

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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FINANCIAL SECTION

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Independent Auditor's Report

To the Council
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component units, 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011, on our consideration of the City of Anna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 10 and page 34 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 pages 35 through 37 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.

A handwritten signature in black ink, appearing to read "R. Mitt", is positioned above the typed text.

McKinney, Texas
March 1, 2011

**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, 2010. Please read it in conjunction with the City's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY10 by \$28,183,287. This is a decrease of \$85,132 over FY09's net asset value of \$28,268,419. Unrestricted and unreserved net assets at the close of FY10 are \$3,097,571 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$819,880 over FY09's unrestricted and unreserved net asset value of \$3,917,451.
- The City's total net assets decreased by \$85,132, or 0.3%, as a result of this year's operations.
- The City's governmental funds reported on page 14 have an ending fund balance of \$2,464,452, which is decrease of \$378,390 in comparison with FY09 ending fund balances of \$2,842,842. The majority of the decrease is attributable to \$368,369 transferred out of the Capital Projects Fund into the Utility Fund, which represents funds used to construct a new public works building. (Utility Fund asset) \$2,258,196 of the \$2,464,452 fund balance is available for spending at the City's discretion (unrestricted and unreserved fund balance).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 11-13). 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 14) 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 21) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

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

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 11. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

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

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 15 and 17.

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

Seventy-seven percent (77%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

The following tables summarize the Statement of Net Assets and Changes in Net Assets for the year ended September 30, 2010:

	Governmental Activities		Business-type Activities		Total	
	FY10	FY09	FY10	FY09	FY10	FY09
Current and other assets	\$ 2,999,203	\$ 3,018,367	\$ 5,322,185	\$ 6,050,131	\$ 8,321,388	\$ 9,068,498
Capital assets	15,663,487	15,819,526	30,951,294	30,228,366	46,614,781	46,047,892
Total assets	18,662,690	18,837,893	36,273,479	36,278,497	54,936,169	55,116,390
Long-term liabilities outstanding	4,899,828	5,095,869	19,960,621	20,330,670	24,860,449	25,426,539
Other liabilities	181,017	178,183	1,711,416	1,243,249	1,892,433	1,421,432
Total liabilities	5,080,845	5,274,052	21,672,037	21,573,919	26,752,882	26,847,971
Net assets:						
Invested in capital assets, net of related debt	10,763,659	10,579,536	10,990,672	9,915,584	21,754,331	20,495,120
Restricted	206,256	158,803	3,125,129	3,697,045	3,331,385	3,855,848
Unrestricted	2,611,930	2,825,502	485,641	1,091,949	3,097,571	3,917,451
Total net assets	\$ 13,581,845	\$ 13,563,841	\$ 14,601,442	\$ 14,704,578	\$ 28,183,287	\$ 28,268,419

	Governmental Activities		Business-type Activities		Total	
	FY10	FY09	FY10	FY09	FY10	FY09
Revenues:						
Program Revenues:						
Charges for services	\$ 267,108	\$ 270,183	\$ 3,653,989	\$ 3,505,376	\$ 3,921,097	\$ 3,775,559
Operating grants and contributions	182,847	-	-	-	182,847	-
Capital grants and contributions	889,152	1,342,638	-	109,028	889,152	1,451,666
General Revenues:						
Property taxes	2,407,914	2,247,895	-	-	2,407,914	2,247,895
Other taxes and franchise fees	796,803	699,684	-	-	796,803	699,684
Other	72,010	190,586	137,322	34,587	209,332	225,173
	4,615,834	4,750,986	3,791,311	3,648,991	8,407,145	8,399,977
Expenses:						
General government	1,011,386	776,810	-	-	1,011,386	776,810
Parks	200,431	115,564	-	-	200,431	115,564
Public safety	1,643,698	1,422,053	-	-	1,643,698	1,422,053
Streets	880,894	823,856	-	-	880,894	823,856
Debt service - interest	220,033	282,865	-	-	220,033	282,865
Development/Inspections	274,589	435,659	-	-	274,589	435,659
Water/Sewer/Sanitation	-	-	4,261,246	3,461,306	4,261,246	3,461,306
	4,231,031	3,856,807	4,261,246	3,461,306	8,492,277	7,318,113
Excess (deficiency) of revenues over expenditures before transfers	384,803	894,179	(469,935)	187,685	(85,132)	1,081,864
Transfers In (Out)	(366,799)	-	366,799	-	-	-
Increase in net assets	18,004	894,179	(103,136)	187,685	(85,132)	1,081,864
Net assets - October 1 (beginning)	13,563,841	12,599,557	14,704,578	14,516,893	28,268,419	27,116,450
Prior period adjustments	-	70,105	-	-	-	70,105
Net assets - September 30 (ending)	\$ 13,581,845	\$ 13,563,841	\$ 14,601,442	\$ 14,704,578	\$ 28,183,287	\$ 28,268,419

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net assets of the City's governmental activities increased from \$13,563,841 to \$13,581,845. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$2,611,930 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$2,464,452 compared to \$2,842,842 in FY09. This represents a decrease of \$378,390. The City has capital projects and debt service funds to properly account for governmental asset construction that is financed by borrowed funds. The largest increases in FY10 general fund expenditures came from the administrative and police departments. The largest increase in FY10 general fund revenues came from local property taxes.

Revenues and other financing sources for the City's general fund were \$3,356,279, while total expenses and other financing uses were \$3,098,334. This resulted in an excess of revenues over expenditures of \$257,945 from current operations (see page 16). Last year's result was an excess of revenues over expenditures of \$94,944.

