

FINANCIAL STATEMENTS

City of Anna, Texas

Year ended September 30, 2009

City of Anna, Texas
Financial Statements

Year ended September 30, 2009

Contents

FINANCIAL SECTION

Report of Independent Auditors 1-2

Required Supplementary Information:
Management’s Discussion and Analysis 3-10

Basic Financial Statements:
Basic Financial Statements:

Government-Wide Financial Statements:

 Statement of Net Assets 11-12

 Statement of Activities..... 13

Fund Financial Statements:

 Balance Sheet – Governmental Fund..... 14

 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 15

 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund 16

 Reconciliation of of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund to the
 Statement of Activities..... 17

 Statement of Net Assets – Proprietary Fund (Water Fund)18

 Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund (Water Fund).....19

 Statements of Cash Flows – Proprietary Fund (Water Fund) 20

Notes to Financial Statements 21-32

Required Supplementary Information:
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....33

Retirement System – Pension Funding Data 34-35

COMPLIANCE AND INTERNAL CONTROLS SECTION

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Governmental Auditing Standards 36-37



VAIL WARREN & KNAUTH, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX & ACCOUNTING SUPPORT SERVICES

Michael G. Vail, CPA
Chris E. Knauth, CPA
Charles T. Gregg, CPA
Charlie C. Park, CPA
Bruce E. Arnold, CPA

Members:
American Institute of CPAs
Texas Society of CPAs

Report of Independent Auditors

Honorable Mayor
and Members of the City Council
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the individual fund statements of the City of Anna, Texas as of and for the year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Anna. Our responsibility is to express an opinion on these financial statements based on our audit. The City of Anna's financial statements as of and for the year ended September 30, 2008 were audited by other auditors which issued an unqualified opinion dated January 23, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, at September 30, 2009, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the Water and Sewer Fund 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 12, 2010, on our consideration of the City of Anna, Texas' 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.

Management's discussion and analysis, budgetary comparison information, and retirement system – pension funding data 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on the supplementary information.

Vail Warren + Knauth, LLP

Dallas, Texas
April 12, 2010

City of Anna, Texas

Management's Discussion and Analysis

For the Year Ended September 30, 2009

As management of the City of Anna, Texas ("City of Anna") we offer readers of the City of Anna's financial statements this narrative overview and analysis of the financial activities of the City of Anna for the fiscal year ended September 30, 2009. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

The assets of the City of Anna exceeded its liabilities at the close of the most recent fiscal year by \$28,628,419. Of this amount, \$3,917,451, (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$1,151,969.

As of the close of the current fiscal year, the City of Anna's governmental funds reported combined ending fund balances of \$2,842,842, an increase of \$462,879 in comparison with the prior year. Most of the increase is due to bond proceeds of \$900,000 offset by revenues under expenditures during fiscal year 2009. Of the fund balance, \$2,684,038 is available for spending at the government's discretion (unreserved fund balance), and \$158,804 is reserved for construction, debt service, fire department and parks.

At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was \$2,684,842 or 90 percent of total general fund expenditures.

The City of Anna's long-term debt increased by \$896,446 during the fiscal year 2009.

The City of Anna's capital assets increased by \$6,412,202 during fiscal year 2009.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Anna's basic financial statements. The City of Anna's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Anna's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Anna's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Anna is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Anna that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Anna include general government, public safety, transportation, and recreation. The business-type activities of the City of Anna include the water and sewer system.

City of Anna, Texas

Management's Discussion and Analysis (continued)

The government-wide financial statements include not only the City of Anna itself (known as the primary government), but also legally separate economic and community development corporations. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Anna, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Anna can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Anna maintains three governmental type funds: general, capital projects and debt service. Information is presented separately for each fund in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for governmental funds.

The City of Anna adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary funds. The City of Anna maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Anna uses an enterprise fund to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations, which is considered to be a major fund of the City of Anna.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-32 of this report.

City of Anna, Texas

Management's Discussion and Analysis (continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Anna, assets exceed liabilities by \$28,268,419 at the close of the most recent fiscal year.

