

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER

AMERICAN INSTITUTE OF CPAs

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TEXAS SOCIETY OF CPAs

April 2, 2008

To the Anna City Council:
Subject: Management Letter

In planning and performing our audit of the financial statements of the City of Anna for the year ended September 30, 2007, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the audited financial statements and not to provide assurance on the internal control structure. We also reported on the City's internal control in our report dated April 2, 2008.

However, during our audit we became aware of several matters that are an opportunity to strengthen internal controls and operating efficiency.

1. Due to a new Statement on Auditing Standards no. 112 that requires the City to perform many of the procedures that in the past have been performed by the auditors, we are documenting several items. We proposed numerous significant audit adjustments to the financial records of the City at fiscal year end 2007 that were necessary to properly record and classify transactions and the related accounts. In addition, management did not prepare a draft of the financial statements and footnotes.

Recommendation

Before next year's audit begins, the City should review the 2007 audit adjustments and post similar adjustments needed for 2008. Also, the City should plan to prepare a draft of the financial statements and footnotes for the period ending September 30, 2008. To assist in this process, we recommend the City contract with an outside accountant.

2. The City has numerous ongoing construction projects but has not established policies and procedures to provide for the consistent accounting treatment for the projects. As a result, there are numerous expenses listed as projects that may actually not be a true project or they may be just a phase of another project. Also, the City's project accounting module does not agree with the general ledger and does not appear to be a useful tool.

Recommendation

We recommend the City establish policies and procedures to provide for the appropriate accounting treatment for construction projects. After clear guidelines have been established, the City should review and evaluate existing projects and reconcile the project accounting module to the general ledger.

This letter does not affect our report dated April 2, 2008 on the financial statements of the City of Anna. These recommendations should in no way be construed as derogatory. We will review the status of these comments during our next audit engagement. We have already discussed this suggestion with management and will be pleased to discuss it in further detail at your convenience.

Sincerely,

Gregg & Company CPAs
Gregg & Company, CPA's

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April 2, 2008

To the City Council
City of Anna, Texas

We have audited the general-purpose financial statements of City of Anna, Texas for the year ended September 30, 2007, and have issued our report thereon dated April 2, 2008. Professional standards require that we provide you with the following information related to our audit.

As stated in our engagement letter dated July 23, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U. S. generally accepted accounting principles. Because an audit is designed to provide reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Anna. Such considerations were solely for the purpose of determining audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and the use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Anna are described in note A to the financial statements. No new accounting policies were adopted but the application of these policies was changed during fiscal year 2007. We noted no transactions entered into by the City of Anna, during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant or sensitive accounting estimates affecting the financial statements during fiscal year 2007.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). During our audit we proposed numerous significant audit adjustments necessary to properly record and classify transactions and the related accounts. We believe that if our audit adjustments were not recorded, either individually or in the aggregate, they would have a significant effect on the City's financial reporting process. We recommend the City engage an outside accountant to evaluate, adjust, and document adjustments to the financial records prior to the fiscal year end 2008 audit.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditor

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, due to a new Statement on Auditing Standard no. 112 we must report that there were numerous audit adjustments to the financial records that were necessary to properly record and classify transactions and the related accounts. We recommend the City engage an outside accountant to assist in this process. Also, we encountered delays in determining the appropriate accounting treatment for the contractual obligations relating to the Collin Grayson Municipal Alliance transmission water pipeline due to conflicting opinions of the various parties involved. After extensive research, the matter appears to be resolved.

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

Sincerely,

Gregg & Company CPAs

Gregg & Company CPAs

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2007

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, each component unit, and the aggregate remaining fund information of the City of Anna, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Anna, Texas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2008, on our consideration of the City of Anna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, pension funding data, and budgetary comparison information on pages 3 through 10 and pages 33 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on them.

Gregg & Company CPAs

Tom Bean, Texas
April 2, 2008

CITY OF ANNA MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Anna's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2007. 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 FY07 by \$26,651,416. This is an increase of \$1,044,712 over FY06's net asset value of \$25,606,704. Unrestricted and unreserved net assets at the close of FY07 are \$3,990,429 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$818,082 over FY06's unrestricted and unreserved net asset value of \$4,808,511.
- The City's total net assets increased by \$1,044,712, or 4.0%, as a result of this year's operations. Non-cash capital contributions of streets and water lines valued at \$879,927 are responsible for a portion of the increase in assets for FY07.
- The City's governmental funds reported on page 13 have an ending fund balance of \$3,605,185 a decrease of \$442,163 in comparison with FY06 ending fund balance of \$4,047,348. The majority of the decrease is attributable to \$2,149,919 of capital outlays. \$3,165,953 of the \$3,605,953 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 and 12). 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 13) 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 20) 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's however, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Sixty-six percent (78%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

City of Anna-Statement of Net Assets

	<u>FY07</u>	<u>FY06</u>
Current and other assets	\$10,064,959	\$10,369,310
Capital assets	<u>35,233,833</u>	<u>26,531,760</u>
Total assets	<u>\$45,298,792</u>	<u>\$36,901,070</u>
Current & other liabilities	\$826,396	\$1,114,873
L-T liabilities due within one year	596,706	296,521
L-T liabilities due after one year	<u>17,224,274</u>	<u>9,882,972</u>
Total Liabilities	<u>\$18,647,376</u>	<u>\$11,294,366</u>
Net assets:		
Invested in capital assets,		
Net of related debt	\$17,421,417	\$16,095,456
Restricted for capital imp.'s & other	5,239,570	4,702,737
Unrestricted	<u>3,990,429</u>	<u>4,808,511</u>
Total net assets	<u>\$26,651,416</u>	<u>\$25,606,704</u>

City of Anna-Statement of Activities

	<u>FY07</u>	<u>FY06</u>
Revenues:		
Program revenues		
Water Fund charges for services	\$2,476,783	\$2,473,438
General Fund charges for services	385,568	1,058,837
Grants and contributions	1,529,136	9,423,787
General revenues	<u>3,078,952</u>	<u>3,399,602</u>
Total Revenues	<u>\$7,470,439</u>	<u>\$16,355,664</u>
Expenses:		
Water, sewer, and sanitation	\$3,019,600	\$2,356,221
Inspections	809,264	585,371
General government	705,849	567,835
Streets	741,121	596,261
Police, ambulance, and fire	947,241	672,377
Parks and other	<u>265,615</u>	<u>202,829</u>
Total Expenses	<u>\$6,488,690</u>	<u>\$4,980,894</u>
Increase in Net Assets	<u>\$981,749</u>	<u>\$11,374,770</u>
Net assets – beginning	25,606,704	14,231,934
Prior period adjustment	<u>62,963</u>	-
Net assets – ending	<u>\$26,651,416</u>	<u>\$25,606,704</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net assets of the City's governmental activities increased from \$11,735,652 to \$12,363,050. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$3,255,771 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$3,605,185 compared to \$4,047,348 in FY06. This represents a decrease of \$442,163. 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 FY07 general fund expenditures came from the police and inspections department. The largest increase in FY07 general fund revenues came from local property taxes. However, building permit revenue represented a large decrease in general fund revenue in FY07.