Revenues and transfers into the City's Utility Fund were \$4,159,679, while total expenses were \$4,262,618. This resulted in an excess of expenditures over revenues of \$103,137. (see page 19) Last year's result was an excess of revenues over expenditures of \$187,685. The main reason for the decrease in net assets was a \$339,795 increase in depreciation expense over the fiscal year 2009 total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2010 amounts to \$46,614,781 compared to \$45,904,038 (net of accumulated depreciation) at September 30, 2009. This investment in capital assets includes land, buildings and improvements, street improvements, water and sewer systems, equipment and vehicles. The total increase in the City's net investment in capital assets for the current fiscal year was \$710,703. Major capital asset activity during FY10 related to the on-going improvements to the water and sewer system financed through the Greater Texoma Utility Authority, park improvements, equipment purchases, and construction of a public works building.

Long-term Debt

At year-end, the City had total notes, bonds and contractual obligations outstanding of \$24,683,687. The City did not issue any of these types of debt for FY10. Total FY10 bond, note, and contractual obligation principal payments were \$611,003 and all payments were made when due.

The City also has two capital leases for equipment with a total year-end payable balance of \$95,852. One new \$70,758 capital lease agreement was created during the year. Capital lease principal payments totaled \$35,049 and all payments were made when due.

At the end of FY10, the City's total long-term commitments for governmental activities were \$4,899,828 total long-term commitments for the Utility Fund are \$19,960,622.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the last decade, when the City of Anna was faced with a decision of how to respond to the growth pressures in the region, the city made a conscious choice to welcome and accommodate that growth. Part of that choice involved significant financial investments in public safety, parks, and utility infrastructure so that the city could accommodate and serve a rapidly growing population. Just over three years ago, the growth of the national and local economy began to slow significantly. The number of new homes constructed in the city fell from over five hundred in 2006 to only seven in 2009.

This dramatic decline in growth has challenged the city's ability to fund the programs and infrastructure that we have invested in so heavily over the past decade. Over 60% of the General Fund revenue is derived from property taxes. In the 2008-2009 fiscal year, the value of existing properties fell for the first time in recent memory (down 3.77%). Again in 2009-2010, the value of existing properties fell an additional 4.8%. Even with modest new construction, the value of the current certified tax role is 3.32% lower than last year's certified roll.

While we have not yet received the 2010-2011 certified tax roll, a modestly optimistic projection would be an expectation that property values will remain stable during the next few years with little or no increase in the value of existing properties. We may even see a modest decrease in the value of existing properties again next year. Over the next few years, we expect that any increase in the city's overall property tax base will come from new properties added to the tax roll.

In order to fund the FY 2011 budget, the city has adopted a tax rate of \$0.650332 per \$100 valuation which is slightly less than the effective tax rate of \$0.652060. The effective tax rate is a calculated rate that would provide the city with about the same amount of revenue it received last year on properties taxed in both years. Because of the decline in property values, the effective tax rate is slightly more than the FY 2010 tax rate of \$0.622733 per \$100 valuation. With the adopted tax rate of \$0.650332, the owner of the average residential homestead in Anna will pay \$748.76 in property taxes this year which is the same as last year's tax levy. When compared with other cities in our area, the City of Anna has one of lowest per-capita and residential homestead property tax burdens. The adopted tax rate will actually reduce the total tax levy on prior existing properties.

In order to accommodate existing and projected growth, the city invested about \$20 million last decade to upgrade the water and sewer system. Up until two 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 has declined, the resulting revenue from impact fees has fallen dramatically. In 2008, the city increased utility rates to make up for some of revenue loss. Even with modest growth, the rate model the city relied on at the time predicted that a series of smaller rate increases would be necessary in subsequent years.

With almost no growth in FY10, the city is in a position where it must increase water and sewer rates again. The adopted budget increases the base rate for each water customer by \$4 per month and the base rate for each sewer customer by \$4 per month. On October 1st 2010, the base rate for residential water customers increased from \$18 to \$22 per month and the base rate for residential sewer customers will increase from \$18 to \$22 per month.

Although the city has some challenges, there are many positive things happening in our community. The city continues to see consistent increases in the amount of sales tax revenue collected each year, which is a testament to the health of our local business climate. The sales tax revenue collected in 2010 was up 13.8% over the sales tax revenue in 2009. While we expect these kinds of dramatic increases to level off, we do not anticipate a decrease in sales tax revenue over the next year.

The city's Economic Development Corporation has taken a very proactive approach in encouraging new businesses to locate in Anna and city staff continues to respond to a consistent stream of inquiries about business and development opportunities in Anna. The city also continues to be very successful in receiving grant funds to supplement local financial resources.

The City of Anna is heavily invested in the idea that the community will continue to grow during the coming years. The fiscal year 2011 budget is designed to reduce operating expenses where possible while still maintaining the infrastructure and programs the city has built over the past several years. The budget reflects a continuing investment in public safety, parks, street improvements, and utility infrastructure.

General Fund

The FY 2011 budget includes a slight increase in General Fund expenditures. With a few exceptions, the non-payroll operating expenses in each department have decreased. Some of the increased expenses in the General Fund have off-setting revenues that are tied to specific programs and activities. If the program is eliminated, the corresponding revenue and expenses would also be eliminated.

In the FY 2010 budget, merit raises were only available to employees making \$40,000 or less. Funding is available in the FY 2011 budget for an average 2% merit increase for all civilian and fire department employees. The budget includes the normal step increases for sworn police officers and a 4% increase for health insurance premiums which the City pays for all employees.