A portion of the City of Anna's net assets (86 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Anna uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Anna's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the city of Anna's net assets (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$3,917,451 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Anna is able to report positive balances in all three categories of net assets for the government as a whole.

CITY OF ANNA – Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 3,018,367	\$ 2,543,636	\$ 2,353,086	\$ 10,937,897	\$ 5,371,453	\$ 13,481,533
Capital assets	15,819,526	14,492,107	33,925,411	24,999,462	49,744,937	39,491,569
Total assets	18,837,893	17,035,743	36,278,497	35,937,359	55,116,390	52,973,102
Long-term liabilities	5,095,869	4,328,346	20,330,670	20,317,923	25,426,539	24,646,269
Other liabilities	178,183	107,840	1,243,249	1,102,543	1,421,432	1,210,383
Total liabilities	5,274,052	4,436,186	21,573,919	21,420,466	26,847,971	25,856,652
Net assets:						
Invested in capital assets, net of related debt	10,579,536	10,198,800	13,612,629	12,322,711	24,192,165	22,521,511
Restricted	158,803	604,448	-	-	158,803	604,448
Unrestricted	2,825,502	1,796,309	1,091,949	2,194,182	3,917,451	3,990,491
Total net assets	\$ 13,563,841	\$ 12,599,557	\$ 14,704,578	\$ 14,516,893	\$ 28,268,419	\$ 27,116,450

City of Anna, Texas

Management's Discussion and Analysis (continued)

CITY OF ANNA - Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 270,183	\$ 346,338	\$ 3,505,376	\$ 2,949,574	\$ 3,775,559	\$ 3,295,912
Operating grants and contributions	-	-	-	291,620	-	291,620
Capital grants and contributions	1,342,638	439,869	109,028	250,000	1,451,666	689,869
General revenues:						
Property taxes	2,247,895	2,076,426	-	-	2,247,895	2,076,426
Other taxes	699,684	576,047	-	-	699,684	576,047
Other	190,586	98,499	34,587	81,870	225,173	180,369
Total revenues	4,750,986	3,537,179	3,648,991	3,573,064	8,399,977	7,110,243
Expenses:						
General government	776,810	746,640	-	-	776,810	746,640
Public Safety	1,422,053	1,192,460	-	-	1,422,053	1,192,460
Development/Inspections	435,659	376,867	-	-	435,659	376,867
Streets	823,856	746,413	-	-	823,856	746,413
Parks	115,564	34,362	-	-	115,564	34,362
Interest on long-term debt	282,865	203,930	-	-	282,865	203,930
Water & Sewer	-	-	3,461,306	3,344,537	3,461,306	3,344,537
Total expenses	3,856,807	3,300,672	3,461,306	3,344,537	7,318,113	6,645,209
Increase(decrease) in net assets	894,179	236,507	187,685	228,527	1,081,864	465,034
Net assets - beginning	12,599,557	12,363,050	14,516,893	14,288,366	27,116,450	26,651,416
Prior period adjustment (Note 12)	70,105	-	-	-	70,105	-
Net assets - ending	\$ 13,563,841	\$ 12,599,557	\$ 14,704,578	\$ 14,516,893	\$ 28,268,419	\$ 27,116,450

The following key elements influenced the changes in net assets from the prior year:

Governmental Activities:

Property tax increased by \$171,469 (8.2 percent).

Business-Type Activities

Business-type activities increased the City of Anna's net assets by \$187,685.

Water and sewer revenues increased by \$555,802 (18.8 percent).

Water and sewer operating expenses increased by \$116,769 (3.5 percent).

Financial Analysis of the Government's Funds

As noted earlier, the City of Anna uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Anna's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Anna's

City of Anna, Texas

Management's Discussion and Analysis (continued)

financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year.

As the end of the current fiscal year, the City of Anna's governmental funds reported combined ending fund balance of \$2,842,842, an increase of \$462,879 from the prior year. Most of the increase is due to bond proceeds of \$900,000 offset by excess of revenues under expenditures of \$635,047. Of the current combined ending fund balance, \$2,684,038 is unreserved and not designated and \$158,804 is reserved for construction, debt service, fire department and parks.

