

**CITY OF ANNA, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2014**

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**FINANCIAL SECTION**



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

## 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, 2014, 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, 2014, 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 24, 2015, 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 24, 2015

**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, 2014. 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 FY14 by \$35,438,779. This is an increase of \$1,786,067 over FY13's net position value of \$33,652,712. Unrestricted net position at the close of FY14 is \$2,915,599 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$982,925 from FY13's unrestricted net asset value of \$3,898,524. The decrease is in the Utility Fund and relates to increased balances restricted for capital improvements.
- Although the City's total net position increase of \$1,786,067 is much lower than FY13's \$3,394,927 increase, FY13 had very high, non-recurring capital contributions totaling \$3,150,545. Such capital contributions were much lower for FY14 at \$1,269,337.
- The City's governmental funds reported on page 12 have an ending fund balance of \$3,586,482, which is an increase of \$302,151 in comparison with FY13 ending fund balances of \$3,284,331. This increase was mostly attributable to favorable results for the City's General Fund. \$1,979,756 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.

**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**

Fifty-five percent (55%) 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 Statements of Net Position and Changes in Net Position for the years ended September 30, 2014 and 2013:

	Governmental Activities		Business-type Activities		Total	
	FY14	FY13	FY14	FY13	FY14	FY13
Current and other assets	\$ 4,114,822	\$ 4,414,716	\$ 14,206,765	\$ 11,493,608	\$ 18,321,587	\$ 15,908,324
Capital assets	18,787,557	18,465,950	33,815,299	32,164,793	52,602,856	50,630,743
Total assets	<u>22,902,379</u>	<u>22,880,666</u>	<u>48,022,064</u>	<u>43,658,401</u>	<u>70,924,443</u>	<u>66,539,067</u>
Long-term liabilities outstanding	6,438,271	6,854,813	26,653,867	22,935,997	33,092,138	29,790,810
Other liabilities	461,859	915,924	1,931,667	1,664,073	2,393,526	2,579,997
Total liabilities	<u>6,900,130</u>	<u>7,770,737</u>	<u>28,585,534</u>	<u>24,600,070</u>	<u>35,485,664</u>	<u>32,370,807</u>
Net Position:						
Net investment in capital assets	12,463,939	11,698,639	7,161,432	9,228,796	19,625,371	20,927,435
Restricted	1,265,399	983,464	11,632,410	8,358,837	12,897,809	9,342,301
Unrestricted	2,272,911	2,427,826	642,688	1,470,698	2,915,599	3,898,524
Total net position	<u>\$ 16,002,249</u>	<u>\$ 15,109,929</u>	<u>\$ 19,436,530</u>	<u>\$ 19,058,331</u>	<u>\$ 35,438,779</u>	<u>\$ 34,168,260</u>

  

	Governmental Activities		Business-type Activities		Total	
	FY14	FY13	FY14	FY13	FY14	FY13
Revenues:						
Program Revenues:						
Charges for services	\$ 1,057,939	\$ 1,147,988	\$ 5,980,176	\$ 5,573,401	\$ 7,038,115	\$ 6,721,389
Operating grants and contributions	11,525	10,531	-	-	11,525	10,531
Capital grants and contributions	783,182	2,665,841	486,155	484,704	1,269,337	3,150,545
General Revenues:						
Property taxes	2,807,140	2,483,857	-	-	2,807,140	2,483,857
Other taxes and franchise fees	1,767,071	1,502,779	-	-	1,767,071	1,502,779
Other	174,851	78,655	73,451	190,763	248,302	269,418
	<u>6,601,708</u>	<u>7,889,651</u>	<u>6,539,782</u>	<u>6,248,868</u>	<u>13,141,490</u>	<u>14,138,519</u>
Expenses:						
General government	963,243	885,833	-	-	963,243	885,833
Economic/Community Development	400,496	196,384	-	-	400,496	196,384
Police and court	1,447,695	1,526,399	-	-	1,447,695	1,526,399
Streets	954,932	940,941	-	-	954,932	940,941
Debt service - interest	258,663	270,057	-	-	258,663	270,057
Development and animal control	619,465	560,983	-	-	619,465	560,983
Parks	432,133	303,607	-	-	432,133	303,607
Fire	701,282	641,670	-	-	701,282	641,670
Ambulance	123,683	110,446	-	-	123,683	110,446
Water/Sewer/Sanitation	-	-	5,453,831	5,307,272	5,453,831	5,307,272
	<u>5,901,592</u>	<u>5,436,320</u>	<u>5,453,831</u>	<u>5,307,272</u>	<u>11,355,423</u>	<u>10,743,592</u>
Excess (deficiency) of revenues over expenditures before transfers	700,116	2,453,331	1,085,951	941,596	1,786,067	3,394,927
Transfers In (Out)	279,707	(1,489,156)	(279,707)	1,489,156	-	-
Increase in net position	979,823	964,175	806,244	2,430,752	1,786,067	3,394,927
Net position - October 1 (beginning)	15,109,929	14,145,754	19,058,331	16,627,579	34,168,260	30,773,333
Prior period adjustments	(87,503)	-	(428,045)	-	(515,548)	-
Net position - September 30 (ending)	<u>\$ 16,002,249</u>	<u>\$ 15,109,929</u>	<u>\$ 19,436,530</u>	<u>\$ 19,058,331</u>	<u>\$ 35,438,779</u>	<u>\$ 34,168,260</u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

Net position of the City's governmental activities increased from \$15,022,426 to \$16,002,249. 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 \$2,272,911 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 \$3,586,482 compared to \$3,284,331 in FY13. This represents an increase of \$302,151. The General Fund, Economic Development Corporation, and Community Development Corporation all experienced increases in fund balance for FY14.