Funding is included for a new Parks and Recreation Superintendent in the Parks Department. This is a revenue-neutral budget allocation. Funding for the position comes from a \$31,000 reduction in contract services in the Parks Department (used to maintain Slayter Creek Park) and a contribution from the Anna Community Development Corporation (CDC) to fund the balance of the salary and benefits (an additional \$39,000). This new employee will perform all parks maintenance (including Slayter Creek Park) and will be responsible for overseeing and coordinating youth and adult recreation programs. Additional money to purchase equipment necessary for this position is included in an allocation from the Parks Trust Fund. If the position were to be eliminated, then at least \$31,000 in contract services will need to be restored to the budget.

Debt Service Fund

Revenues required to pay the City's outstanding debt are transferred to this fund and all monies are restricted to debt payments only. The revenue generated from the interest and sinking (I&S) portion of the tax rate (0.096107 cents per \$100 valuation) is used to partially fund our debt service obligations. In addition, a transfer of \$222,149 from our Utility Fund will pay the principal and interest on the 2009 Certificates of Obligation.

In order to further reduce the debt service tax rate; this fund is also subsidized with excess revenue from the 2005 Certificates of Obligation bond issue. A transfer of \$107,636 from the 2005 Certificate of Obligation ("CO") issue helps to reduce our interest and sinking tax rate. These annual payments (between \$100,000 and \$115,000 per year) will defease the remaining unspent revenue from the 2005 CO issue through FY 2014 after which the debt service tax rate will need to cover the full tax supported obligation. In order to avoid a sharp increase in the debt service tax rate, we plan to refinance some of our existing debt during 2014 fiscal year.

Over the next four years as several vehicle loans are paid off, we plan to purchase replacement vehicles using the same revenue currently dedicated to the existing vehicle debt payments.

Capital Projects Fund

\$107,636 from the 2005 CO issue is being transferred to the Debt Service funds which will defease the remaining bond revenue. We will only be able to use this additional revenue for three more years before we will have to absorb the full cost of the debt payments in our tax rate. \$30,000 from the 2007 CO issue will be used to provide additional funding to finish out the interior of the new Public Works office/warehouse.

Utility Fund

The City of Anna operates its own water and wastewater treatment, water distribution and wastewater collection systems. The Utility Fund operates as an enterprise fund, meaning that it is expected to operate solely on the revenue it produces. Because of governmental accounting rules, the Utility Fund budget only shows the interest payments on the outstanding debt instruments. Principal payments must be made from excess revenue. The budget detail sheets show an excess of \$561,500 in revenue over expenses. Of that amount, \$326,500 will be used to make payments on existing debt principal. The budget also includes \$350,000 in revenue we expect to receive from a CDBG water grant this year. The off-setting expense will be also taken from fund revenues, but the expense is not shown as part of the budget. The total expenditures will exceed total revenues by \$115,000. The City will use existing cash on hand saved from previous years to fund the difference.

Total Budgeted FY11 Utility Fund Operating Costs:	\$3,765,402
Utility Fund Debt Principal Payments:	\$326,500
CDGB Project Expenses:	<u>\$350,000</u>
TOTAL EXPENSES:	\$4,441,902

In order to further reduce our dependence on impact fee revenue to pay outstanding debt, the base rate for each water customer was increased by \$4 per month and the base rate for each sewer customer was increased by \$4 per month.

The budget does not include utility system depreciation costs which ideally we would fund on an annual basis to pay for system replacement. Our annual audit will as a matter of governmental accounting rules point out that we did not fund the annual depreciation expense.

In order to minimize necessary rate increases, the City refinanced about \$4 million in existing debt during FY 2009. This short term refinancing will result in a sharp increase in payments on existing debt obligations during FY 2015. In order to again avoid a significant corresponding rate increase, the City plans to refinance some of its existing long term utility debt in FY 2015.

Park Trust Fund

The Park Trust Fund reserved fund balance is \$53,219 at September 30, 2010. The FY 2011 budget proposes to use \$10,000 from the fund to pay for equipment to upgrade our parks this year. The Park Trust Fund is funded by a \$750 per lot fee charged with each single family building permit.

Fire Trust Fund

The Fire Trust Fund reserved fund balance is \$61,270 at September 30, 2010. The FY 2011 budget proposes to use \$30,000 from the fund to pay for equipment purchases for the Fire Department.

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 Assets
September 30, 2010

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Economic Development Corporation	Community Development Corporation
Assets				
Cash and cash equivalents (Note B)	\$ 2,054,393	\$ 1,424,251	\$ 244,886	\$ 234,869
Receivables - net (Note D)	458,155	332,890	38,739	36,331
Internal balances (Note I)	182,280	(182,280)	-	-
Prepaid bond issue costs	98,119	421,916	-	-
Restricted assets:				
Deposits held by GTUA	-	1,883,504	-	-
Other restricted cash	206,256	1,241,625	-	-
Non-depreciable capital assets (Note E):				
Land	1,223,676	143,883	459,176	-
Construction in progress	-	957,989	-	-
Depreciable capital assets (Note E):				
Water and sewer systems	-	29,524,049	-	-
Buildings, machinery, and equipment	1,512,846	325,371	-	-
Park improvements	2,606,715	-	-	-
Streets and other infrastructure	10,320,250	-	-	-
Total assets	<u>\$ 18,662,690</u>	<u>\$ 36,073,199</u>	<u>\$ 742,801</u>	<u>\$ 271,200</u>