The general fund is the chief operating fund of the City of Anna. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,859,827. Total unreserved general fund balance represents 62.2% of total general fund expenditures.

Proprietary funds. The City of Anna's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the Proprietary (Enterprise Funds) at the end of the year amounted to \$14,704,578. The total increase in net assets of the Enterprise Funds was \$187,685. The factors concerning the finances of this fund have already been addressed in the discussion of the City of Anna's business type activities.

General Fund Budgetary Highlights

During the year, revenues were less than budgetary estimates and expenditures exceeded budgetary estimates. The revised budget had called for a \$28,000 decrease in unreserved general fund balance. The change in unreserved general fund balance was actually an increase of \$94,944.

Capital Asset and Debt Administration

Capital assets. The City of Anna's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$45,903,771 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, and equipment.

Major capital asset events during the current fiscal year included the following:

- Park improvements of \$1,084,123.
- Land addition of \$378,358.
- Buildings addition of \$360,000.
- Business-type activity additions to construction in progress of \$5,024,534 offset by reductions in construction in progress of \$8,420,719 for a net decrease of \$3,396,185.
- Business-type activity additions to water and sewer system of \$8,194,592.
- Depreciation expense of \$613,814.

Additional information on the City of Anna's capital assets can be found in Note 6 on pages 27 of this report.

Long-term debt. At the end of the current fiscal year, the City of Anna had bonded debt outstanding of \$25,426,539. All of this amount comprises debt backed by the full faith and credit of the City.

The City of Anna's long-term debt increased by \$1,032,789 during the current fiscal year.

Additional information on the City of Anna's long-term debt can be found in Note 9 on pages 29-32 of this report.

City of Anna, Texas

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budgets and Rates

The development of the FY 2010 budget presented significant challenges. Over 60% of the City's General Fund operating revenue is derived from property taxes. In previous years, we have seen regular increases in the property values in the community. This year, despite the addition of over \$8.6 million in new construction, the total taxable value of property in the City decreased by 1.5%. The total taxable value of existing properties decreased by 3.77%.

In January the County Appraisal District sent a clear warning to cities in Collin County regarding the property appraisals that we can expect for the 2010 Certified Tax Role. After discussing the impact of a possible scenario on property appraisals, the Chief Appraiser states that "while this may be an example scenario, the likelihood of significant losses to the certified 2010 appraisal roll are not only possible, but they should be handled in everyone's preliminary planning process as if certain."

In past years the City has received significant development fee revenue from a robust construction driven economy. In the current economy, development derived revenue is almost insignificant. New construction activity can help off-set the anticipated reduction in the value of existing property. However, since the amount of new construction that has been added to the tax roles in the past year has decreased dramatically, the falling value of existing properties will have an even more profound effect on total property tax revenue the City can expect for the upcoming 2011 fiscal year.

We continue to collect sales tax in amounts equal to or above our projections. While many cities in the region have seen significant declines in sales tax revenue, the City of Anna's sales tax collections in FY 2009 increased nearly 9% over the previous year. So far in the current fiscal year, sales tax collections are on target to meet the revenue projections included in our FY 2010 budget. While it is too early to project whether or not sales tax revenue will increase again next year, we do expect sales tax to remain a stable source of revenue for the City.

Fiscal Year 2010 Budget

As the local and national economy has retracted, the City of Anna is faced with some important decisions on how to move forward. It is critical that we maintain our position as a community of choice in northern Collin County. Prospective businesses and resident will continue to desire a safe and secure community that provides a variety of recreation and leisure opportunities, and that exhibits (in the way it is maintained) a strong sense of community pride.

In order to fund its priorities for the coming year, the City Council voted to adopt a tax rate of \$0.622733. Although this is an increase over the current tax rate of \$.0575, the actual impact to the average homeowner is lessened because the taxable value of existing properties has decreased by 3.77% since last year. The average taxable value of a residence homestead in the City of Anna last year was \$125,320. Based on last year's tax rate of \$0.575 per \$100 of taxable value, the amount of taxes imposed last year on the average home was \$720.59. The average taxable value of a residence homestead in the City of Anna this year is \$120,237. Based on a tax rate of \$0.622733 per \$100 of taxable value, the amount of taxes imposed this year on the average home will increase by \$28.17 to \$748.76.