Revenues and other financing sources for the City's General Fund were \$4,716,224, while total expenses and other financing uses were \$4,286,252. This resulted in an excess of revenues over expenditures of \$429,972 (see page 14). Last year's result was an excess of expenditures over revenues of \$25,506. The largest increases in FY14 General Fund revenues came from property taxes, sales taxes, and franchise fees. Overall General Fund expenditures decreased \$34,734 when compared to FY13. The largest decrease in FY14 General Fund expenditures were related to capital outlays.

General Fund expenditures were \$257,249 less than budgeted, while General Fund revenues also experienced a favorable budget variance totaling \$121,416.

Revenues for the City's Utility Fund were \$6,053,627, while total expenses were \$5,453,831. This resulted in income before transfers of \$599,796 (see page 17). This is better than 2013's result of income before contributions and transfers of \$456,892. One reason for the improvement was a \$135,808 increase in developer and impact fees. Sewer and sanitation charges for services also increased approximately 8%. The FY14 unrestricted net position is \$642,688. Excluding depreciation expense, this unrestricted net position is equal to approximately 2.25 months of the Utility Fund's 2014 operating expenses.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for all activities as of September 30, 2014 amounts to \$52,602,856 compared to \$50,630,743 (net of accumulated depreciation) at September 30, 2013. 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 \$1,972,113. Some of the major capital asset expenditures during 2014 related to \$2.1M of additions to construction in progress for ongoing water and sewer system improvements, and street capital contributions.

### **Long-term Debt**

At year-end, the City had total notes, capital leases, bonds and contractual obligations outstanding of \$32,977,485. The City had one new \$4,180,000 debt issuance during 2014. The Utility Fund's new Series 2014 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 2014 which totaled \$951,912.

At the end of FY14, the City's total long-term commitments for governmental activities were \$6,438,271 and total long-term commitments for the Utility Fund are \$26,653,867. Total long-term commitments for the City increased by \$3,301,328 from 2013 to 2014.

## **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. The value of existing properties stabilized in 2013 and eclipsed, for the first time, the peak value from 2008. In 2014, the taxable value of existing property increased just over 10%, and over \$37,000,000 in new construction was added to the tax roll. We remain cautiously optimistic that we will continue to see modest appreciation in the value of existing properties and that additional value will be added to the tax roll as a result of new construction.

This growth in taxable value corresponds to a significant increase in residential growth and population over the past 36 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, 2014 was 10,350. In 2014, the City issued 295 single family building permits which equates to approximately 1,000 new city residents. Through mid-March of 2015, the City has received 69 single family building permit applications. The City forecasted a slight drop in single family building permits for the FY 15 budget knowing the inventory of available lots was decreasing. The City has seen an increase in new residential developments and the pace for new single family permits is down only slightly from the previous year. With new developments taking shape over the next 6-12 months, we anticipate that growth in single family building permits will continue at a similar pace.

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 2015 budget, the City adopted a tax rate of \$0.649 per \$100 valuation, which is a decrease from the tax rate adopted in FY 2014. 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 approximately \$20 million over the last decade to upgrade the water and sewer system. Up until five 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. As a result, utility rates were increased in October 2009 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.

While water and sewer rates were unchanged in FY 15, the City will continue to review its rate structure to determine what, if any, adjustments to the rate structure might be warranted in the coming fiscal year. 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. The City has direct and indirect contracts with the North Texas Municipal Water District (NTMWD) for the purchase of treated surface water and for the transport and treatment of wastewater. As our population increases, we will be purchasing more water from NTMWD and sending more of our wastewater into the NTMWD wastewater system. The continuing drought, coupled with the rising cost of treated surface water, and wastewater treatment charges from NTMWD will have a greater impact on the City's utility rate structure as we grow.

In addition to reviewing our water and sewer rates, the City is actively managing its outstanding debt obligations. We have a series of planned debt refundings that will allow us to take advantage of low interest rates and develop a more level and modest repayment structure. The first phase of this plan occurred in the early part of FY 15 with additional phases occurring in the next few years.

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. Sales tax revenue in FY 2014 was up 17% over the FY 2013 revenue. While we do not expect dramatic increases to continue, we do not anticipate any decrease in sales tax revenue in FY 15. The City does anticipate growth in our commercial and retail development over the next few years. Major retailers are showing interest in Anna that will open up significant retail opportunities in the next few years.

## **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, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,055,850	\$ 1,920,012	\$ 4,975,862
Investments	367,313	122,775	490,088
Accounts receivable - net	415,210	542,551	957,761
Inventory	-	229,824	229,824
Internal balances	240,807	(240,807)	-
Notes receivable - net	35,642	-	35,642
Restricted assets:			
Deposits held by GTUA	-	1,959,017	1,959,017
Other restricted cash	-	9,673,393	9,673,393
Non-depreciable capital assets:			
Land and easements	2,039,210	411,068	2,450,278
Construction in progress	437,057	3,423,222	3,860,279
Depreciable capital assets (net):			
Water and sewer systems	-	29,981,009	29,981,009
Buildings, machinery, and equipment	2,005,437	-	2,005,437
Park improvements	4,446,009	-	4,446,009
Streets and other infrastructure	9,859,844	-	9,859,844
<b>Total assets</b>	<u>\$ 22,902,379</u>	<u>\$ 48,022,064</u>	<u>\$ 70,924,443</u>