Revenues and other financing sources for the City's general fund were \$2,735,092, while total expenses and other financing uses were \$2,796,697. This resulted in an excess of expenditures over revenues of \$61,605 from current operations (see page 15). Last year's result was an excess of revenues over expenditures of \$858,295.

Excluding capital contributions, revenues for the City's water fund were \$3,034,434, while total expenses were \$3,019,600. This resulted in an excess of revenues over expenditures of \$14,834. Last year's result was an excess of revenues over expenditures of \$1,389,594.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2007 amounts to \$35,233,833 compared to \$26,531,760 (net of accumulated depreciation) at September 30, 2006. 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 \$8,702,073. Major capital asset activity during FY07 related to the on-going improvements to the water and sewer system financed through the Greater Texoma Utility Authority, street improvements, equipment purchases, and \$879,927 of contributed streets and water infrastructure.

Long-term Debt

At year-end, the City had total notes, bonds and contractual obligations outstanding of \$17,692,160. The City issued combined refunding and new governmental contractual obligations totaling \$1,790,000. This issue included a \$370,000 general obligation refunding bond issued to retire an existing note payable for land and a \$1,420,000 certificate of obligation issued to fund various new street improvements. At the end of FY07, the City's total long-term commitments for governmental activities are \$4,379,547. Water system improvements, including the construction of a transmission water pipeline, were funded by the issuance of new GTUA contractual obligations in the amount of \$6,303,750. At the end of FY07, the City's total long-term commitments for the water fund are \$13,312,613. Bond, note, and contractual obligation principal payments and refunding amounts totaled \$693,847 and all payments were made when due.

The City also has various capital leases for equipment with a year-end payable balance of \$95,486. No new capital lease agreements were created during the year. Capital lease principal payments totaled \$41,061 and all payments were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

Building Permits – New Single Family Residential

January 1 – December 31, 2000	19
January 1 – December 31, 2001	25
January 1 – December 31, 2002	209
January 1 – December 31, 2003	344
January 1 – December 31, 2004	517
January 1 – December 31, 2005	506
January 1 – December 31, 2006	346
January 1 – December 31, 2007	148

On a percentage basis, Anna has been one of the fastest growing cities in the North Central Texas region, but past during the past year, population growth slowed to just over 6%. The City's estimated population as of December 31, 2007, was approximately 8,116 persons. Recent population trends are summarized below.

	April, 2000	2001*	2002*	2003*	2004*	2005*	2006*	2007*
Population	1,225	1,550	2,232	3,317	4,945	6,538	7,635	8,116
% Increase		26.5%	44%	48.6%	49%	32.2%	16.7%	6.3%

**Estimated*

Population growth is expected to continue between 3 and 5 percent for 2008 and probably 2009. While several of the older and smaller subdivisions have been largely built out, other subdivisions like West Crossing, Pecan Grove, Westfield, and Oak Hollow still have modest lot inventories. Sweetwater Crossing and Northpointe Crossing are new subdivisions that should be open in 2008 although a few building permits were authorized in 2007.

An anticipated increase in commercial development occurred during FY 2007 when several projects were constructed including the following:

Willow Creek Plaza	10,000 s.f. strip center on W. White, just east of Slater Creek.
Anna Corners	Two buildings, total 20,000 s.f. of retail space just south of intersection of W. White Street and Central Expressway on west side of Central.
AutoZone	5,000 s.f. retail store on south side of W. White, adjacent to Anna Center.

Construction continues at the Anna Center development at the corner of W. White Street and Ferguson Parkway. The Brookshire's grocery store is expected to open in early summer of 2008. It is anticipated that one and possibly two restaurants will be constructed on this property during the coming year. Discussions have occurred regarding a bank and medical facilities possibly locating in this development. Those developments are probably two years or more out.

A permit was recently approved for the construction of a 9,000 square foot retail/office strip on Hwy. 5 near the entrance to Tara Farms.

Discussions are underway regarding the development of a significant retail center at the northeast corner of W. White Street and Central Expressway. Development of this corner is probably at least two years out.

Residential development has increased the ad valorem (property) tax base of the city although the rate of increase slowed significantly in 2007. The following data summarize ad valorem tax revenues for recent years.

	<u>Ad Valorem Tax Revenue</u>
FY 2001	\$150,809
FY 2002	\$192,383
FY 2003	\$288,103
FY 2004	\$407,430
FY 2005	\$693,504
FY 2006	\$1,148,140
FY 2007	\$1,541,817

The City Council approved a \$0.575 property tax rate (per \$100 of valuation) effective January 1, 2007, an increase of \$0.05 over the prior year.

The sales tax revenue of the City increased by 34% in FY 2007 which continues a positive trend we have seen over the past several years. Historically, the major sales tax generators have been the truck stops on Central Expressway at W. White Street. In recent years those revenues have been supplemented by new food service establishments, retail stores, and three alcoholic beverage sales outlets that started operations during FY 2006. In addition, the population of the community has continued to increase generating greater revenues for existing businesses. The following chart summarizes recent sales tax revenue patterns:

<u>Fiscal Year</u>	<u>1% Sales Tax Revenue</u>	<u>% Annual Increase</u>
FY 2001	\$48,436.76	25.1%
FY 2002	\$81,547.87	39.6%
FY 2003	\$82,815.97	1.6%
FY 2004	\$115,843.59	39.9%
FY 2005	\$155,399.71	34.1%
FY 2006	\$225,886.41	45.4%
FY 2007	\$302,688.25	34.0%

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

Based on recent calculations and projections, the City expects around a 15% increase in sales tax revenue for FY 2008. The opening of the new Brookshire's grocery store in the summer of 2008 will have some impact on revenue this year, but the impact will likely be more noticeable in FY 2009.