General Fund

Department directors have looked for ways to reduce their operating budgets while maintaining service levels to support the infrastructure and programs the City has built over the past several years. Excluding the new programs funded this year, the non payroll portion of the General Fund operating budget has decreased by about 10%. The additional funding in the FY 2010 budget reflects the City's continuing commitment to public safety, parks, and infrastructure maintenance.

The budget will fund new positions in the Police and Fire departments, a full-time Code Enforcement Officer, a \$100,000 street improvement program, and merit pay increases for some non-supervisory positions.

City of Anna, Texas

Management's Discussion and Analysis (continued)

Among the new positions funded in the budget is a full-time Fire Chief. Earlier this year Anna Fire Rescue suggested that the City Council consider creating a City fire department that would operate under oversight of the City Council just as other City departments. The proposed budget includes money to operate a City of Anna fire department which will still rely primarily on volunteer fire fighters and will include a full-time Fire Chief.

In addition to the full-time Fire Chief, the budget includes an additional sworn Police Officer which will allow the Police department to schedule two officers per shift. This will reduce the time it takes to respond to calls and will also increase the safety of the officers on duty. The part-time Code Enforcement officer position is also being funded as a full-time position in order to provide a more pro-active and consistent property maintenance inspection program.

The budget also includes an additional \$100,000 for a street capital improvement program. This money will be used to reconstruct substandard streets within the city. Street projects will be addressed in order of priority based on the pavement condition and traffic load.

Debt Service Fund

Revenues required to pay the City's outstanding debt are transferred to this fund and all monies are restricted to debt payments only. The revenue generated from the interest and sinking (I&S) portion of the tax rate (0.0928 cents per \$100 valuation) is used to partially fund our debt service obligations. In addition, a transfer of \$223,268 from our Utility Fund will pay the principle and interest on the 2009 Certificates of Obligation. A transfer of \$115,325 from the 2005 CO issue will help defease the payment requirements of this bond issue, thus reducing our interest and sinking tax rate.

Capital Projects Fund

\$115,325 from the 2005 CO issue is being transferred to the Debt Service fund to help defease those bonds. \$50,000 from the 2005 CO issue will be used to provide additional funding to construct the new Public Works office/warehouse. It is anticipated that just under \$500,000 will be needed from the 2009 CO issue to finish construction on the new Police building and the new Public Works office/warehouse.

Utility Fund

The City has historically depended on impact fee revenue to pay about 2/3 of the outstanding water & sewer debt. Impact fee revenue has fallen dramatically over the past 4 years and the City had to increase utility rates in December of 2008 to make up for the loss in revenue. We are not recommending a utility rate increase this year but will need to use about \$135,000 in impact fee revenue to fund all of the utility's financial obligations. Even with a modest increase in new construction, it is very likely that a rate increase will become necessary in FY 2011.

The City of Anna operates its own water and wastewater treatment, water distribution and wastewater collection systems. The FY 2010 Utility Fund Budget represents a 4% increase from the previous year. The increase is the result of the following:

- (1) Normally the Utility Fund budgets for utility debt interest payments only while utility debt principle payments are made with money from excess revenue. This year, money is being transferred into the Debt Service Fund in order to cover the principle and interest payments for the 2009 CO issue.
- (2) In order to relieve the burden on our existing wastewater treatment plant, we anticipate transferring a significant amount of wastewater through the new Throckmorton Creek sewer line in Melissa. The wastewater will be treated by the North Texas Municipal Water District (NTMWD). Last year we budgeted for only 9 months of NTMWD treatment costs at the 2008 rate. This year, we are budgeting for a full

12

City of Anna, Texas

Management's Discussion and Analysis (continued)

months at the 2009 rate. Depending on actual flows through this line, the amount of money budgeted for this may need to increase in FY 2011.