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

**City of Anna, Texas
Statement of Net Assets
September 30, 2010**

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Economic Development Corporation	Community Development Corporation
Liabilities				
Accounts payable	\$ 107,737	\$ 280,141	\$ -	\$ -
Interest payable	24,295	745,431	-	-
Accrued liabilities	48,985	31,502	-	-
Customer meter deposits	-	454,062	-	-
Non-current liabilities (Note F):				
Due within one year	403,368	383,490	31,886	64,475
Due in more than one year	4,496,460	19,577,132	313,230	438,212
Total liabilities	<u>5,080,845</u>	<u>21,471,757</u>	<u>345,116</u>	<u>502,687</u>
Net Assets				
Invested in capital assets, net of related debt	10,763,659	10,990,672	114,060	-
Restricted for: (Note H)				
GTUA deposits	-	1,883,504	-	-
Water and sewer improvements	-	1,241,625	-	-
Parks	53,219	-	-	-
Fire department	61,270	-	-	-
Capital projects	91,767	-	-	-
Unrestricted and unreserved	2,611,930	485,641	283,625	(231,487)
Total net assets	<u>\$ 13,581,845</u>	<u>\$ 14,601,442</u>	<u>\$ 397,685</u>	<u>\$ (231,487)</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, 2010

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets											
	Program Revenues					Primary Government					Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Economic Develop Corp.	Community Develop Corp.			
Primary government:												
Governmental activities:												
Development/inspections	\$ 274,589	\$ 126,728	\$ -	\$ -	\$ (147,861)	\$ -	\$ (147,861)	\$ -	\$ -	\$ -		
Highways and streets	880,894	-	-	-	(880,894)	-	(880,894)	-	-	-		
General government	1,011,386	-	51,650	-	(959,736)	-	(959,736)	-	-	-		
Police	1,147,697	4,542	131,197	616,536	(395,422)	-	(395,422)	-	-	-		
Fire	313,093	-	-	41,209	(271,884)	-	(271,884)	-	-	-		
Court	80,115	130,824	-	-	50,709	-	50,709	-	-	-		
Ambulance	102,793	-	-	-	(102,793)	-	(102,793)	-	-	-		
Parks	200,431	5,014	-	231,407	35,990	-	35,990	-	-	-		
Interest on long-term debt	220,033	-	-	-	(220,033)	-	(220,033)	-	-	-		
Total governmental activities	4,231,031	267,108	182,847	889,152	(2,891,924)	-	(2,891,924)	-	-	-		
Business-type activities:												
Water and Sewer - operating	4,261,246	3,653,989	-	-	-	(607,257)	(607,257)	-	-	-		
Total business-type activities	4,261,246	3,653,989	-	-	-	(607,257)	(607,257)	-	-	-		
Total primary government	8,492,277	3,921,097	182,847	889,152	(2,891,924)	(607,257)	(3,499,181)	-	-	-		
Component units:												
Economic Development Corp.	173,643	-	-	-	-	-	-	(173,643)	-	-		
Community Development Corp.	102,663	-	-	-	-	-	-	-	(102,663)	-		
Total component units	\$ 276,306	-	-	-	-	-	-	(173,643)	(102,663)	-		
General revenues:												
Property taxes					2,407,914	-	2,407,914	-	-	-		
Sales taxes					438,071	-	438,071	219,036	219,036	-		
Franchise taxes					358,732	-	358,732	-	-	-		
Investment interest					15,981	48,480	64,461	2,809	5,656	-		
Miscellaneous					56,029	64,256	120,285	5,309	-	-		
Developer fees					-	24,586	24,586	-	-	-		
Transfers in (out)					(366,799)	366,799	-	-	-	-		
Total general revenues and transfers					2,909,928	504,121	3,414,049	227,154	224,692	-		
Change in net assets					18,004	(103,136)	(85,132)	53,511	122,029	-		
Net assets - beginning					13,563,841	14,704,578	28,268,419	344,174	(353,516)	-		
Net assets - ending					\$ 13,581,845	\$ 14,601,442	\$ 28,183,287	\$ 397,685	\$ (231,487)	-		

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

City of Anna, Texas
Balance Sheet - Governmental Type Funds
September 30, 2010

	Governmental Fund Types			Total Governmental Funds
	General	Capital Projects	Debt Service	
Assets				
Current assets:				
Cash (Note B)	\$ 1,797,463	\$ 215,775	\$ 41,155	\$ 2,054,393
Accounts receivable - net (Note D)	217,236	-	9,511	226,747
Due from other funds (Note I)	200,280	-	-	200,280
Total current assets	2,214,979	215,775	50,666	2,481,420
Restricted assets:				
Cash with other restrictions	114,304	-	-	114,304
Cash for park improvements	53,219	-	-	53,219
Cash for capital improvements	38,733	-	-	38,733
Total restricted assets	206,256	-	-	206,256
Total assets	2,421,235	215,775	50,666	2,687,676
Liabilities				
Current liabilities:				
Accounts payable	107,737	-	-	107,737
Accrued liabilities	48,985	-	-	48,985
Due to other funds	-	17,999	-	17,999
Deferred tax and court revenue	41,277	-	7,226	48,503
Total current liabilities	197,999	17,999	7,226	223,224
Fund Balances				
Reserved for (Note H):				
Parks	53,219	-	-	53,219
Fire	61,270	-	-	61,270
Other	91,767	-	-	91,767
Unreserved	2,016,980	197,776	43,440	2,258,196
Total fund balances	2,223,236	197,776	43,440	2,464,452
Total liabilities and fund balances	\$ 2,421,235	\$ 215,775	\$ 50,666	\$ 2,687,676

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 Assets
For the Year Ended September 30, 2010

Fund balances of governmental funds	\$	2,464,452
 Amounts reported for governmental activities in the statement of net assets (page 12) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,663,487
Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(24,295)
Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.		98,119
Long-term liabilities , including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(4,899,828)
Sources of park grant revenues not received within sixty days after fiscal year-end are not recorded as a receivable on the fund financial statements, but are accrued for the government-wide financials.		231,406
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 assets.		48,504
Net assets of governmental activities	<u>\$</u>	<u>13,581,845</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, 2010