In recent years, building permits and other development permit/application fees have been a critical revenue source for the City. Permit revenues accounted for just over \$500,000 in income in FY 2003, approximately \$800,000 in FY 2004 and 2005, and over 700,000 in FY 2006. This revenue source decreased dramatically in FY 2007 to just over \$310,000.

All of these factors were considered in preparing the City's budget for the 2008 fiscal year. The operating budget for FY 2008 that was developed by City management and approved by the City's elected officials focused on using the City's available financial resources and not reducing reserves. While the FY 2008 budget is less dependent on permit fees, it is still important for City management and council to monitor revenue and spending patterns closely and pay particular attention to residential housing permit patterns over the course of the fiscal year. As we develop budgets for future years, it is important that we further decrease our dependence on permit revenue to pay for operating expenses.

For the year ended September 30, 2007, the ending fund balance in the general fund is \$1,975,290. This is a slight increase of \$1,358 from the FY 2006. The slight increase in the fund balance is due to the City's effort to keep expenditures down at a level that is consistent with the dramatic decrease in revenue during FY 07, particularly in development revenue.

The general fund expense budget for 2008 is \$2,683,272 which is a decrease of \$273,358 from the 2007 general fund budget. Even with the decrease, the budget includes an increase in local law enforcement capability by increasing the current police officer contingent from six to eight officers, and the addition of a full-time professional planner. This reflects a continued commitment by the City Council to improve the level of City services within a fiscally responsible budget.

Ambulance Service and Fire Protection are provided on a contractual basis with independent entities. The City currently pays approximately \$45,000 for ambulance service. However, the City has been advised that the cost for next year's ambulance contract may double when the County contract is renegotiated later this year. The City paid \$246,736 in FY 2007 to Anna Fire and Rescue, Inc. for fire prevention and protection services.

Significant capital improvements were made during the past fiscal year and even more are anticipated during the 2008 fiscal year. The City recently awarded a contract to construct Phase I of Slayter Creek Park. Improvements are also planned for Natural Springs Park later this year. A major trunk line on Slater Creek south of White Street will expand the capacity of our existing wastewater collection system and will reduce some of the problems we have had with inflow and infiltration. The City is participating in the construction of a major wastewater trunk line in the City of Melissa. Melissa and Anna will share the capacity of this new line. New water lines are being constructed along CR369/371 and along the future West Crossing Blvd. which will

loop portions of our system increasing the pressure and reliability of parts of our water system. A water trunk line along the DART rail line will connect the new Collin Grayson Municipal Alliance (CGMA) water line with the City's existing distribution system. This will supplement our existing ground water supply with surface water. The line will be accompanied by a new ground storage tank and pump station. White Street (FM 455) at the intersection of Ferguson Parkway is being widened to create right and left turn lanes in front of the Brookshire's development. Interurban Street south of FM 455 along with a portion of Eighth Street will be reconstructed.

The City has undertaken several significant improvements to its water and wastewater system. In order to fund the anticipated debt service payments, the Council recently raised the water and sewer rates by \$4 per month. Revenue from water and sewer impact fees has also been used to pay the debt on these projects. Impact fee revenues have decreased significantly during the past two years. If impact fee revenues continue to decline, the City may need to increase utility rates in the future to cover its debt obligations. City management must closely monitor this during the coming months and years to determine what further action may be necessary.

The new CGMA water line, which will provide surface water to the City of Anna and the joint Anna/Melissa sewer line being constructed along Throckmorton Creek in Melissa, will provide the City with additional water and sewer capacity. When the participating cities begin using the capacity of these lines, the City of Anna will need to begin paying a minimum take-or-pay amount to the water and wastewater providers from whom we are purchasing the service. Depending on the total number of utility customers, these take-or-pay obligations have the potential to affect the utility rates we charge our customers. It would be advisable for the City to conduct a detailed rate analysis which would help the Council understand where utility rates should be set.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, at 101 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

CITY OF ANNA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Units	
	Governmental	Business-type	Total	Economic	Community
	Activities	Activities		Develop	Develop
			Corporation	Corporation	
ASSETS					
Cash and cash equivalents (note B)	\$ 2,778,055	\$ 1,126,967	\$ 3,905,022	\$ 162,568	\$ 532,133
Receivables (net) (note D):					
Receivables - water/sewer/sanitation	-	196,787	196,787	-	-
Receivables - property taxes	47,257	-	47,257	-	-
Receivables - other	193,947	-	193,947	27,987	27,987
Internal balances (note K)	200,933	(200,933)	-	-	-
Due from component units (note K)	100,000	-	100,000	-	-
Prepaid bond issue costs	75,152	344,346	419,498	-	-
Restricted assets (note J):					
Deposits held by GTUA	-	3,500,026	3,500,026	-	-
Cash - capital improvements - parks	346,316	-	346,316	-	-
Cash - capital improvements - fire	55,794	-	55,794	-	-
Cash - capital improvements - builders	-	1,300,312	1,300,312	-	-
Capital assets not being depreciated (note E & F):					
Land	845,318	143,883	989,201	459,176	-
Construction in progress	851,463	4,595,259	5,446,722	-	-
Capital assets - net of depreciated (note E & F):					
Park improvements	131,160	-	131,160	-	-
Buildings, machinery, and equipment	452,017	156,237	608,254	-	1,022
Streets and other infrastructure	10,887,892	-	10,887,892	-	-
Water and sewer systems	-	17,170,604	17,170,604	-	-
Total assets	<u>16,965,304</u>	<u>28,333,488</u>	<u>45,298,792</u>	<u>649,731</u>	<u>561,142</u>
LIABILITIES					
Accounts payable	80,070	131,403	211,473	-	-
Interest payable	22,381	173,582	195,963	-	-
Customer meter deposits	-	418,960	418,960	-	-
Due to primary government (note K)	-	-	-	50,000	50,000
NON-CURRENT LIABILITIES (note G, H, & I):					
Due within one year	246,392	350,314	596,706	7,148	-
Due in more than one year	4,253,411	12,970,863	17,224,274	385,216	-
Total liabilities	<u>4,602,254</u>	<u>14,045,122</u>	<u>18,647,376</u>	<u>442,364</u>	<u>50,000</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,668,047	8,753,370	17,421,417	66,812	1,022
Restricted for (note J):					
Capital Improvements - parks	346,316	-	346,316	-	-
Capital Improvements - fire	55,794	-	55,794	-	-
Capital Improvements - builders	-	1,300,312	1,300,312	-	-
GTUA deposits	-	3,500,026	3,500,026	-	-
Reserved for future buildings	37,122	-	37,122	-	-
Unrestricted and unreserved	3,255,771	734,658	3,990,429	140,555	510,120
Total net assets	<u>\$ 12,363,050</u>	<u>\$ 14,288,366</u>	<u>\$ 26,651,416</u>	<u>\$ 207,367</u>	<u>\$ 511,142</u>

