993,886.

Interfund transfers during September 30, 2013 are as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	CDC	\$ 13,300	To transfer assets.
Capital Projects	General	92,000	To assist in park improvement expenditures.
Debt Service	Capital Projects	50,000	To assist in 2013 debt service.
Capital Projects	CDC	1,600,232	To assist in park improvement expenditures.
Utility	Capital Projects	1,489,156	To transfer Utility Fund assets held by another fund.

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to litigation, theft, property damage, errors and omissions, injuries, and natural disasters. The City’s insurance is by membership in the Texas Municipal League, a public entity risk pool operated by the Texas Municipal League Board for the benefit of governmental units in Texas. Insurance in effect at September 30, 2013 is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE K – PENSION PLAN

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 statewide, Texas Municipal Retirement System (TMRS), one of 849 total cities as of 2012 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually and these can be obtained by request at the following address: TMRS, 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 City-financed monetary credits, with interest. At the date the plan began the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City within options available in the statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 20 years of service

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 rate and the calendar year when the rate goes into effect. (i.e. December 31, 2012 valuation is effective for rates beginning January 1, 2013).

Funding Status and Funding Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, additional disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation to the monetary credits granted by the City for services rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess programs made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee pension plans.

Contributions by the City were \$241,009 or 10.9% of the covered payroll of \$2,209,974 as required by the actuarial valuation. The total fiscal year 2013 payroll was \$2,328,827.

Actuarial Information (December 31, 2012)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
GASB 25 Equivalent Single	
Amortization Period	25.3 Years – Closed Period
Amortization Period for new gains/losses	30 years
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.0%
Projected Salary Increase	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living-Adjustments	2.1%
City-specific Assumptions:	
Payroll growth assumption	3.0%

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefit Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit.” or OPEB

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance which is the date of the auditor’s report, and there is one subsequent event to disclose as follows:

Issuance of Series 2014, \$4,165,000 Combination Tax and Revenue Certificates of Obligation

Dated February 27, 2014, these Utility Fund certificates of obligation were issued to fund water and sewer system improvements. This issuance will increase the required debt service for the City’s Utility Fund as follows:

Year	Principal	Interest	Totals
2014	\$ -	\$ -	\$ -
2015	-	227,370	227,370
2016	75,000	154,275	229,275
2017	75,000	152,775	227,775
2018	80,000	151,225	231,225
2019-23	415,000	727,513	1,142,513
2024-28	1,225,000	604,500	1,829,500
2029-33	1,875,000	277,500	2,152,500
2034	420,000	8,400	428,400
Totals:	\$ 4,165,000	\$ 2,303,558	\$ 6,468,558

REQUIRED SUPPLEMENTARY INFORMATION

City of Anna, Texas
Budgetary Comparison Schedule
Budget and Actual - General Fund
For the Year Ended September 30, 2013

	Original Budget	Amended Budget	Actual Amounts	Variance with Amended Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,106,203	\$ 2,106,203	\$ 2,146,922	\$ 40,719
Sales	500,000	560,000	574,649	14,649
Franchise	340,000	340,000	353,482	13,482
Building permits	324,000	486,000	566,587	80,587
Developer and impact fees	158,000	158,000	203,428	45,428
Court	144,300	144,300	117,518	(26,782)
Intergovernmental	96,450	96,450	88,738	(7,712)
Parks	12,200	12,200	63,421	51,221
Other development fees	49,100	49,100	69,334	20,234
Fire	75,000	75,000	56,178	(18,822)
Rentals	20,839	20,839	20,839	-
Police	12,300	17,725	20,047	2,322
Grants	28,000	28,000	16,510	(11,490)
Other revenue	16,750	16,750	12,352	(4,398)
Investment earnings	21,225	21,225	11,875	(9,350)
Total revenues	<u>3,904,367</u>	<u>4,131,792</u>	<u>4,321,880</u>	<u>190,088</u>
Expenditures				
Current:				
Police	1,241,956	1,308,856	1,290,492	18,364
Administrative and general	813,419	829,930	852,871	(22,941)
Development and animal control	437,081	437,081	559,414	(122,333)
Fire	623,250	678,250	563,564	114,686
Streets	173,000	185,391	201,294	(15,903)
Parks	113,887	116,335	120,030	(3,695)
Ambulance	114,800	113,513	110,446	3,067
Court	109,812	109,812	108,391	1,421
Capital outlays:	132,737	168,446	457,780	(289,334)
Debt service:				
Principal retirement	19,904	19,904	19,904	-
Interest expense	-	-	-	-
Total expenditures	<u>3,779,846</u>	<u>3,967,518</u>	<u>4,284,186</u>	<u>(316,668)</u>
Excess of revenues over (under) expenditures	124,521	164,274	37,694	(126,580)
Other financing sources (uses)				
Released seizure funds	-	-	15,500	15,500
Transfers in (out)	-	(106,000)	(78,700)	27,300
Total other financing sources(uses)	<u>-</u>	<u>(106,000)</u>	<u>(63,200)</u>	<u>42,800</u>
Net changes in fund balance	124,521	58,274	(25,506)	(83,780)
Fund balance - beginning	2,646,250	2,646,250	2,646,250	
Fund balances - ending	<u>\$ 2,770,771</u>	<u>\$ 2,704,524</u>	<u>\$ 2,620,744</u>	

Notes to the budgetary comparison schedule: This schedule was prepared on the modified-accrual basis of accounting and thus has no reconciling items with General Fund amounts on the Statement of Revenues, Expenditures, and Changes in Fund Balances presented on page 14. Unappropriated expenditures were capital outlays for a park land purchase with accumulated restricted funds for such acquisitions and more contract inspection services needed for increased FY2013 building activity.