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
Revenues				
Taxes:				
Property	\$ 2,040,810	\$ -	\$ 357,286	\$ 2,398,096
Sales	438,071	-	-	438,071
Franchise	358,732	-	-	358,732
Grants	-	747,733	-	747,733
Development/Building permits	126,728	-	-	126,728
Court	122,947	-	-	122,947
Other revenue	56,029	-	-	56,029
Intergovernmental	51,650	-	-	51,650
Investment earnings	11,734	3,645	602	15,981
Parks	5,014	-	-	5,014
Police	4,542	-	-	4,542
Total revenues	3,216,257	751,378	357,888	4,325,523
Expenditures				
Current:				
Police	1,081,256	-	-	1,081,256
Administrative and general	869,182	-	1,400	870,582
Development	271,639	-	-	271,639
Fire	267,139	-	-	267,139
Streets	203,484	-	-	203,484
Ambulance	102,793	-	-	102,793
Court	80,115	-	-	80,115
Parks	61,852	-	-	61,852
Capital outlays	95,531	842,682	-	938,213
Debt service:				
Principal retirement	58,083	-	240,492	298,576
Interest expense	7,260	-	224,784	232,044
Total expenditures	3,098,334	842,682	466,676	4,407,691
Excess of revenues over (under) expenditures	117,923	(91,304)	(108,787)	(82,168)
Other financing sources (uses)				
Capital lease proceeds	70,578	-	-	70,578
Transfers in	69,444	-	116,895	186,338
Transfers (out)	-	(553,138)	-	(553,138)
Total other financing sources(uses)	140,022	(553,138)	116,895	(296,221)
Net changes in fund balances	257,945	(644,442)	8,107	(378,390)
Fund balances - beginning	1,965,291	842,218	35,333	2,842,842
Fund balances - ending	\$ 2,223,236	\$ 197,776	\$ 43,440	\$ 2,464,452

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, 2010

Amounts reported for governmental activities in the statement of activities (page 16) are different because:

Net change in fund balances - total governmental funds (page 16)	\$ (378,390)
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 exceeded capital outlays in the current period.	(58,766)
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	272,616
Accrued interest does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(24,295)
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	298,576
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net assets.	(21,159)
Governmental funds report new capital leases as a source of income from financing, but this income source is removed for the government-wide financial statements.	(70,578)
Change in net assets of governmental activities (page 13)	<u>\$ 18,004</u>

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

City of Anna, Texas
Statement of Net Assets - Proprietary Fund (Utility Fund)
September 30, 2010

Assets	2010
Current assets:	
Cash (Note B)	\$ 1,424,251
Accounts receivable - net (Note D)	332,890
Due from other funds (Note I)	17,999
Total current assets	1,775,140
Noncurrent assets:	
Restricted assets:	
Cash held by GTUA	1,883,504
Cash restricted for capital improvements	1,241,625
Total restricted assets	3,125,129
Deferred charges - prepaid bond issue costs	421,916
Capital assets (non-depreciable):	
Land	143,883
Construction in progress	957,989
Capital assets (net of depreciation):	
Plants, machinery, and equipment	29,849,421
Total capital assets	30,951,294
Total noncurrent assets	34,498,339
Total assets	\$ 36,273,479
 Liabilities	
Current liabilities:	
Accounts payable	\$ 280,141
Other liabilities	31,502
Bond interest payable	745,431
Due to General Fund	200,280
Customer deposits	454,062
Current portion of long-term debt	383,490
Total current liabilities	2,094,905
Noncurrent liabilities:	
Bonds and notes payable	19,577,132
Total liabilities	21,672,037
 Net Assets	
Investment in capital assets, net of related debt	10,990,672
Restricted - GTUA deposits	1,883,504
Restricted - water and sewer improvements	1,241,625
Unrestricted	485,641
Total net assets	\$ 14,601,442

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

City of Anna, Texas
Statement of Revenues, Expenses, and Changes in
Net Assets - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2010

	2010
Operating revenues:	
Water income	\$ 1,823,469
Sewer income	1,123,071
Sanitation income	576,655
Developer fees for capital improvements	24,586
Water customer late fees	95,014
Connect, install, and tap fees	35,780
Miscellaneous revenue	64,255
Total operating revenues	3,742,830
Operating expenses:	
Water service	1,459,055
Sewer service	518,189
Sanitation service	520,933
Depreciation	953,609
Total operating expenses	3,451,787
Operating income	291,043
Non-operating revenues (expenses):	
Interest income	48,480
Interest expense	(787,294)
Bond amortization	(22,165)
Total non-operating revenues (expenses)	(760,979)
Income before contributions and transfers	(469,936)
Transfers in	368,369
Transfers out	(1,570)
Changes in net assets	(103,137)
Total net assets - beginning	14,704,578
Total net assets - ending	\$ 14,601,442