- (3) We are budgeting enough money to enable the City to take the full take-or-pay amount of water through the CGMA/GTUA water line. This includes the pumping charges and additional treatment costs we will incur to accommodate the mixing of ground water and surface water.

Basic Financial Statements

City of Anna, Texas
Statement of Net Assets
September 30, 2009

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Economic Develop Corporation	Community Develop Corporation
Assets					
Cash and cash equivalents (Note 4)	\$ 2,505,019	\$ 1,605,648	\$ 4,110,667	\$ 226,566	\$ 400,647
Receivables - net (Note 5)	210,120	299,867	509,987	33,882	33,882
Due from other funds (Note 7)	199,470	17,999	217,469	-	-
Prepaid bond issue costs	103,758	429,572	533,330	-	-
Restricted assets:					
Deposits held by GTUA	-	2,490,669	2,490,669	-	-
Other restricted cash	144,121	1,206,376	1,350,497	-	-
Non-depreciable capital assets (Note 6):					
Land	1,223,676	143,883	1,367,559	459,176	-
Construction in progress	32,596	4,569,983	4,602,579	-	-
Depreciable capital assets (Note 6):					
Water and sewer systems	-	25,238,345	25,238,345	-	-
Buildings, machinery, and equipment	972,539	276,155	1,248,694	-	-
Park improvements	2,513,887	-	2,513,887	-	-
Streets and other infrastructure	10,932,707	-	10,932,707	-	-
Total assets	<u>\$ 18,837,893</u>	<u>\$ 36,278,497</u>	<u>\$ 55,116,390</u>	<u>\$ 719,624</u>	<u>\$ 434,529</u>

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

City of Anna, Texas

Statement of Net Assets

September 30, 2009

	Primary Government			Component Units	
	Governmental	Business-type	Total	Economic	Community
	Activities	Activities		Develop Corporation	Develop Corporation
Liabilities					
Accounts payable	\$ 123,878	\$ 304,581	\$ 428,459	\$ -	\$ -
Interest payable	36,306	287,339	323,645	-	-
Due to other funds (Note 7)	17,999	202,080	220,079	-	-
Customer meter deposits	-	449,249	449,249	-	-
Non-current liabilities (Note 9):					
Due within one year	331,976	370,048	702,024	30,335	103,809
Due in more than one year	4,763,893	19,960,622	24,724,515	345,116	684,236
Total liabilities	<u>5,274,052</u>	<u>21,573,919</u>	<u>26,847,971</u>	<u>375,451</u>	<u>788,045</u>
Net Assets					
Invested in capital assets, net of related debt	10,579,536	9,915,584	20,495,120	83,725	-
Restricted for:					
GTUA deposits	-	2,490,669	2,490,669	-	-
Water and sewer improvements	-	1,206,376	1,206,376	-	-
Parks	45,549	-	45,549	-	-
Fire department	59,914	-	59,914	-	-
Capital projects	38,658	-	38,658	-	-
Debt service	14,682	-	14,682	-	-
Unrestricted and unreserved	2,825,502	1,091,949	3,917,451	260,448	(353,516)
Total net assets	<u>\$ 13,563,841</u>	<u>\$ 14,704,578</u>	<u>\$ 28,268,419</u>	<u>\$ 344,173</u>	<u>\$ (353,516)</u>