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

CITY OF ANNA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Economic Develop Corp.	Community Develop Corp.
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
Inspections	\$ 809,264	\$ 349,107	\$ 174,709	\$ -	\$ (285,448)	\$ -	\$ -	\$ (285,448)
Highways and streets	741,121	-	951,947	951,947	210,826	-	-	210,826
General government	705,849	-	-	-	(705,849)	-	-	(705,849)
Police	618,348	-	-	-	(618,348)	-	-	(618,348)
Fire	288,146	-	-	-	(288,146)	-	-	(288,146)
Court	69,624	36,461	-	-	(33,163)	-	-	(33,163)
Ambulance	40,747	-	-	-	(40,747)	-	-	(40,747)
City Parks	23,648	-	-	-	(23,648)	-	-	(23,648)
Interest on long-term debt	172,343	-	-	-	(172,343)	-	-	(172,343)
	<u>3,469,090</u>	<u>385,568</u>	<u>174,709</u>	<u>951,947</u>	<u>(1,956,866)</u>	-	-	<u>(1,956,866)</u>
Business-type activities:								
Water & Sewer - operating	3,019,600	2,476,783	-	402,480	-	(140,337)	-	(140,337)
Total business-type activities	<u>3,019,600</u>	<u>2,476,783</u>	-	<u>402,480</u>	-	<u>(140,337)</u>	-	<u>(140,337)</u>
	<u>6,488,690</u>	<u>\$ 2,862,351</u>	<u>\$ 174,709</u>	<u>\$ 1,354,427</u>	<u>(1,956,866)</u>	<u>(140,337)</u>	-	<u>(2,097,203)</u>
Component units:								
Economic Development Corp.	\$ 82,878	\$ -	\$ 832	\$ -	-	-	(82,046)	(50,186)
Community Development Corp.	50,186	-	-	-	-	-	-	(50,186)
Total component units	<u>\$ 133,064</u>	<u>\$ -</u>	<u>\$ 832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(82,046)</u>	<u>(50,186)</u>
General revenues:								
Property taxes		1,537,396						1,537,396
Sales taxes		302,688						302,688
Franchise taxes		286,231						286,231
Investment interest		206,707			150,160			356,867
Miscellaneous		109,429			25,971			135,400
Developer fees		78,850			381,520			460,370
Gain on sale of capital assets		-			-			-
Transfers		-			-			-
Total general revenues and transfers		<u>2,521,301</u>			<u>557,651</u>			<u>3,078,952</u>
Change in net assets		564,435			417,314			981,749
Net assets - beginning		11,735,652			13,871,052			25,606,704
Prior period adjustment (note M)		62,963			-			62,963
Net assets - ending		<u>\$ 12,363,050</u>			<u>\$ 14,288,366</u>			<u>\$ 26,651,416</u>

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

CITY OF ANNA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
ASSETS				
Current assets:				
Cash (note B)	\$ 1,148,160	\$ 1,626,104	\$ 3,791	\$ 2,778,055
Accounts receivable (net) (note D):				
Franchise taxes and other	133,160	-	-	133,160
Sales taxes	55,976	-	-	55,976
Property taxes	47,257	-	-	47,257
Court fines	4,811	-	-	4,811
Due from water fund (note K)	200,933	-	-	200,933
Due from component units (note K)	100,000	-	-	100,000
Total current assets	<u>1,690,297</u>	<u>1,626,104</u>	<u>3,791</u>	<u>3,320,192</u>
Restricted assets (note J):				
Cash for park improvements	346,316	-	-	346,316
Cash for fire dept. improvements	55,794	-	-	55,794
Total restricted assets	<u>402,110</u>	<u>-</u>	<u>-</u>	<u>402,110</u>
 Total assets	 <u>2,092,407</u>	 <u>1,626,104</u>	 <u>3,791</u>	 <u>3,722,302</u>
LIABILITIES				
Current liabilities:				
Accounts payable	80,070	-	-	80,070
Deferred tax and court revenue	37,047	-	-	37,047
Total current liabilities	<u>117,117</u>	<u>-</u>	<u>-</u>	<u>117,117</u>
FUND BALANCES				
Restricted (note J):				
Park improvements	346,316	-	-	346,316
Fire department improvements	55,794	-	-	55,794
Reserved - building improvements	37,122	-	-	37,122
Unrestricted and unreserved	1,536,058	1,626,104	3,791	3,165,953
Total fund balances	<u>1,975,290</u>	<u>1,626,104</u>	<u>3,791</u>	<u>3,605,185</u>
 Total liabilities and fund balances	 <u>\$ 2,092,407</u>	 <u>\$ 1,626,104</u>	 <u>\$ 3,791</u>	 <u>\$ 3,722,302</u>

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

CITY OF ANNA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Fund balances of governmental funds	\$ 3,605,185
 <u>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,167,850
Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(22,381)
Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.	75,152
Long-term liabilities , including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,499,803)
Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statemnts, but the amount should not be shown as a liability on the statement of net assets.	<u>37,047</u>
 Net assets of governmental activities	 <u><u>\$ 12,363,050</u></u>