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, 2010

	2010
Operating Activities:	
Receipts from customers and users	\$ 3,714,620
Payments to suppliers	(1,941,345)
Payments to employees	(546,006)
Net cash provided (used) by operating activities	1,227,269
Capital and Related Financing Activities:	
Cash to GTUA reserve accounts	(20,418)
Cash to restricted capital improvements account	(35,249)
Cash paid for acquisition and construction of capital assets	(718,547)
Interest paid on capital debt	(329,202)
Principal payments on capital debt	(352,161)
Net cash provided (used) by capital and related financing activities	(1,455,576)
Non-capital and Related Financing Activities	
Transfers to other funds	(1,570)
Net cash provided (used) by non-capital and related financing activities	(1,570)
Investing Activities:	
Interest received	48,480
Net cash provided (used) by investing activities	48,480
Net increase (decrease) in cash and cash equivalents	(181,397)
Cash and cash equivalents, October 1	1,605,648
Cash and cash equivalents, September 30	\$ 1,424,251
Reconciliation of Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Operating income (loss)	\$ 291,044
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	953,609
Decrease (increase) in accounts receivable	(33,023)
Decrease (increase) in prepaid items	7,656
Decrease (increase) in other assets	13,996
Increase (decrease) in accounts payable	(24,440)
Increase (decrease) in other liabilities	13,614
Increase (decrease) in customer deposits	4,813
Net cash provided by operating activities	\$ 1,227,269
Non-cash capital activities:	
Transfer of capital assets from the capital projects fund	\$ 368,369

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

CITY OF ANNA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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, entities for which the City is considered to be financially accountable. The component units presented are those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. Each component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the City.

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.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as 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. 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.

PROPRIETARY FUND TYPES

Enterprise Funds

Account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The water 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. Capital Assets

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. General fixed assets including land, buildings, equipment, roads, bridges, streets and sidewalks.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The service lives by type of asset are follows:

<u>Asset Category</u>	<u>Depreciable Life in Years</u>
Buildings	20
Water & Sewer System infrastructure	35
Equipment	3-10
Streets	20

7. Long Term Liabilities

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

8. 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”.

9. 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.

10. 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.

11. 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 INVESTMENTS

As of September 30, 2010, 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, 2010, City’s deposits held in its depository banks totaled \$9,106,170 with \$200,000 insured by the Federal Deposit Insurance Corporation. Securities have been pledged by the depository banks to collateralize 100% of all remaining deposits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Summary of deposits with financial institutions:	
Primary government cash and cash equivalents	\$ 3,478,644
Restricted cash (non GTUA)	1,447,881
Less: petty cash	<u>(1,300)</u>
Deposits with financial institutions	4,925,225
Add: petty cash	1,300
Restricted cash held by GTUA	<u>1,883,504</u>
Total primary government cash and cash equivalents	<u>\$ 6,810,029</u>

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 2009/2010 tax year is \$2,318,627. At September 30, 2010, \$2,319,503 of the tax has been collected, which is 99.6%.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D - RECEIVABLES

Receivables at September 30, 2010, consisted of the following:

	Primary Government			Component Units	
	General Fund	Debt Service Fund	Proprietary Fund	Economic Development Corporation	Community Development Corporation
Property tax	\$ 54,328	\$ 9,511	\$ -	\$ -	\$ -
Sales tax	72,573	-	-	36,230	36,230
Franchise tax and other	80,917	-	-	2,509	101
Court fines	230,515	-	-	-	-
Grants	231,406	-	-	-	-
Utility bills	-	-	332,890	-	-
Gross receivables	669,739	9,511	332,890	38,739	36,331
Less: Allowance for uncollectibles	(221,095)	-	-	-	-
Net receivables	\$ 448,644	\$ 9,511	\$ 332,890	\$ 38,739	\$ 36,331

NOTE E – CAPITAL ASSETS

GOVERNMENTAL FUND TYPE ACTIVITIES

Governmental fund type capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 1,223,676	\$ -	\$ -	\$ 1,223,676
Construction in progress	32,596	-	(32,596)	-
Depreciable assets:				
Park improvements	2,618,966	231,407	-	2,850,373
Buildings	688,328	256,499	32,596	977,423
Furniture and fixtures	76,699	26,402	-	103,101
Streets and drainage	13,537,374	64,953	-	13,602,327
Machinery and equipment	965,443	400,160	-	1,365,603
Totals at historical cost	19,143,082	979,421	-	20,122,503
Less: Accumulated depreciation	(3,467,677)	(991,339)	-	(4,459,016)
Governmental fund type capital assets, net	\$ 15,675,405	\$ (11,918)	\$ -	\$ 15,663,487

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 143,883	\$ -	\$ -	\$ 143,883
Construction in progress	4,569,983	573,858	(4,185,852)	957,989
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	58,737	-	-	58,737
Equipment	457,148	115,205	-	572,353
Water treatment system	6,856,136	-	-	6,856,136
Water and sewer system	22,063,146	987,474	4,185,852	27,236,472
Totals at historical cost	34,154,653	1,676,537	-	35,831,190
Less: Accumulated depreciation	(3,926,287)	(953,609)	-	(4,879,896)
Proprietary fund type activities capital assets, net	\$ 30,228,366	\$ 722,928	\$ -	\$ 30,951,294

Component unit capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
EDC component unit:				
Nondepreciable assets:				
Land	\$ 459,176	\$ -	\$ -	\$ 459,176
Component unit capital assets, net	\$ 459,176	\$ -	\$ -	\$ 459,176