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

**City of Anna, Texas**  
**Statement of Net Position**  
**September 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Bank overdrafts	\$ 16,754	\$ -	\$ 16,754
Accounts payable	216,485	479,290	695,775
Interest payable	30,025	791,229	821,254
Salaries payable	80,779	26,437	107,216
Accrued liabilities	117,816	24,357	142,173
Customer meter deposits	-	610,354	610,354
<b>Non-current liabilities:</b>			
Due within one year	537,429	1,040,000	1,577,429
Due in more than one year	5,900,842	25,613,867	31,514,709
Total liabilities	<u>6,900,130</u>	<u>28,585,534</u>	<u>35,485,664</u>
<b>Net Position</b>			
Net investment in capital assets	12,463,939	7,161,432	19,625,371
Restricted for:			
GTUA deposits	-	1,959,017	1,959,017
Water and sewer improvements	-	9,673,393	9,673,393
Capital projects and other	1,265,399	-	1,265,399
Unrestricted	2,272,911	642,688	2,915,599
Total net position	<u>\$ 16,002,249</u>	<u>\$ 19,436,530</u>	<u>\$ 35,438,779</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	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government	
						Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
Development and animal control	\$ 619,465	\$ 772,501	\$ -	\$ -	\$ 153,036	\$ -	\$ 153,036
Highways, streets, and utilities	954,932	-	-	744,426	(210,506)	-	(210,506)
General government	963,243	30,000	7,660	-	(925,583)	-	(925,583)
Police and court	1,447,695	109,721	3,865	-	(1,334,109)	-	(1,334,109)
Fire	701,282	73,812	-	13,756	(613,714)	-	(613,714)
Economic and community development	400,496	-	-	-	(400,496)	-	(400,496)
Ambulance	123,683	-	-	-	(123,683)	-	(123,683)
Parks	432,133	71,905	-	25,000	(335,228)	-	(335,228)
Interest on long-term debt	258,663	-	-	-	(258,663)	-	(258,663)
Total governmental activities	5,901,592	1,057,939	11,525	783,182	(4,048,946)	-	(4,048,946)
Business-type activities:							
Water and Sewer - operating	5,453,831	5,980,176	-	486,155	-	1,012,500	1,012,500
Total business-type activities	5,453,831	5,980,176	-	486,155	-	1,012,500	1,012,500
Total primary government	11,355,423	7,038,115	11,525	1,269,337	(4,048,946)	1,012,500	(3,036,446)

General revenues:

Property taxes	2,807,140	-	-	-	2,807,140
Sales taxes	1,350,896	-	-	-	1,350,896
Franchise taxes	416,175	-	-	-	416,175
Investment interest	22,295	73,451	-	-	95,746
Miscellaneous	33,996	-	-	-	33,996
Gain on sold assets	11,960	-	-	-	11,960
Intergovernmental	106,600	-	-	-	106,600
Transfers in (out)	279,707	(279,707)	-	-	-
Total general revenues and transfers	5,028,769	(206,256)	-	-	4,822,513
Change in net position	979,823	806,244	-	-	1,786,067
Net position - beginning	15,109,929	19,058,331	-	-	34,168,260
Prior period adjustments	(87,503)	(428,045)	-	-	(515,548)
Net position - ending	\$ 16,002,249	\$ 19,436,530	-	-	\$ 35,438,779

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

**City of Anna, Texas**  
**Balance Sheet - Governmental Type Funds**  
**September 30, 2014**

	Governmental Fund Types		Total
	General	Other Governmental	Governmental Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,265,664	\$ 790,186	\$ 3,055,850
Investments	367,313	-	367,313
Accounts receivable - net	289,655	125,555	415,210
Notes receivable - net	-	35,642	35,642
Due from other funds	577,813	40,328	618,141
Total current assets	<u>3,500,445</u>	<u>991,711</u>	<u>4,492,156</u>
<b>Liabilities</b>			
Current liabilities:			
Bank overdraft	-	16,754	16,754
Accounts payable	198,239	18,246	216,485
Salaries payable	80,779	-	80,779
Other accrued liabilities	117,816	-	117,816
Due to other funds	-	377,334	377,334
Total current liabilities	<u>396,834</u>	<u>412,334</u>	<u>809,168</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues - property taxes	42,158	7,969	50,127
Unavailable revenues - court	10,737	-	10,737
Unavailable revenues - business loans	-	35,642	35,642
Total deferred inflows of resources	<u>52,895</u>	<u>43,611</u>	<u>96,506</u>
<b>Fund Balances</b>			
Non-spendable	-	35,642	35,642
Restricted	394,002	871,397	1,265,399
Committed - Revenue stabilization	135,286	-	135,286
Committed - Building renovations	26,224	-	26,224
Assigned - Other capital expenditures	144,175	-	144,175
Unassigned	2,351,029	(371,273)	1,979,756
Total fund balances	<u>3,050,716</u>	<u>535,766</u>	<u>3,586,482</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 3,500,445</u>	<u>\$ 991,711</u>	<u>\$ 4,492,156</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, 2014**

Fund balances of governmental funds (page 12)	\$	3,586,482
 <b>Amounts reported for governmental activities in the Statement of Net Position (pages 9-10) are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,787,557
Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(30,025)
Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.		-
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(6,438,271)
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.		35,642
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.		60,864
Net position of governmental activities (page 10)	<u>\$</u>	<u>16,002,249</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, 2014**