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

CITY OF ANNA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
REVENUES				
Property tax	\$ 1,291,958	\$ -	\$ 249,859	\$ 1,541,817
Building permits	310,485	-	-	310,485
Sales tax	302,688	-	-	302,688
Franchise tax	286,231	-	-	286,231
Interest revenue	109,476	94,744	2,487	206,707
Local contributions	174,709	-	-	174,709
Other revenue	86,232	2,820	-	89,052
Capital imp.'s and expansion fees	78,850	-	-	78,850
Grants	-	72,000	-	72,000
Inspection fees	38,622	-	-	38,622
Court fines	35,464	-	-	35,464
Penalties and interest	20,377	-	-	20,377
Total revenues	<u>2,735,092</u>	<u>169,564</u>	<u>252,346</u>	<u>3,157,002</u>
EXPENDITURES				
Operating:				
Inspection department	798,343	-	-	798,343
Administrative & general	688,401	-	400	688,801
Police	581,664	-	-	581,664
Fire protection and prevention	246,736	-	-	246,736
Streets	113,884	-	-	113,884
Courts	69,624	-	-	69,624
Ambulance	40,747	-	-	40,747
Parks	19,632	-	-	19,632
Capital outlay:	152,643	1,997,276	-	2,149,919
Debt service:				
Interest expense	14,021	-	221,551	235,572
Principal retirement	59,502	-	50,000	109,502
Total expenditures	<u>2,785,197</u>	<u>1,997,276</u>	<u>271,951</u>	<u>5,054,424</u>
Excess of revenues over (under) expenditures	<u>(50,105)</u>	<u>(1,827,712)</u>	<u>(19,605)</u>	<u>(1,897,422)</u>
OTHER FINANCING SOURCES (USES)				
Note proceeds	-	1,392,296	-	1,392,296
Transfers in (out)	(11,500)	-	11,500	-
Total other financing sources(uses)	<u>(11,500)</u>	<u>1,392,296</u>	<u>11,500</u>	<u>1,392,296</u>
Net changes in fund balances	(61,605)	(435,416)	(8,105)	(505,126)
Fund balances - beginning	1,973,932	2,061,520	11,896	4,047,348
Prior period adjustment (note M)	62,963	-	-	62,963
Fund balances - ending	<u>\$ 1,975,290</u>	<u>\$ 1,626,104</u>	<u>\$ 3,791</u>	<u>\$ 3,605,185</u>

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

CITY OF ANNA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances -- total governmental funds **\$ (505,126)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. The individual amounts are as follows:

Capital related items	2,149,919
Depreciation	(733,575)
Amortization	(4,056)
	1,412,288

Capital contributions are a source of current financial resources and, therefore, are not reported as income in the governmental funds.

879,947

Accrued interest does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

63,229

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

Debt issuance	(1,392,296)
Accrued compensated absences	315
Principal payments	109,502
	(1,282,479)

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

Net amounts earned in prior years	(4,421)
Net amounts earned in current year	997
	(3,424)

Change in net assets of governmental activities

\$ 564,435

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

CITY OF ANNA
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER FUND
SEPTEMBER 30, 2007

ASSETS	<u>2007</u>
Current assets:	
Cash	\$ 1,126,967
Accounts receivable (net of allowances):	
Water/Sewer/Sanitation	196,787
Prepaid bond issue costs	344,346
Total current assets	<u>1,668,100</u>
Restricted assets:	
Cash restricted for capital improvements	1,300,312
Deposits held by GTUA - other deposits	3,112,802
Deposits held by GTUA - reserve	387,224
Total restricted assets	<u>4,800,338</u>
Capital assets (net of depreciation):	
Land	143,883
Buildings, machinery, and equipment	156,237
Water and sewer system	17,170,604
Construction in progress	4,595,259
Total capital assets	<u>22,065,983</u>
Total assets	<u><u>\$ 28,534,421</u></u>
 LIABILITIES	
Current liabilities:	
Accounts payable	\$ 131,403
Bond interest payable	173,582
Due to General Fund	200,933
Customer deposits	418,960
Compensated absences	8,564
Current portion of long-term bonds & contractual obligation	341,750
Total current liabilities	<u>1,275,192</u>
Non-current liabilities:	
Bonds payable and contractual obligations	12,970,863
Total non-current liabilities	<u>12,970,863</u>
Total liabilities	<u>14,246,055</u>
 NET ASSETS	
Investment in capital assets, net of related debt	8,753,370
Restricted - GTUA deposits	3,500,026
Restricted - water & sewer improvements	1,300,312
Unrestricted	734,658
Total net assets	<u><u>\$ 14,288,366</u></u>

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

CITY OF ANNA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUND (WATER FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	2007
Operating revenues:	
Water income	\$ 1,200,218
Sewer income	772,298
Developer fees for capital improvements	381,520
Sanitation income	368,360
Meter connect and install fees	69,650
Water customer late fees	62,757
Miscellaneous revenue	25,971
Water and sewer tap fees	3,500
Total operating revenues	2,884,274
Operating expenses:	
Employees and related benefits costs	596,154
Depreciation expense	496,795
Water system supplies, repair, and maintenance	368,550
Utilities and telephone	388,073
Sanitation contract	316,701
Sewer system supplies, repair, and maintenance	117,283
Other contract services	95,683
Administrative	70,818
Legal	16,744
Bad debt	7,636
Total operating expenses	2,474,437
Operating income (loss)	409,837
Non-operating revenues (expenses):	
Interest income	150,160
Interest expense	(527,047)
Bond amortization	(18,116)
Total non-operating income (loss)	(395,003)
Income (loss) before transfers and capital contributions	14,834
Contributed capital - subdivision builders	402,480
Changes in net assets	417,314
Net assets - beginning	13,871,052
Net assets - ending	\$ 14,288,366

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

CITY OF ANNA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (WATER FUND)
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	2007
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 2,885,324
Payments to suppliers	(1,536,259)
Payments to employees	(602,215)
Net cash provided (used) by operating activities	746,850
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from capital debt	6,303,750
Cash from restricted capital improvements account	273,149
Cash paid for acquisition and construction of capital assets	(6,499,927)
Cash to GTUA restricted accounts	(794,223)
Interest paid on capital debt	(462,912)
Principal payments on capital debt	(277,887)
Net cash provided (used) by capital and related financing activities	(1,458,050)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	150,160
Net cash provided (used) by investing activities	150,160
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(561,040)
CASH AND CASH EQUIVALENTS, OCTOBER 1	1,688,007
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	\$ 1,126,967
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 409,837
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	496,795
Decrease (increase) in accounts receivable	1,050
Decrease (increase) in prepaid items	(130,921)
Increase (decrease) in accounts payable	(66,854)
Increase (decrease) in compensated absences	(6,061)
Increase (decrease) in customer deposits	44,001
Increase (decrease) in due to other funds	(997)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 746,850
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Capital contributions from homebuilders	\$ 402,480

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

CITY OF ANNA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 31, 2007

NOTE A - SUMMARY OF ACCOUNTING POLICIES

On May 7, 2005, the City of Anna, Texas (the "City") adopted a Home Rule Charter 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 Anna under the Development Corporation Act of 1979, section 4B and 4A, respectively.