See independent auditor's report.

CITY OF ANNA, TEXAS
Required Supplementary Information
September 30, 2013

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the actuarial valuation as of December 31, 2012.

Schedule of Funding Progress for TMRS

Actuarial Valuation Date	Value of Assets	Accrued Liability	Unfunded	Percentage Funded	Annual Covered Payroll	Ratio of Unfunded (Funded) to Annual Covered
12/31/2012	\$ 2,245,021	\$ 3,355,957	\$ (1,110,936)	51.90%	\$ 2,140,886	-66.90%
12/31/2011	\$ 1,808,421	\$ 2,921,658	\$ (1,113,237)	52.40%	\$ 2,124,976	-61.90%
12/31/2010	\$ 1,326,200	\$ 2,557,000	\$ (1,195,000)	60.30%	\$ 1,982,000	-53.30%
12/31/2009	\$ 908,000	\$ 1,829,000	\$ (921,000)	55.60%	\$ 1,655,000	-49.60%

COMBINING STATEMENTS – GOVERNMENTAL FUNDS

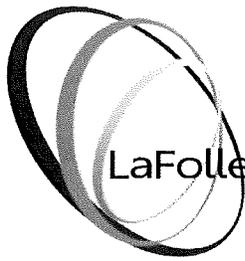
CITY OF ANNA, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL TYPE FUNDS
SEPTEMBER 30, 2013

	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,185	\$ 336,678	\$ 317,062	\$ 654,925
Accounts receivable - Net				
Ad valorem taxes	6,637	-	-	6,637
Sales tax	-	48,945	48,945	97,890
Note Receivable - Local business	-	88,353	-	88,353
Total current assets	<u>7,822</u>	<u>473,976</u>	<u>366,007</u>	<u>847,805</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	238	88	326
Due to other funds	1,600	-	-	1,600
Deferred revenue	6,637	88,353	-	94,990
Total liabilities	<u>8,237</u>	<u>88,591</u>	<u>88</u>	<u>96,916</u>
Fund balances:				
Non-spendable	-	88,353	-	88,353
Restricted for:				
Economic development	-	-	365,919	365,919
Community development	-	297,032	-	297,032
Unassigned	(415)	-	-	(415)
Total fund balances	<u>(415)</u>	<u>385,385</u>	<u>365,919</u>	<u>750,889</u>
Total liabilities and fund balances	<u>\$ 7,822</u>	<u>\$ 473,976</u>	<u>\$ 366,007</u>	<u>\$ 847,805</u>

CITY OF ANNA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL TYPE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
REVENUES				
Taxes				
Ad valorem	\$ 350,057	\$ -	\$ -	\$ 350,057
Sales and use	-	287,324	287,324	574,648
Other income	-	11,547	-	11,547
Rentals	-	-	30,000	30,000
Interest earned	412	6,744	625	7,781
Total revenues	<u>350,469</u>	<u>305,615</u>	<u>317,949</u>	<u>974,033</u>
EXPENDITURES				
Operating:				
General government	1,827	42,421	11,419	55,667
Promotions	-	20,875	24,624	45,499
Contract services	-	16,975	61,391	78,366
Capital Outlays:	-	23,250	116,101	139,351
Debt Service:				
Principal retirement	269,524	78,000	63,449	410,973
Interest expense	184,722	60,201	26,562	271,485
Total expenditures	<u>456,073</u>	<u>241,722</u>	<u>303,546</u>	<u>1,001,341</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(105,604)</u>	<u>63,893</u>	<u>14,403</u>	<u>(27,308)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In (Out) - General Fund	-	(13,300)	-	(13,300)
Transfers In (Out) - Capital Projects Fund	50,000	(1,600,232)	-	(1,550,232)
Total other financing sources (uses)	<u>50,000</u>	<u>(1,613,532)</u>	<u>-</u>	<u>(1,563,532)</u>
Net change in fund balances	(55,604)	(1,549,639)	14,403	(1,590,840)
Fund balances beginning, October 1 (restated)	<u>55,189</u>	<u>1,935,024</u>	<u>351,516</u>	<u>2,341,729</u>
Fund balances ending, September 30	<u>\$ (415)</u>	<u>\$ 385,385</u>	<u>\$ 365,919</u>	<u>\$ 750,889</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



LaFollett and Abbott PLLC
Certified Public Accountants

Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

**INDEPENDENT AUDITOR'S 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 City Council
City of Anna, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Anna, Texas (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below as finding 2013-1, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiency to be a material weakness: Finding 2013-1 – \$593,188 of accounts payable for the Capital Projects Fund was not identified and recorded at September 30, 2013.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

City of Anna, Texas Response to Findings

The City's response is as follows: The number and scope of projects activity within the Capital Projects Fund during 2013 caused a strain in staff and a weakness was exposed. Staff is now better informed and has a more clear understanding of what needs to happen with capital projects balances at year-end. We will draft a guide on how to handle year-end payables in the Capital Projects Fund to avoid this problem in the future.

The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tom Bean, Texas
March 25, 2014