	Governmental Fund Types		Total Governmental
	General	Other Governmental	
Revenues			
Taxes:			
Property	\$ 2,412,337	\$ 392,127	\$ 2,804,464
Sales	675,516	675,380	1,350,896
Franchise	416,175	-	416,175
Building permits	539,154	-	539,154
Developer and impact fees	140,450	-	140,450
Intergovernmental	106,600	-	106,600
Court	100,055	-	100,055
Other development fees	92,897	-	92,897
Fire	73,812	-	73,812
Parks	71,905	-	71,905
Other revenue	37,754	54,825	92,579
Rentals	-	30,000	30,000
Grants and contributions	4,085	25,000	29,085
Investment earnings	12,999	9,296	22,295
Police	20,525	-	20,525
Total revenues	<u>4,704,264</u>	<u>1,186,628</u>	<u>5,890,892</u>
Expenditures			
Current:			
Police	1,203,457	-	1,203,457
Administrative and general	929,491	3,489	932,980
Development and animal control	619,465	-	619,465
Fire	624,541	-	624,541
Community and economic development	-	382,166	382,166
Parks	196,502	-	196,502
Streets	170,830	-	170,830
Ambulance	123,683	-	123,683
Court	115,024	-	115,024
Capital outlays	266,459	570,559	837,018
Debt service:			
Principal retirement	-	415,662	415,662
Interest expense	-	259,080	259,080
Total expenditures	<u>4,249,452</u>	<u>1,630,956</u>	<u>5,880,408</u>
Excess of revenues over (under) expenditures	454,812	(444,328)	10,484
Other financing sources (uses)			
Sale of capital assets	11,960	-	11,960
Transfers in	-	316,507	316,507
Transfers (out)	(36,800)	-	(36,800)
Total other financing sources(uses)	<u>(24,840)</u>	<u>316,507</u>	<u>291,667</u>
Net changes in fund balances	429,972	(127,821)	302,151
Fund balances - beginning	2,620,744	663,587	3,284,331
Fund balances - ending	<u>\$ 3,050,716</u>	<u>\$ 535,766</u>	<u>\$ 3,586,482</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, 2014**

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)	\$ 302,151
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 depreciation expense exceeded capital outlay expenditures in the current period.	(436,575)
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	758,182
The decrease in accrued interest is not a source of current financial resources and, therefore is not reported in the governmental funds.	417
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	415,662
The increase in accrued compensated absences does not use current financial resources and, therefore is not reported in the governmental funds.	(688)
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 inflows of resources and various other items. The net effect of these reclassifications is to decrease net position.	(59,326)
Change in net position of governmental activities (page 11)	\$ 979,823

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, 2014**

<b>Assets</b>	<u>Utility Fund</u>
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,920,012
Certificates of deposit	122,775
Accounts receivable - net	542,551
Inventory	229,824
Restricted pooled investments	56,499
Restricted cash for capital improvements	9,616,894
Due from Debt Service Fund	1,600
<b>Total current assets</b>	<u>12,490,155</u>
<b>Noncurrent assets:</b>	
Restricted deposits held in trust with GTUA	1,959,017
<b>Capital assets (non-depreciable):</b>	
Land and easements	411,068
Construction in progress	3,423,222
<b>Capital assets (net of depreciation):</b>	
Plants, machinery, and equipment	29,981,009
<b>Total capital assets</b>	<u>33,815,299</u>
<b>Total noncurrent assets</b>	<u>35,774,316</u>
<b>Total assets</b>	<u>\$ 48,264,471</u>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 479,290
Salaries payable	26,437
Other liabilities	10,878
Bond interest payable	791,229
Due to General Fund	202,080
Due to Capital Projects Fund	40,328
Customer deposits	610,354
Accrued Compensated Absences	13,478
Current portion of long-term debt	1,040,000
<b>Total current liabilities</b>	<u>3,214,074</u>
<b>Noncurrent liabilities:</b>	
Bonds and notes payable	25,613,867
<b>Total noncurrent liabilities</b>	<u>25,613,867</u>
<b>Total liabilities</b>	<u>28,827,941</u>
<b>Net Position</b>	
Net investment in capital assets	7,161,432
Restricted - GTUA deposits	1,959,017
Restricted - water and sewer improvements	9,673,393
Unrestricted	642,688
<b>Total net position</b>	<u>\$ 19,436,530</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, 2014**

	<b>2014</b>
Operating revenues:	
Water income	\$ 2,383,306
Sewer income	1,619,654
Sanitation income	698,476
Developer and impact fees	924,308
Connect, install, and tap fees	143,485
Water customer late fees	122,774
Groundwater production fees	40,380
Miscellaneous revenue	47,793
Total operating revenues	5,980,176
Operating expenses:	
Personnel and benefits	858,486
Sanitation contract	612,332
Utilities	383,452
Supplies, repairs, and maintenance	308,494
N. Texas Municipal Water District contract	391,094
Other contractual services	341,652
Other operating expenses	256,145
Depreciation	1,230,519
Total operating expenses	4,382,174
Operating income	1,598,002
Non-operating revenues (expenses):	
Interest expense	(987,649)
Bond issuance costs	(84,008)
Interest income	73,451
Total non-operating revenues (expenses)	(998,206)
Income before contributions and transfers	599,796
Contributed capital assets	486,155
Transfers out to the Capital Projects Fund	(279,707)
Change in net position	806,244
Total net position - beginning (restated)	18,630,286
Total net position - ending	\$ 19,436,530

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, 2014**

<b>Operating Activities:</b>	<u>2014</u>
Receipts from customers and users	\$ 5,823,671
Payments to suppliers	(1,806,352)
Payments to employees	(860,344)
Net cash provided (used) by operating activities	<u>3,156,975</u>
<b>Capital and Related Financing Activities:</b>	
Proceeds from debt issued	4,180,000
Cash to GTUA reserve accounts	(94,038)
Cash paid for bond issuance costs, net of premiums	(40,010)
Cash to restricted capital improvements accounts	(7,257,240)
Cash paid for acquisition and construction of capital assets	(2,436,680)
Interest paid on long-term debt	(997,945)
Principal payments on debt	(536,250)
Net cash provided (used) by capital and related financing activities	<u>(7,182,163)</u>
<b>Non-capital and Related Financing Activities</b>	
Transfers in from other funds	3,992,286
Transfers (out) to other funds	(279,707)
Net cash provided (used) by non-capital and related financing activities	<u>3,712,579</u>
<b>Investing Activities:</b>	
Interest received	63,155
Net cash provided (used) by investing activities	<u>63,155</u>
Net increase (decrease) in cash and cash equivalents	(249,454)
Cash and cash equivalents, October 1	2,169,466
Cash and cash equivalents, September 30	<u>\$ 1,920,012</u>
<b>Reconciliation of Operating Income to Net Cash Provided</b>	
<b>(Used) by Operating Activities:</b>	
Operating income (loss)	\$ 1,598,002
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	1,230,519
Decrease (increase) in accounts receivable	(175,765)
Decrease (increase) in inventory	(19,341)
Increase (decrease) in due to General Fund	202,080
Increase (decrease) in due to Capital Projects Fund	40,328
Increase (decrease) in accounts payable	257,707
Increase (decrease) in other liabilities	(9,293)
Increase (decrease) in customer deposits	19,260
Increase (decrease) in accrued compensated absences	13,478
Net cash provided by operating activities	<u>\$ 3,156,975</u>
<b>Non-cash capital activities:</b>	
Contributions of capital assets	<u>\$ 486,155</u>