Previously the Anna Volunteer Fire Department was presented as a component unit of the city. On April 7, 2007, the fire department filed for Articles of Incorporation, operating under a charter as a non profit corporation, and changed its name to Anna Fire and Rescue, Inc. ("AFR"). The purpose of AFR is to provide full time and volunteer services of a charitable nature in the form of firefighting services and fire prevention services and to provide education to the general public regarding fire prevention for the City of Anna and Collin County. AFR received a tax exempt determination status from the IRS under section 501 (c) (3) of the tax code on September 19, 2007. Based on the criterion stated above, Anna Fire and Rescue, Inc. will not be presented as a component unit of the city at September 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

6. Property, Plant and Equipment

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. Public domain (infrastructure) general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and similar assets that are immovable and of value only to the City have been capitalized beginning October 1, 2003.

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:

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

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".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, 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, 2007, 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.

Reconciliation of balance sheet cash:

Primary government cash on balance sheet	\$3,905,022
Restricted cash on balance sheet	5,202,448
(Less) petty cash on balance sheet	<u>(1,300)</u>
Deposits with financial institutions:	<u>\$9,106,170</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 2006 tax year is \$1,518,744. At September 30, 2007, \$1,505,878 of the tax has been collected, which is 99.15%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D - PROPERTY TAXES RECEIVABLE

Delinquent property taxes at September 30, 2007, are as follows:

<u>Tax Year</u>	<u>Amount</u>
2005 & prior	\$24,353
2006	<u>30,518</u>
Subtotal	54,871
Less allowance for doubtful accounts	<u>(7,614)</u>
Total	<u>\$47,257</u>

NOTE E – CAPITAL ASSETS OF GOVERNMENTAL TYPE ACTIVITIES

The following is a summary of changes in the capital assets for the governmental type activities as of Sept. 30, 2007:

	<u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Sept. 30, 2007</u>
<u>Non-depreciable assets:</u>				
Land	\$836,318	\$9,000	--	\$845,318
Construction in progress	393,930	669,723	(\$212,190)	851,463
<u>Depreciable assets:</u>				
Park improvements	53,656	87,386	--	141,042
Buildings	148,761	--	--	148,761
Furniture & fixtures	43,057	26,841	--	69,898
Streets and drainage	9,830,722	2,376,407	--	12,207,129
Machinery & equipment	651,806	72,679	--	724,485
Accum. depreciation	<u>(1,086,671)</u>	<u>(733,575)</u>	<u>--</u>	<u>(1,820,246)</u>
	<u>\$10,871,579</u>	<u>\$2,508,461</u>	<u>(\$212,190)</u>	<u>\$13,167,850</u>

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

General Government	\$ 17,363
Police	36,684
Inspections	10,921
Fire	41,410
Streets	623,181
Parks	<u>4,016</u>
Total:	<u>\$733,575</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE F - PROPRIETARY FUNDS PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of changes in the property, plant and equipment of the Water Fund for the year ended September 30, 2007:

	Oct. 1, 2006	Additions	Deductions	Sept. 30, 2007
<u>Non-depreciable assets:</u>				
Land	\$ 143,883	\$ -	\$ -	\$ 143,883
Construction in progress	1,060,497	3,957,108	(422,346)	\$ 4,595,259
<u>Depreciable assets:</u>				
Furniture	5,620	-	-	5,620
Buildings & improvements	28,550	14,347	-	42,897
Equipment	226,741	46,553	-	273,294
Water treatment system	5,786,292	208,373	-	5,994,665
Water and sewer system	10,647,964	3,098,374	-	13,746,338
Accumulated depreciated	(2,239,178)	(496,795)	-	(2,735,973)
	<u>\$ 15,660,369</u>	<u>\$ 6,827,960</u>	<u>\$ (422,346)</u>	<u>\$ 22,065,983</u>

NOTE G - CHANGES IN LONG-TERM DEBT

Long-Term Debt for Enterprise Activities:

The following is a summary of the long-term debt activity of the Water Fund for the year ended September 30, 2007:

	Oct. 1 2006	Additions	Deductions	Sept. 30 2007	Due Within One Year
General Water					
Revenue Bonds	\$36,000	--	(\$4,000)	\$32,000	\$4,000
General Obligation					
Enterprise bonds	44,500	--	(3,500)	41,000	4,000
Contractual					
Obligations	<u>7,206,250</u>	<u>6,303,750</u>	<u>(270,387)</u>	<u>13,239,613</u>	<u>333,750</u>
	7,286,750	6,303,750	(277,887)	13,312,613	341,750
Compensated					
Absences	<u>14,625</u>	<u>--</u>	<u>(6,061)</u>	<u>8,564</u>	<u>8,564</u>
	<u>\$7,301,375</u>	<u>\$6,303,750</u>	<u>(\$283,948)</u>	<u>\$13,321,177</u>	<u>\$350,314</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Debt for Governmental Activities

The following is a summary of the long-term debt transactions of governmental type activities for the year ended September 30, 2007:

	Oct. 1 <u>2006</u>	<u>Additions</u>	<u>Deductions</u>	Sept. 30 <u>2007</u>	Due Within <u>One Year</u>
Limited Tax Note	\$405,000	--	(\$405,000)	\$ --	\$ --
Tax & Limited Surplus Revenue C/O	2,480,000	--	--	2,480,000	100,000
General Obligation Refunding & Tax C/O	--	1,790,000	--	1,790,000	85,000
Truck Note	<u>128,007</u>	<u>--</u>	<u>(18,460)</u>	<u>109,547</u>	<u>19,508</u>
	3,013,007	1,790,000	(423,460)	4,379,547	204,508
Uncompensated Absences	25,085	--	(315)	24,770	24,770
Capital Leases	<u>136,547</u>	<u>--</u>	<u>(41,061)</u>	<u>95,486</u>	<u>17,114</u>
	<u>\$3,174,639</u>	<u>\$1,790,000</u>	<u>(\$464,836)</u>	<u>\$4,499,803</u>	<u>\$246,392</u>

NOTE H - LONG-TERM COMMITMENTS OF THE CITY

WATER FUND COMMITMENTS

The City has two long-term contractual obligations with Capmark Financial. The current principal obligations of these two 1976 Series revenue bonds are \$73,000, with an interest rate of 5%. Principal payments are due annually on May 1st and January 1st. Interest payments are due semi-annually on January 1st and July 1st and also on March 1st and September 1st. The City's obligation to Capmark Financial under the 1976 bonds expires with the retirement of the bonds in the fiscal year ending September 30, 2016.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The current principal obligation of the 1997 GTUA contract is \$165,000, with interest rates varying between 3.35% and 5.5%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 1997 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2018.