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

City of Anna, Texas

Statement of Activities

For the Year Ended September 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Economic Develop Corp.	Community Develop Corp.
					Governmental Activities	Business-type Activities			
Primary government:									
Governmental activities:									
Development/inspections	\$ 435,659	\$ 182,559	\$ -	\$ -	\$ (253,100)	\$ -	\$ (253,100)	\$ -	\$ -
Highways and streets	823,856	-	-	-	(823,856)	-	(823,856)	-	-
General government	776,810	-	-	-	(776,810)	-	(776,810)	-	-
Police	939,762	3,340	-	-	(936,422)	-	(936,422)	-	-
Fire	303,006	-	-	-	(303,006)	-	(303,006)	-	-
Court	76,492	82,604	-	-	6,112	-	6,112	-	-
Ambulance	102,793	-	-	-	(102,793)	-	(102,793)	-	-
Parks	115,564	1,680	-	1,342,638	1,228,754	-	1,228,754	-	-
Interest on long-term debt	282,865	-	-	-	(282,865)	-	(282,865)	-	-
Total governmental activities	3,856,807	270,183	-	1,342,638	(2,243,986)	-	(2,243,986)	-	-
Business-type activities:									
Water and Sewer - operating	3,461,306	3,505,376	-	109,028	-	153,098	153,098	-	-
Total business-type activities	3,461,306	3,505,376	-	109,028	-	153,098	153,098	-	-
Total primary government	7,318,113	3,775,559	-	1,451,666	(2,243,986)	153,098	(2,090,888)	-	-
Component units:									
Economic Development Corp.	138,597	-	739	-	-	-	-	(137,858)	-
Community Development Corp.	1,134,829	-	-	-	-	-	-	-	(1,134,829)
Total component units	\$ 1,273,426	\$ -	\$ 739	\$ -	-	-	-	(137,858)	(1,134,829)
General revenues:									
Property taxes					2,247,895	-	2,247,895	-	-
Sales taxes					384,964	-	384,964	192,264	192,264
Franchise taxes					314,720	-	314,720	-	-
Investment interest					19,409	83,302	102,711	2,529	12,845
Miscellaneous					52,389	41,901	94,290	-	-
Developer fees					13,850	-	13,850	-	-
Gain on sale of capital assets					4,326	-	4,326	-	-
Transfers					100,612	(90,616)	9,996	-	-
Total general revenues and transfers					3,138,165	34,587	3,172,752	194,793	205,109
Change in net assets					894,179	187,685	1,081,864	56,935	(929,720)
Net assets - beginning					12,599,557	14,516,893	27,116,450	287,239	576,204
Prior period adjustment (note M)					70,105	-	70,105	-	-
Net assets - ending					\$ 13,563,841	\$ 14,704,578	\$ 28,268,419	\$ 344,174	\$ (353,516)

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

City of Anna, Texas

Balance Sheet - Governmental Fund

September 30, 2009

	Governmental Fund Types			Total Governmental Fund
	General	Capital Projects	Debt Service	
Assets				
Current assets:				
Cash (Note 4)	\$ 1,627,468	\$ 842,218	\$ 35,333	\$ 2,505,019
Accounts receivable - net (Note 5)	200,590	-	9,530	210,120
Due from other funds	191,657	-	-	191,657
Total current assets	2,019,715	842,218	44,863	2,906,796
Restricted assets:				
Cash for fire dept. improvements	59,914	-	-	59,914
Cash for park improvements	45,549	-	-	45,549
Cash for capital improvements	38,658	-	-	38,658
Total restricted assets	144,121	-	-	144,121
Total assets	2,163,836	842,218	44,863	3,050,917
Liabilities				
Current liabilities:				
Accounts payable	123,878	-	-	123,878
Due to other funds	17,999	-	-	17,999
Deferred tax and court revenue	56,668	-	9,530	66,198
Total current liabilities	198,545	-	9,530	208,075
Fund Balances				
Reserved for (Note 12):				
Parks	45,550	-	-	45,550
Fire	59,914	-	-	59,914
Debt service	-	-	14,682	14,682
Capital improvements	-	38,658	-	38,658
Unreserved, reported in:				
General fund	1,859,827	803,560	20,651	2,684,038
Total fund balances	1,965,291	842,218	35,333	2,842,842
Total liabilities and fund balances	\$ 2,163,836	\$ 842,218	\$ 44,863	\$ 3,050,917

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

City of Anna, Texas

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

For the Year Ended September 30, 2009

Fund balances of governmental funds	\$	2,842,842
Amounts reported for governmental activities in the statement of net assets (page 12) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,675,405
Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(36,306)
Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.		103,758
Long-term liabilities , including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(5,095,869)
Refund of a bond issuance cost due to the proprietary fund.		7,813
Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the statement of net assets.		66,198
Net assets of governmental activities	\$	<u>13,563,841</u>