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

**CITY OF ANNA**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

**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 2014, the Utility Fund is also a major fund. 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. The City has a \$5,000 capitalization threshold for capital assets.

## 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, 2014, 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, 2014, City's deposits held in its depository banks totaled \$15,139,343 with \$995,550 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	\$ 4,975,862
Primary government investments	490,088
Restricted cash	9,673,393
Less: petty cash	(1,860)
Deposits with financial institutions	<u>15,137,483</u>
Add: petty cash	1,860
Total primary government cash and other deposits	<u>\$ 15,139,343</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, 2014, are comprised of governmental investment pools in the Texas Local Government Investment Pool (TexPool) as follows:

	<u>Carrying Amount &amp; Fair Value</u>
<u>Public fund investment pools:</u>	
TexPool General Account	\$ 244,539
TexPool Sewer Capital Improvement Fund	<u>56,499</u>
Total public funds investment pools:	\$ 301,038

### *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 which 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 2013/2014 tax year was \$2,784,943. At September 30, 2014, \$2,771,670 of the tax has been collected, which is 99.50%.

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 inflows of resources 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, 2014, consisted of the following:

	Primary Government		
	Other		
	General Fund	Governmental- Type Funds	Proprietary Fund
Property tax	\$ 42,158	\$ 7,969	\$ -
Sales tax	117,585	117,586	-
Franchise fees	84,449	-	-
Court fines	485,671	-	-
Loans (long-term)	-	35,642	-
Utility bills	-	-	650,392
Other	22,047	-	-
Gross receivables	751,910	161,197	650,392
Less: Allowance for uncollectibles	(462,255)	-	(107,841)
Net receivables	<u>\$ 289,655</u>	<u>\$ 161,197</u>	<u>\$ 542,551</u>

**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, 2014 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 2,032,630	\$ 6,580	\$ -	\$ 2,039,210
Construction in progress	2,268,690	410,756	(2,242,389)	437,057
Depreciable assets:				
Park improvements	2,959,592	153,223	2,242,389	5,355,204
Buildings	1,457,010	26,489	-	1,483,499
Furniture and fixtures	210,701	8,495	-	219,196
Streets and drainage	15,280,249	795,827	-	16,076,076
Machinery and equipment	2,048,293	193,831	(39,669)	2,202,455
Totals at historical cost	26,257,165	1,595,201	(39,669)	27,812,697
Less: Accumulated depreciation	(7,791,215)	(1,273,594)	39,669	(9,025,140)
Governmental fund type capital assets, net	\$ 18,465,950	\$ 321,607	\$ -	\$ 18,787,557

PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land and easements	\$ 362,913	\$ 48,155	\$ -	\$ 411,068
Construction in progress	1,573,835	2,141,009	(291,622)	3,423,222
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	486,244	-	-	486,244
Equipment	1,138,223	182,270	29,277	1,349,770
Water treatment system	5,994,665	-	-	5,994,665
GTUA water improvements	16,979,634	-	-	16,979,634
GTUA sewer improvements	939,796	-	-	939,796
Water and sewer system	12,853,877	551,401	211,771	13,617,049
Totals at historical cost	40,334,807	2,922,835	(50,574)	43,207,068
Less: Accumulated depreciation	(8,170,014)	(1,230,519)	8,764	(9,391,769)
Proprietary fund type activities capital assets, net	\$ 32,164,793	\$ 1,692,316	\$ (41,810)	\$ 33,815,299

**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	\$ 784,103
Parks	235,631
Police	129,214
General government	29,575
Fire	76,741
Economic development	18,330
Total depreciation expense - governmental activities	<u>\$ 1,273,594</u>
 <i>Business-type activities:</i>	
Water and sewer	<u>\$ 1,230,519</u>
Total depreciation expense - business-type activities	<u>\$ 1,230,519</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
2015	\$ 1,462,776	\$ 1,383,542	\$ 422,776	\$ 241,032	\$ 1,040,000	\$ 1,142,510
2016	1,587,903	1,277,582	444,153	224,566	1,143,750	1,053,016
2017	1,586,236	1,247,093	408,736	252,868	1,177,500	994,225
2018	1,570,724	1,391,973	389,474	312,194	1,181,250	1,079,779
2019	1,653,058	1,548,977	424,308	321,314	1,228,750	1,227,663
2020-2024	8,370,921	6,125,150	2,127,171	1,180,363	6,243,750	4,944,787
2025-2029	9,179,500	2,844,449	1,707,000	348,757	7,472,500	2,495,692
2030-2034	6,192,500	952,227	400,000	19,961	5,792,500	932,266
2035-2039	1,082,500	231,498	-	-	1,082,500	231,498
2040	207,500	12,097	-	-	207,500	12,097
	<u>\$ 32,893,617</u>	<u>\$ 17,014,589</u>	<u>\$ 6,323,618</u>	<u>\$ 2,901,055</u>	<u>\$ 26,570,000</u>	<u>\$ 14,113,534</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, 2014:

*Governmental Activities:*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2014	Due Within One Year
2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 1,755,000	\$ 115,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	885,000	90,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	230,000	25,000
2011 Public Property Finance Act Certificates of Obligation	360,000	2011	2/15/2026	3.34%	344,000	8,000
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	755,000	35,000
EDC - Note payable	335,000	2012	11/14/2021	4.465%	254,724	30,848
EDC - Note payable	380,300	2008	2018	5%	205,894	38,928
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	396,000	2012	2/15/2018	3.25%	269,000	65,000
CDC - Sales Tax Revenue Bonds- Series 2012B	\$ 1,655,000	2012	2032	3.30%	1,625,000	15,000
Compensated absences					114,653	114,653
<b>Total Governmental Activities</b>					<b>\$ 6,438,271</b>	<b>\$ 537,429</b>

*Business-Type Activities:*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2014	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ -	\$ -
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	10,000	5,000
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,085,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,455,000	100,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	590,000	35,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	870,000	50,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	1,810,000	100,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,160,000	50,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	420,000	25,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	513,750	25,000
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%	1,057,500	50,000
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,040,000	425,000
2012 combination tax and revenue certificates of obligation	4,210,000	2013	2/15/2033	1.5%-2.5%	4,210,000	80,000
2014 combination tax and revenue certificates of obligation	\$ 4,180,000	2014	2/15/2034	2.0%-3.65%	4,180,000	-
Bond premiums	various	various	various	n/a	83,867	-
<b>Total Business-Type Activities</b>					<b>26,653,867</b>	<b>1,040,000</b>
<b>Total general debt (Governmental Type and Business-Type Activities)</b>					<b>\$ 33,092,138</b>	<b>\$ 1,577,429</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 1,865,000	\$ -	\$ (110,000)	\$ 1,755,000	\$ 115,000
2007 Certificate of Obligation	970,000	-	(85,000)	885,000	90,000
2007 Revenue Bond	250,000	-	(20,000)	230,000	25,000
2011 Public Property Finance Act Certificates of Obligation	352,000	-	(8,000)	344,000	8,000
EDC - FY12 Bank note payable - 4.465% a.p.r. Matures 11/14/2021 - Original issue - \$335,000	284,209	-	(29,485)	254,724	30,848
EDC - FY08 Bank note payable - 5% a.p.r. - Matures 2019 - Original amount was \$380,300	244,524	-	(38,630)	205,894	38,928
2009 Tax and Revenue Certificate of Obligation	790,000	-	(35,000)	755,000	35,000
Fire rescue truck note	12,115	-	(12,115)	-	-
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	333,000	-	(64,000)	269,000	65,000
CDC Sales Tax Revenue Bonds- Series 2012B	1,640,000	-	(15,000)	1,625,000	15,000
Other liabilities	113,965	688	-	114,653	114,653
<b>Total Governmental activity long term liabilities</b>	<b>\$ 6,854,813</b>	<b>\$ 688</b>	<b>\$ (417,230)</b>	<b>\$ 6,438,271</b>	<b>\$ 537,429</b>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 5,000	\$ -	\$ (5,000)	\$ -	\$ -
1976 General Obligation Water Bonds	15,000	-	(5,000)	10,000	5,000
2005 GTUA contract	2,180,000	-	(95,000)	2,085,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	1,550,000	-	(95,000)	1,455,000	100,000
Series 2007 GTUA contract revenue bonds	620,000	-	(30,000)	590,000	35,000
2007 GTUA contract	915,000	-	(45,000)	870,000	50,000
2007 GTUA contract	1,905,000	-	(95,000)	1,810,000	100,000
2007 GTUA contract	3,210,000	-	(50,000)	3,160,000	50,000
2008 GTUA contract	440,000	-	(20,000)	420,000	25,000
CGMA Pipeline Project Phase I	537,500	-	(23,750)	513,750	25,000
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,105,000	-	(47,500)	1,057,500	50,000
2009 combination tax and revenue refunding bond	4,065,000	-	(25,000)	4,040,000	425,000
2012 combination tax and revenue certificates of obligation	4,210,000	-	-	4,210,000	80,000
2014 combination tax and revenue certificates of obligation	-	4,180,000	-	4,180,000	-
Bond premiums	39,869	43,998	-	83,867	-
<b>Total business-type activities long term liabilities</b>	<b>\$ 22,966,119</b>	<b>\$ 4,223,998</b>	<b>\$ (536,250)</b>	<b>\$ 26,653,867</b>	<b>\$ 1,040,000</b>

## 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 15<sup>th</sup>. Average yield is 2.24%. Principal is paid every February 15<sup>th</sup>. The debt is to be repaid with Utility Fund revenues. Final maturity is on February 15, 2033.

*Series 2014, \$4,180,000 Combination Tax and Revenue Certificates of Obligation*

Dated February 27, 2014, these proprietary fund certificates of obligation were issued to fund water and sewer system improvements. This twenty- year debt has interest rates of 2.0% to 3.65% that will be paid each February and August 15<sup>th</sup>. Principal is paid every February 15<sup>th</sup>. The debt is to be repaid with Utility Fund revenues. Final maturity is on February 15, 2034.