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

<i>Governmental activities:</i>	
General government	\$ 60,006
Police	66,441
Inspections	2,950
Fire	45,954
Streets	677,410
Parks	138,579
Total depreciation expense - governmental activities	<u>\$ 991,340</u>
 <i>Business-type activities:</i>	
Water and sewer	<u>\$ 953,609</u>
Total depreciation expense - business-type activities	<u>\$ 953,609</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
2011	\$ 786,858	\$ 1,047,007	\$ 403,368	\$ 201,627	\$ 383,490	\$ 845,380
2012	732,771	1,030,974	327,914	187,484	404,857	843,490
2013	727,710	1,019,556	281,431	172,877	446,279	846,679
2014	808,111	1,010,012	262,115	162,243	545,996	847,769
2015	1,225,000	987,248	265,000	151,286	960,000	835,962
2016-2020	6,317,500	5,374,206	1,190,000	1,046,884	5,127,500	4,327,322
2021-2025	7,032,500	4,293,660	1,465,000	809,643	5,567,500	3,484,017
2026-2030	4,466,250	1,401,293	705,000	126,357	3,761,250	1,274,936
2031-2035	1,727,500	540,307	-	-	1,727,500	540,307
2036-2040	1,036,250	171,799	-	-	1,036,250	171,799
2041-2045	-	-	-	-	-	-
	<u>\$ 24,860,450</u>	<u>\$ 16,876,061</u>	<u>\$ 4,899,828</u>	<u>\$ 2,858,401</u>	<u>\$ 19,960,622</u>	<u>\$ 14,017,660</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, 2010:

Governmental Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2010	Due Within One Year
2005 Combination Tax and Limited Surplus Revenue Certificates of	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 2,180,000	\$ 100,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	1,210,000	75,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	310,000	20,000
Capital lease for fire truck	161,017	2003	3/15/2012	5.35%	41,739	20,088
Capital lease for Groundmaster	70,758	2010	2013	5.38%	54,113	16,709
Fire truck note	170,000	2005	2012	5.625%	47,649	23,154
Police car note	40,400	2008	2/21/2011	5%	14,140	14,140
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	890,000	30,000
Fire rescue truck note	55,000	2009	2/3/2014	5.00%	45,060	10,444
Police car #8 note	37,988	2009	2/3/2012	5.00%	25,946	12,652
Compensated absences					81,181	81,181
Total Governmental Activities					\$ 4,899,828	\$ 403,368

Business-Type Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30,	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ 19,500	\$ 4,500
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	29,000	4,500
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,815,000	85,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	705,000	25,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	1,040,000	40,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	2,165,000	85,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,310,000	25,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	500,000	20,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	601,250	20,000
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%	1,223,750	32,500
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,140,000	25,000
Backhoe note	87,344	2009	2/2/2014	5%	63,372	16,990
Total Business-Type Activities					19,960,622	383,490
Total general debt (Governmental Type and Business-Type Activities)					\$ 24,860,450	\$ 786,858

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-term debt activity for the year ended September 30, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Combination Tax and Limited Surplus					
Revenue Certificates of Obligation	\$ 2,280,000	\$ -	\$ (100,000)	\$ 2,180,000	\$ 100,000
2007 Certificate of Obligation	1,285,000	-	(75,000)	1,210,000	75,000
2007 Revenue Bond	330,000	-	(20,000)	310,000	20,000
Capital lease for fire truck	60,143	-	(18,404)	41,739	20,088
Capital lease for Groundmaster	-	70,758	(16,645)	54,113	16,709
Fire truck note	69,490	-	(21,841)	47,649	23,154
Police car note	27,597	-	(13,457)	14,140	14,140
2009 Tax and Revenue Certificate of Obligation	900,000	-	(10,000)	890,000	30,000
Fire rescue truck note	55,000	-	(9,940)	45,060	10,444
Police car #8 note	37,988	-	(12,042)	25,946	12,652
Other liabilities	50,651	30,530	-	81,181	81,181
Total Governmental activity long term liabilities	\$ 5,095,869	\$ 101,288	\$ (297,329)	\$ 4,899,828	\$ 403,368

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business activities:					
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 24,000	\$ -	\$ (4,500)	\$ 19,500	\$ 4,500
1976 General Obligation Water Bonds	33,000	-	(4,000)	29,000	4,500
2005 GTUA contract	2,180,000	-	-	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	1,895,000	-	(80,000)	1,815,000	85,000
Series 2007 GTUA contract revenue bonds	730,000	-	(25,000)	705,000	25,000
2007 GTUA contract	1,075,000	-	(35,000)	1,040,000	40,000
2007 GTUA contract	2,245,000	-	(80,000)	2,165,000	85,000
2007 GTUA contract	3,335,000	-	(25,000)	3,310,000	25,000
2008 GTUA contract	520,000	-	(20,000)	500,000	20,000
CGMA Pipeline Project Phase I	620,000	-	(18,750)	601,250	20,000
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,242,500	-	(18,750)	1,223,750	32,500
2009 combination tax and revenue refunding bond	4,165,000	-	(25,000)	4,140,000	25,000
Backhoe note	79,532	-	(16,160)	63,372	16,990
Other liabilities	17,888	-	(17,888)	-	-
Totals	\$ 20,330,670	\$ -	\$ (370,048)	\$ 19,960,622	\$ 383,490

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.

Component Unit Debt

Community Development Corporation (CDC)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - Fed fixed rate plus 3% a.p.r. - Matures 2018 - Original amount was \$629,000	\$ 559,978	\$ -	\$ (57,291)	\$ 502,687	\$ 64,475
FY09 Bank note payable - 5.5% a.p.r. - Matures 2014 - Original amount was \$250,100 (paid off early in FY10)	228,067	-	(228,067)	-	-
Total CDC	\$ 788,045	\$ -	\$ (285,358)	\$ 502,687	\$ 64,475

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Unit Debt

Economic Development Corporation (EDC)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - 5% a.p.r. - Matures 2018 - Original amount was \$410,400	\$ 375,451	\$ -	\$ (30,335)	\$ 345,116	\$ 31,886

NOTE G – LEASES

The City has entered into capital lease agreements for the purchase of vehicles and equipment. The following is a schedule of the future minimum lease payments:

Year Ending September 30,	Governmental Activities	
	Fire Truck	Groundmaster
2011	\$ 22,352	\$ 19,904
2012	22,352	19,904
2013	-	19,904
Future minimum lease payments	44,704	59,712
Less: amount representing interest	(2,965)	(5,329)
Present value of minimum lease payments	\$ 41,739	\$ 54,383
Cost of equipment	\$ 169,230	\$ 70,758

NOTE H – RESERVED FUND BALANCES AND RESTRICTED NET ASSETS

Governmental Fund Balances

Reserves on the general fund balance in the fund financial statements indicate portions of fund equity legally segregated for a specific future use. At September 30, 2010, the City's fund balances were reserved for the following purposes:

- General Fund reserves of \$53,219 for improvements of City parks.
- General Fund reserves of \$ \$61,270 for fire department equipment and improvements.
- The City has \$91,767 reserved for other City improvements.