The current principal obligation of the 2000 GTUA contract is \$565,000, with interest rates varying between 4.5% and 8.2%. Principal payments are due annually on November 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 2000 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2021.

The current principal obligation of the 2004 GTUA contract revenue bonds is \$920,000, with interest rates varying between 2.5% and 6.0%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The City's obligation to GTUA under the 2004 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2019.

The Series 2005 GTUA refunding contractual obligation in the amount \$2,885,000 was issued for the purpose of refunding two older GTUA bond issues and to take advantage of low fixed interest rates. The bonds have a fixed interest rate of 4.42%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The current principal obligation of the 2005 GTUA refunding contract revenue bonds is \$2,685,000. The City's obligation to GTUA under the long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2028.

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

On November 1, 2006, Series 2006 GTUA contract revenue bonds were issued in the amount of \$2,125,000 for the purpose of financing a joint city water line project with the City of Melissa. The bonds have a interest rates varying between 2.95% and 3.75%. Principal payments are due annually on June 1st. Interest payments are due semi-annually on June 1st and December 1st. The current principal obligation of the 2006 GTUA contract revenue bonds is \$2,050,000. The City's obligation to GTUA under the long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2026.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On April 10, 2007, Series 2007 GTUA contract revenue bonds were issued in the amount of \$760,000 for the purpose of financing water system improvements. The bonds have a interest rates varying between 3.07% and 5.57%. Principal payments are due annually on May 1st. Interest payments are due semi-annually on May 1st and November 1st. The current principal obligation of the 2007 GTUA contract revenue bonds is \$760,000. The City's obligation to GTUA under the long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2027.

Collin Grayson Municipal Alliance Transmission Water Pipeline

On December 13, 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.

The original principal obligation for Phase I of the pipeline project was \$2,800,000 of which twenty-five percent (25%) or \$700,000 pertained to the City. The Phase I contract has interest rates varying between 2.29% and 5.74%. As of September 30, 2007, the City's obligation under this contract was \$655,000. The City's obligation to GTUA under the Phase I contract expires with the retirement of the obligation in the fiscal year ending September 30, 2028.

The original principal obligation for Phase II of the pipeline project was issued during the current year in the amount of \$8,675,000, of which twenty-five percent (25%) or \$2,168,750 pertained to the City. The Phase II contract has interest rates varying between 5.68% and 5.83 %. Payments for this contract have been deferred until the fiscal year 2009. At September 30, 2007, the City's obligation under this contract was \$2,168,750. The City's obligation to GTUA under the Phase II contract expires with the retirement of the obligation in the fiscal year ending September 30, 2040.

The original principal obligation for Phase III of the pipeline project was issued during the current year in the amount of \$5,000,000, of which twenty-five percent (25%) or \$1,250,000 pertained to the City. The Phase III contract has interest rates varying between 2.67% and 5.62 %. At September 30, 2007, the City's obligation under this contract was \$1,235,863. The City's obligation to GTUA under the Phase III contract expires with the retirement of GTUA obligation in the fiscal year ending September 30, 2036.

Phase IV of the pipeline project will occur in fiscal year 2008. The original principal obligation is expected to be \$1,500,000, of which twenty-five percent (25%) or \$375,000 will pertain to the City.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Each CMGA city is 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 is complete and the water is pumping for three months. GTUA expects to begin pumping water to the CMGA cities in the summer of 2008. From the time water has been delivered to each CMGA city through the pipeline for three months and forward and while water continues to flow to each CGMA city, upon a monthly basis, 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. Presently it appears that the undivided interest will be approximately 25% of the waterline. 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.

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$341,750	\$533,570	\$875,320
2009	371,750	535,508	907,258
2010	392,250	518,944	911,194
2011	427,750	507,817	935,567
2012	468,250	506,817	974,878
Thereafter	<u>11,310,863</u>	<u>7,389,039</u>	<u>18,699,902</u>
	<u>\$13,312,613</u>	<u>\$9,991,506</u>	<u>\$23,304,119</u>

GOVERNMENTAL TYPE ACTIVITIES COMMITMENTS

The City has a note payable to Independent Bank that financed the purchase of a fire truck. The principal obligation of the note is \$109,547 at September 30, 2007. The note has a fixed interest rate of 5.625%. Payments are made monthly and the last payments are due in fiscal year 2012.

During the fiscal year ended September 30, 2006, the City issued a \$2,480,000 Combination Tax and Limited Surplus Revenue certificates of obligation with Regions Bank to finance improvements to streets, parks, city hall, and other. The principal obligation of the note is \$2,480,000 at September 30, 2007. The certificates have variable interest rates ranging from 3.5% to 5.25%. Principal payments are due annually on February 15th. Interest payments are due semi-annually on February 15th and August 15th. The last payments are due in fiscal year 2026.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

During the fiscal year ended September 30, 2006, the City obtained a \$405,000 Limited Tax note payable with Bank of America to finance the purchase of park land. However, during fiscal year 2007 the note payable, which had a remaining balance of \$355,000, was defeased with funds from the issuance of the General Obligation Refunding bond noted below.

On February 15, 2007, the City issued combined general obligation refunding bonds and new certificate of obligations in the amount \$1,790,000 with the Bank of America. This issue included a \$370,000 General Obligation Refunding bond issued for the purpose of retiring the note payable noted above and a \$1,420,000 certificate of obligation issued to fund various street projects. The principal obligation of the bond is \$1,790,000 at September 30, 2007. The certificates have variable interest rates ranging from 3.95% to 15%. Principal payments are due annually on February 15th. Interest payments are due semi-annually on February 15th and August 15th. The last payments are due in fiscal year 2027.

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$204,508	\$180,486	\$384,994
2009	210,651	171,581	382,232
2010	216,843	163,235	380,078
2011	218,103	154,722	372,825
2012	229,442	145,952	375,394
Thereafter	<u>3,300,000</u>	<u>1,721,161</u>	<u>5,021,161</u>
	<u>\$4,379,547</u>	<u>\$2,537,137</u>	<u>\$6,916,684</u>

NOTE I – CAPITAL LEASES FOR GOVERNMENTAL ACTIVITIES

In fiscal year 2003, the City entered into a capital lease agreement with Citizen’s National Bank for the purchase of a fire truck. The following is a schedule of the future minimum lease payments:

<u>Year Ended</u> <u>September 30,</u>	<u>Capital Lease</u> <u>Payments</u>
2008	\$22,352
2009	22,352
2010	22,352
2011	22,352
2012	<u>22,352</u>
Total	111,760
Less: Interest portion (5.3%)	<u>(16,274)</u>
Present value of future minimum lease payments	<u>\$95,486</u>
Cost of Equipment	\$169,230

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE J – RESTRICTED AND RESERVED ASSETS

The General Fund has restricted cash in the amount of \$346,316 for improvements of City parks, and \$55,794 for fire department improvements. The City has \$37,122 reserved for future improvements to city buildings.