**NOTE G – PRIOR PERIOD ADJUSTMENTS**

The City had the following restatements to net position:

	Governmental Activities
<u>Government-wide effects</u>	
Net Position - beginning as previously reported	\$ 15,109,929
Adjustment to remove bond issuance costs as required by GASB 65	(87,503)
Net Position - beginning as adjusted	<u>\$ 15,022,426</u>
	Utility Fund
<u>Proprietary Fund Types</u>	
Net Position - beginning	\$ 19,058,331
Adjustment to remove bond issuance costs as required by GASB 65	(428,045)
Net Position - beginning as adjusted	<u>\$ 18,630,286</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, 2014:

*Non-spendable Fund Balance*

The CDC Special Revenue Fund has \$35,642 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 \$394,002 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	\$ 275,179
Eastside Park improvements	12,576
Fire Department improvements	3,840
State Seizure funds held in trust	1,333
Impact fees for street improvements	23,319
Public Education Government Fees	32,593
Child safety programs	10,623
Municipal court building security	13,250
Court bond funds held in trust	6,387
Municipal court technology	3,610
Sweetwater Crossing funds held in trust	9,916
Law enforcement officer training fund	1,375
	<hr/>
	\$ 394,002

### *Committed Fund Balances*

The City Council has committed \$135,286 of General Fund fund balance for 2015 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 \$26,224 of General Fund fund balance for City building renovations.

### *Assigned Fund Balances*

The City Manager has assigned \$144,175 of General Fund fund balance for following items: Dump truck for \$65,000, parking lot/other improvements for \$59,975, change order for facility remodel for \$10,000, phone system for \$7,500, and \$1,700 for a generator gas line.

### Negative Fund Balances

The Capital Projects Fund has a negative \$315,556 fund balance and the Debt Service Fund has a \$55,717 negative fund balance at September 30, 2014. The City's annual budget is adopted and amended as necessary to ensure any negative fund balances are only temporary in nature. The City expects both fund balances to become positive during fiscal year 2015 with reimbursement made to them by other funds and/or third parties.

### 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

At September 30, 2014, 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 \$1,959,017 that will be used for water and sewer system capital improvements and repayment of contractual obligations.
- The Utility Fund has restricted net position in the form of cash deposits, pooled investments, and due from other fund balances totaling \$9,674,993 that will be used for water and sewer system capital improvements and debt service related to such improvements. The balance is comprised of the following Statement of Net Position balances:

Restricted pooled investments	\$ 56,499
Restricted cash for capital improvements	3,235,897
Special purpose operating account	<u>6,380,997</u>
	\$ 9,673,393

**NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund balances at September 30, 2014 are as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Utility	\$ 202,573	For services earned/paid on behalf of other fund.
General	Capital Projects	320,884	For services earned/paid on behalf of other fund.
General	Debt Service	54,850	For services earned/paid on behalf of other fund.
Utility	Debt Service	1,600	For services earned/paid on behalf of other fund.
Capital Projects	Utility	40,328	For services earned/paid on behalf of other fund.

The net internal balances between governmental and proprietary type funds presented above is \$240,807.

Interfund transfers during fiscal year 2014 are as follows:

Transfer In Fund	Transfer Out Fund	Amount	Purpose
Capital Projects	Utility	\$ 279,707	To transfer assets.
Capital Projects	General Fund	\$ 36,800	To transfer assets.

**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, 2014 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), 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 \$266,811 or 11.1% of the covered payroll of \$2,397,063 as required by the actuarial valuation. The total fiscal year 2014 payroll was \$2,462,895.

### Actuarial Information (December 31, 2012)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
GASB 25 Equivalent Single	
Amortization Period	30 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 are two subsequent events to disclose as follows:

#### *Issuance of Series 2014A, \$2,598,000 Combination Tax and Revenue Refunding Bonds*

Dated October 28, 2014, these Utility Fund certificates of obligation were issued to partially refund \$2,598,000 of bonds from the Series 2009 Combination Tax and Revenue Refunding Bonds ("Series 2009"). Series 2009 bonds have \$4,040,000 of outstanding debt at September 30, 2014. The Series 2014A issuance will increase the total net present value of interest costs by \$85,109, but the issuance will also substantially "smooth out" future debt service that was a pending obstacle with the Series 2009 bonds.

#### *Issuance of Series 2014B, \$1,462,000 General Obligation Refunding Bonds*

Dated October 28, 2014, this governmental-type refunding bonds were issued to partially refund \$990,000 of the Series 2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation ("Series 2006 C.O.'s"). Series 2006 C.O.'s have \$1,755,000 of outstanding debt at September 30, 2014.

Series 2014B will also fully refund \$344,000 of the Series 2011 Public Property Finance Act Contractual Obligations that have \$344,000 of outstanding debt at September 30, 2014.

The Series 2014B issuance will result in a total net present value of interest cost savings of \$172,107.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Anna, Texas**  
**Budgetary Comparison Schedule**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2014**