Proprietary Fund Net Assets

Net assets are 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, 2010, the City's net assets were restricted for the following purposes:

- The Utility Fund has restricted cash held by GTUA in the amount of \$1,883,504 that will be used for water and sewer system capital improvements and repayment of contractual obligations.
- The Utility Fund has restricted net assets in the form of cash deposits totaling \$1,241,625 that will be used for water and sewer system capital improvements and debt service related to such improvements.

NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2010 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	\$ 200,279
Water and sewer	General	<u>17,999</u>
Net internal balances:		\$ 182,280

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, 2010 is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions. There were no significant reductions in insurance coverage from the prior year. Settled claims for risks have not exceeded insurance coverage for the past four years.

NOTE K – SUBSEQUENT EVENTS

As of the date of the auditor's report, there are no subsequent events to disclose.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

City of Anna, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,003,984	\$ 2,003,984	\$ 2,040,810	\$ 36,826
Sales	390,000	390,000	438,071	48,071
Franchise	305,000	305,000	358,732	53,732
Intergovernmental	37,000	37,000	51,650	14,650
Development/Building permits	67,000	67,000	126,728	59,728
Court	154,800	154,800	122,947	(31,853)
Investment earnings	13,000	13,000	11,734	(1,266)
Parks	17,000	17,000	5,014	(11,986)
Police	11,105	11,105	4,542	(6,563)
Other revenue	13,200	13,200	56,029	42,829
Total revenues	3,012,089	3,012,089	3,216,257	204,168
Expenditures				
Current:				
Administrative and general	837,129	837,129	869,182	(32,053)
Development	290,287	290,287	271,639	18,648
Police	1,035,550	1,045,550	1,081,256	(35,706)
Fire	294,481	294,481	267,139	27,342
Streets	167,800	167,800	203,484	(35,684)
Court	69,303	69,303	80,115	(10,812)
Ambulance	103,000	103,000	102,793	207
Parks	55,000	55,000	61,852	(6,852)
Capital outlay:				
Streets, parks, and other	101,692	101,692	95,531	6,161
Debt service:				
Principal retirement	54,480	54,480	58,083	(3,603)
Interest expense	10,500	10,500	7,260	3,240
Total expenditures	3,019,222	3,029,222	3,098,334	(69,112)
Excess of revenues over (under) expenditures	(7,133)	(17,133)	117,923	135,056
Other financing sources (uses)				
Capital lease proceeds	-	-	70,578	70,578
Transfers in (out)	-	81,725	69,444	(12,281)
Total other financing sources(uses)	-	81,725	140,022	58,297
Net changes in fund balance	(7,133)	64,592	257,945	193,353
Fund balance - beginning	1,965,291	1,965,291	1,965,291	-
Fund balances - ending	\$ 1,958,158	\$ 2,029,883	\$ 2,223,236	\$ 193,353

See independent auditor's report.

**CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2010**

RETIREMENT SYSTEM – PENSION FUNDING DATA

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide, Texas Municipal Retirement System (TMRS), one of 833 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually and these can be obtained by request at the following address: TMRS, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. The plan provisions are adopted by the governing body of the City within options available in the statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

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

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. 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, 2009 valuation is effective for rates beginning January 1, 2010).

**CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2010**

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Funding Status and 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.

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, 2009.

Schedule of Actuarial Liabilities and Funding Progress (in thousands)

<u>Actuarial Valuation Date</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Value of Assets	\$ 908	\$ 622	\$ 407
Accrued Liability	1,829	1,467	1,029
(Unfunded) Accrued Liability	\$ (921)	\$ (845)	\$ (622)
Percentage Funded	49.6%	42.4%	39.6%
Annual Covered Payroll	\$ 1,655	\$ 1,607	\$ 1,283
Ratio of Unfunded to Annual Covered Payroll	55.6%	52.6%	48.5%
<u>Financial Year Ended September 30,</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contributions Made	\$ 203	\$ 156	\$ 129

**CITY OF ANNA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2010**

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Actuarial Information (December 31, 2009)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years – Closed Period
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.5%
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 (SDBF)

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years 2010, 2009, and 2008 were \$2,814, \$2,571, and \$2,052 respectively, which equaled the required contributions each year.

COMPLIANCE AND INTERNAL CONTROLS SECTION

ROD ABBOTT
CERTIFIED PUBLIC ACCOUNTANT
5007 Enclave Court
McKinney, TX 75070
(214) 455-7537

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 the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we did identify a deficiency in internal control over financial reporting that we consider to be a *significant deficiency* in internal control over financial reporting.

- The City does not have the capability to provide the government-wide financial statements, fund financial statements, and accompanying notes.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated March 1, 2011.

This report is intended solely for the information of management, City Council, others within the City, and appropriate federal agencies and is not intended to be used and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to be 'R. A. H.', with a long horizontal stroke extending to the right.

McKinney, Texas
March 1, 2011