The Water Fund has restricted cash held by GTUA in the amount of \$3,500,026 that will be used for water and sewer system capital improvements and repayment of contractual obligations. Also, the water fund has net assets in the amount of \$1,300,312 restricted for developer fees paid by homebuilders that will be used for water and sewer system capital improvements and debt service related to such improvements.

NOTE K – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At September 30, 2007, the water fund owed the general fund \$200,933 for debt service payments the general fund paid on behalf of the water fund. A transfer from the general fund to the debt service fund in the amount of \$11,500 was made to move tax revenues received in the general fund, which has collection authorization, to the debt service fund for principle and interest payments.

At September 30, 2007, the EDC and CDC owed the City \$50,000 each for expenses relating to the construction of a gas line in the city.

NOTE L - INSURANCE COVERAGE

Insurance bond ordinances state in part that "So long as any of the Bonds herein authorized are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of the Bonds of the kind and in the amounts which are usually carried by private companies operating similar properties, and that during such time all policies of insurance shall be maintained in force and kept current as to premium payments." Insurance in effect at September 30, 2007 as reflected by the policies on file, is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions.

NOTE M – PRIOR PERIOD ADJUSTMENTS

As the result of a change in the application of an accounting principle, a prior period adjustment to record prior year sales tax revenue received in the current year was recorded in the financial statements for the year ended September 30, 2007. The amount is \$62,963 in the General fund, \$15,741 for the EDC, and \$31,482 for the CDC.

CITY OF ANNA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Actual	Original Budget	Final Budget	Variance Favorable (Unfavorable)
REVENUES				
Property tax	\$ 1,291,958	\$ 1,323,730	1,323,730	\$ (31,772)
Building permits	310,485	753,500	753,500	(443,015)
Franchise tax	286,231	300,000	300,000	(13,769)
Sales tax	302,688	308,000	308,000	(5,312)
Local contributions	174,709	-	-	
Inspection fees	38,622	100,000	100,000	(61,378)
Park/Fire capital improvement fees	78,850	-	-	78,850
Interest revenue	109,476	70,600	70,600	38,876
Penalties and interest - property tax	20,377	-	-	20,377
Municipal court	35,464	61,800	61,800	(26,336)
Other revenue	86,232	39,000	39,000	47,232
Total revenues	2,735,092	2,956,630	2,956,630	(396,247)
EXPENDITURES				
Capital outlay	152,643	259,597	259,597	106,954
Inspections	798,343	819,321	819,321	20,978
Administrative and general	688,401	639,052	639,052	(49,349)
Police	581,664	621,906	621,906	40,242
Fire protection and prevention	246,736	226,822	226,822	(19,914)
Streets	113,884	255,000	255,000	141,116
Debt service	73,523	-	-	(73,523)
Municipal court	69,624	72,935	72,935	3,311
Ambulance	40,747	40,747	40,747	-
Parks	19,632	21,250	21,250	1,618
Total expenditures	2,785,197	2,956,630	2,956,630	171,433
Excess of Revenues over (under) expenditures	(50,105)	-	-	(224,814)
OTHER FINANCING SOURCES: Transfers	(11,500)	-	-	(11,500)
Net change in fund balances	(61,605)	-	-	(236,314)
Fund balances - beginning	1,973,932	1,973,932	1,973,932	-
Prior period adjustment (note M)	62,963	-	-	62,963
Fund balances - ending	<u>\$ 1,975,290</u>	<u>\$ 1,973,932</u>	<u>\$ 1,973,932</u>	<u>\$ (173,351)</u>

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

CITY OF ANNA
PENSION FUNDING DATA
AS OF DECEMBER 31, 2006

Pension Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 821 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P.O. Box 149153, Austin, Texas 78714-9153.

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

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

Contributions

The contribution rate for the employees is 7%, and the government matching ratio is currently 2 to 1, both as adopted by the governing body of the government. Under the state law governing TMRS, the actuary annually determines the government contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll on an open basis from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to

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

government matching percent, which are the obligation of the government 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 government to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the government periodically adopts updated service credits and increases its annuities in effect, the increased unfunded (overfunded) actuarial liability (asset) is to be amortized over a 25-year period. Currently, the unfunded actuarial liability is being amortized over the plan's 25-year period. The unit credit actuarial cost method is used for determining the government contribution rate. Both the employees and the government make contributions monthly. Since the government needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Annual Pension Cost

For the year ended September 30, 2007, the government's annual pension cost of \$35,995 for TMRS was equal to the government's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return, (b) no projected salary increases, and (c) no cost-of-living adjustments. An inflation rate of 3.5% was used in computing (a) and (b). The actuarial value of TMRS assets was determined using market values.

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/04	\$14,746	100%	\$0
09/30/05	\$26,569	100%	\$0
09/30/06	\$38,175	100%	\$0
09/30/07	\$35,995	100%	\$0

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

<u>Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Percentage Funded Ratio (a)/(b)</u>	<u>Percentage Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u>
12/31/03	\$23	\$30	\$7	76.9%	\$404	1.7%
12/31/04	\$59	\$65	\$6	90.2%	\$588	1.1%
12/31/05	\$121	\$126	\$5	95.8%	\$789	0.7%
12/31/06	\$214	\$384	\$170	55.7%	\$1,114	15.3%

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COMPLIANCE AND INTERNAL CONTROLS SECTION

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

To the City Council
City of Anna, Texas

We have audited the financial statements of the City of Anna, Texas, as of and for the year ended September 30, 2007, and have issued our report thereon dated April 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operations 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Anna's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Anna's financial statements that is more than inconsequential will not be prevented or detected by the City of Anna's internal controls.

There were numerous significant proposed audit adjustments to the financial records at fiscal year end 2007 necessary to properly record and classify transactions and the related accounts. We recommend the City engage an outside accountant to assist in the accounting process.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Anna's internal controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gregg & Company CPAs

Tom Bean, Texas
April 2, 2008