	Original Budget	Amended Budget	Actual Amounts	Variance with Amended Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,409,947	\$ 2,409,947	\$ 2,412,337	\$ 2,390
Sales	560,000	648,000	675,516	27,516
Franchise	365,000	365,000	416,175	51,175
Mixed Beverage Tax	1,000	1,000		(1,000)
Building permits	324,000	510,000	539,154	29,154
Developer and impact fees	142,500	142,500	140,450	(2,050)
Intergovernmental	41,810	41,810	106,600	64,790
Court	145,600	145,600	100,055	(45,545)
Other development fees	52,600	66,350	92,897	26,547
Fire	78,406	78,406	73,812	(4,594)
Parks	85,480	85,480	71,905	(13,575)
Other revenue	10,000	14,000	37,754	23,754
Rentals	23,414	23,414	-	(23,414)
Grants and contributions	15,000	15,000	4,085	(10,915)
Investment earnings	15,475	15,475	12,999	(2,476)
Police	6,000	20,866	20,525	(341)
Total revenues	<u>4,276,232</u>	<u>4,582,848</u>	<u>4,704,264</u>	<u>121,416</u>
Expenditures				
Current:				
Police	1,303,893	1,381,356	1,203,457	177,899
Administrative and general	898,531	920,050	929,491	(9,441)
Development and animal control	542,365	629,614	619,465	10,149
Fire	685,116	731,620	624,541	107,079
Parks	213,494	244,368	196,502	47,866
Streets	286,631	351,631	170,830	180,801
Ambulance	123,683	123,683	123,683	-
Court	120,494	121,779	115,024	6,755
Capital outlays:	2,600	2,600	266,459	(263,859)
Total expenditures	<u>4,176,807</u>	<u>4,506,701</u>	<u>4,249,452</u>	<u>257,249</u>
Excess of revenues over (under) expenditures	99,425	76,147	454,812	378,665
Other financing sources (uses)				
Proceeds from sold assets	-	-	11,960	11,960
Transfers in (out)	-	-	(36,800)	(36,800)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>(24,840)</u>	<u>(24,840)</u>
Net changes in fund balance	99,425	76,147	429,972	353,825
Fund balance - beginning	2,620,744	2,620,744	2,620,744	
Fund balances - ending	<u>\$ 2,720,169</u>	<u>\$ 2,696,891</u>	<u>\$ 3,050,716</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.*

**CITY OF ANNA, TEXAS**  
**Required Supplementary Information**  
**September 30, 2014**

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, 2013.

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
12/31/2013	\$ 2,756,790	\$ 3,838,212	\$ (1,081,422)	71.80%	\$ 2,397,063	46.50%
12/31/2012	\$ 2,245,021	\$ 3,355,957	\$ (1,110,936)	51.90%	\$ 2,209,974	-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%

**COMBINING STATEMENTS – NON-MAJOR GOVERNMENTAL FUNDS**

**CITY OF ANNA, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL TYPE FUNDS**  
**SEPTEMBER 30, 2014**

	Capital Projects Fund	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 733	\$ 428,618	\$ 360,835	\$ 790,186
Accounts receivable - Net					
Ad valorem taxes	-	7,969	-	-	7,969
Sales tax	-	-	58,793	58,793	117,586
Due from other funds	40,328	-	-	-	40,328
Note Receivable - Local business	-	-	35,642	-	35,642
Total current assets	<u>40,328</u>	<u>8,702</u>	<u>523,053</u>	<u>419,628</u>	<u>991,711</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Bank overdraft	16,754	-	-	-	16,754
Accounts payable	18,246	-	-	-	18,246
Due to other funds	320,884	56,450	-	-	377,334
Total liabilities	<u>355,884</u>	<u>56,450</u>	<u>-</u>	<u>-</u>	<u>412,334</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues - property taxes	-	7,969	-	-	7,969
Unavailable revenues - business loans	-	-	35,642	-	35,642
Total deferred inflows of resources	<u>-</u>	<u>7,969</u>	<u>35,642</u>	<u>-</u>	<u>43,611</u>
Fund balances:					
Non-spendable	-	-	35,642	-	35,642
Restricted for:					
Economic development	-	-	-	419,628	419,628
Community development	-	-	451,769	-	451,769
Unassigned	(315,556)	(55,717)	-	-	(371,273)
Total fund balances	<u>(315,556)</u>	<u>(55,717)</u>	<u>487,411</u>	<u>419,628</u>	<u>535,766</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 40,328</u>	<u>\$ 8,702</u>	<u>\$ 523,053</u>	<u>\$ 419,628</u>	<u>\$ 991,711</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, 2014**

	Capital Projects Fund	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
<b>REVENUES</b>					
Taxes					
Ad valorem	\$ -	\$ 392,127	\$ -	\$ -	\$ 392,127
Sales and use	-	-	337,690	337,690	675,380
Other income	-	-	52,739	2,086	54,825
Grants and contributions	25,000	-	-	-	25,000
Rentals	-	-	-	30,000	30,000
Interest earned	2,400	356	3,941	2,599	9,296
Total revenues	<u>27,400</u>	<u>392,483</u>	<u>394,370</u>	<u>372,375</u>	<u>1,186,628</u>
<b>EXPENDITURES</b>					
Operating:					
General government	1,602	1,887	27,189	21,675	52,353
Promotions	-	-	64,883	27,430	92,313
Contract services	-	-	61,438	179,551	240,989
Capital Outlays:	570,559	-	-	-	570,559
Debt Service:					
Principal retirement	-	270,125	79,000	66,537	415,662
Interest expense	-	175,773	59,834	23,473	259,080
Total expenditures	<u>572,161</u>	<u>447,785</u>	<u>292,344</u>	<u>318,666</u>	<u>1,630,956</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(544,761)</u>	<u>(55,302)</u>	<u>102,026</u>	<u>53,709</u>	<u>(444,328)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In (Out) - General Fund	36,800	-	-	-	36,800
Transfers In (Out) - Utility Fund	279,707	-	-	-	279,707
Total other financing sources (uses)	<u>316,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>316,507</u>
Net change in fund balances	(228,254)	(55,302)	102,026	53,709	(127,821)
Fund balances beginning, October 1	<u>(87,302)</u>	<u>(415)</u>	<u>385,385</u>	<u>365,919</u>	<u>663,587</u>
Fund balances ending, September 30	<u>\$ (315,556)</u>	<u>\$ (55,717)</u>	<u>\$ 487,411</u>	<u>\$ 419,628</u>	<u>\$ 535,766</u>

**COMPLIANCE AND INTERNAL CONTROLS SECTION**



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 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, 2014, 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 24, 2015.

**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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

We noted certain matters that we reported to management of the City in a separate letter dated March 24, 2015.

### **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 entity'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "LaFollett and Abbott PLLC". The signature is written in a cursive, slightly slanted style.

Tom Bean, Texas  
March 24, 2015