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

City of Anna, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2009

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
Revenues				
Taxes:				
Property	\$ 1,886,685	\$ -	\$ 378,074	\$ 2,264,759
Sales	384,964	-	-	384,964
Franchise	314,720	-	-	314,720
Intergovernmental	-	629,000	-	629,000
Grants	-	278,304	-	278,304
Development/Building permits	182,559	-	-	182,559
Court	74,727	-	-	74,727
Investment earnings	19,409	-	-	19,409
Parks	16,430	-	-	16,430
Police	3,340	-	-	3,340
Other revenue	-	52,990	-	52,990
Total revenues	2,882,834	960,294	378,074	4,221,202
Expenditures				
Current:				
Administrative and general	754,816	-	-	754,816
Development	432,709	-	-	432,709
Police	890,868	-	-	890,868
Fire	242,792	-	-	242,792
Streets	148,781	-	-	148,781
Court	76,492	-	-	76,492
Ambulance	102,793	-	-	102,793
Parks	33,120	-	-	33,120
Capital outlay:				
Parks	233,237	1,420,193	-	1,653,430
Debt service:				
Principal retirement	58,889	-	190,000	248,889
Interest expense	11,319	-	260,240	271,559
Total expenditures	2,985,816	1,420,193	450,240	4,856,249
Excess of revenues over (under) expenditures	(102,982)	(459,899)	(72,166)	(635,047)
Other financing sources (uses)				
Bond proceeds	-	900,000	-	900,000
Note proceeds	92,988	-	-	92,988
Sale of capital assets	4,326	-	-	4,326
Transfers in	100,612	-	-	100,612
Total other financing sources(uses)	197,926	900,000	-	1,097,926
Net changes in fund balances	94,944	440,101	(72,166)	462,879
Fund balances - beginning	1,870,347	402,117	107,499	2,379,963
Fund balances - ending	\$ 1,965,291	\$ 842,218	\$ 35,333	\$ 2,842,842

The accompanying notes are an integral part of these financial statements

City of Anna, Texas

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities

For the Year Ended September 30, 2009

Amounts reported for governmental activities in the statement of activities (page 31) are different because:

Net change in fund balances - total governmental funds (page 33)	\$ 462,879
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.	743,786
Capital contributions are a source of current financial resources and, therefore, are not reported as income in the governmental funds.	434,434
Accrued interest does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(11,306)
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.	(744,099)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net assets	17,472
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:	(8,987)
Change in net assets of governmental activities (page 31)	<u>\$ 894,179</u>

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

City of Anna, Texas

Statement of Net Assets - Proprietary Fund (Water Fund)

September 30, 2009

Assets

Current assets:

Cash	\$	1,605,648
Accounts receivable - net of allowance		299,867
Due from other funds		17,999
Total current assets		<u>1,923,514</u>

Noncurrent assets:

Restricted assets:

Cash held by GTUA		2,490,669
Cash restricted for capital improvements		1,206,376
Total restricted assets		<u>3,697,045</u>
Deferred charges - prepaid bond issue costs		429,572

Capital assets (net of depreciation):

Land		143,883
Buildings, machinery, and equipment		477,116
Water and sewer system		28,963,672
Construction in progress		4,569,983
Less: accumulated depreciation		<u>(3,926,288)</u>
Total capital assets		<u>30,228,366</u>
Total noncurrent assets		<u>34,354,983</u>
Total assets	\$	<u><u>36,278,497</u></u>

Liabilities

Current liabilities:

Accounts payable	\$	304,581
Bond interest payable		287,339
Due to General Fund		202,080
Customer deposits		449,249
Compensated absences		17,888
Current portion of long-term debt		352,160
Total current liabilities		<u>1,613,297</u>

Noncurrent liabilities:

Bonds and note payable		19,960,622
Total noncurrent liabilities		<u>19,960,622</u>
Total liabilities		<u>21,573,919</u>

Net Assets

Investment in capital assets, net of related debt		9,915,584
Restricted - GTUA deposits		2,490,669
Restricted - water and sewer improvements		1,206,376
Unrestricted		1,091,949
Total net assets	\$	<u><u>14,704,578</u></u>

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

City of Anna, Texas

Statement of Revenues, Expenses, and Changes in
Net Assets - Proprietary Fund (Water Fund)

For the Year Ended September 30, 2009

	<u>2009</u>
Operating revenues:	
Water income	\$ 1,738,939
Sewer income	1,071,578
Sanitation income	565,279
Developer fees for capital improvements	109,028
Water customer late fees	85,785
Meter connect and install fees	40,795
Miscellaneous revenue	41,901
Water and sewer tap fees	3,000
Total operating revenues	<u>3,656,305</u>
Operating expenses:	
Water service	1,521,125
Sewer service	246,381
Sanitation service	485,902
Depreciation	613,814
Total operating expenses	<u>2,867,222</u>
Operating income	789,083
Non-operating revenues (expenses):	
Interest income	83,302
Interest expense	(576,626)
Bond amortization	(17,458)
Total non-operating revenues (expenses)	<u>(510,782)</u>
Income before contributions and transfers	278,301
Transfers in	774,341
Transfers out	(864,957)
Changes in net assets	<u>187,685</u>
Total net assets - beginning	14,516,893
Total net assets - ending	<u><u>\$ 14,704,578</u></u>

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

City of Anna, Texas

Statement of Cash Flows - Proprietary Fund (Water Fund)

For the Year Ended September 30, 2009

Operating Activities:

Receipts from customers and users	\$ 3,578,638
Payments to suppliers	(1,557,929)
Payments to employees	(711,546)
Net cash provided (used) by operating activities	<u>1,309,163</u>

Capital and Related Financing Activities:

Proceeds from capital debt	4,252,344
Cash from GTUA restricted accounts	5,141,330
Cash to restricted capital improvements account	(41,283)
Cash paid for acquisition and construction of capital assets	(5,951,329)
Interest paid on capital debt	(497,558)
Principal payments on capital debt	(4,248,312)
Net cash provided (used) by capital and related financing activities	<u>(1,344,808)</u>

Investing Activities:

Interest received	<u>83,302</u>
Net cash provided (used) by investing activities	<u>83,302</u>
Net increase (decrease) in cash and cash equivalents	47,657
Cash and cash equivalents, October 1	1,557,991
Cash and cash equivalents, September 30	<u>\$ 1,605,648</u>

Reconciliation of Operating Income to Net Cash Provided

(Used) by Operating Activities:

Operating income (loss)	\$ 789,083
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	613,814
Decrease (increase) in accounts receivable	(77,667)
Decrease (increase) in prepaid items	(68,958)
Increase (decrease) in accounts payable	43,711
Increase (decrease) in compensated absences payable	8,711
Increase (decrease) in customer deposits	469
Net cash provided by operating activities	<u>\$ 1,309,163</u>

Non-Cash Investing, Capital, and Financing Activities:

Capital contributions from homebuilders	<u>\$ -</u>
---	-------------

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

City of Anna, Texas

Notes to Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

The City of Anna, Texas (the “City”) has 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, Texas, have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government’s reporting entity.

Discretely Presented Component Units

Based on the criterion stated above, the Anna Community Development Corporation (“CDC”) and the Anna Economic Development Corporation (“EDC”) are component units of the City. The CDC and EDC are nonprofit organizations established to act on behalf of the City of Anna under the Development Corporation Act of 1979, section 4B and 4A, respectively.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the 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 and other items not properly included among program revenues are reported instead as general revenues.

City of Anna, Texas

Notes to Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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 recorded when earned and expenses are recorded 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 as soon as all 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 as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.
- The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The government reports the following major proprietary fund:

- The *Enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund is for water and sewer operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and

City of Anna, Texas

Notes to Financial Statements

sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at cost.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Restricted Assets

Certain resources are classified as restricted assets on the balance sheet because their use is limited.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g, roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of Anna, Texas

Notes to Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Asset Category	Depreciable Life in Years
Buildings	20
Machinery and System infrastructure	35
Equipment	3-10
Streets	20

Compensated Absences

It is the government'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 government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data/reclassifications

Comparative total data for the prior year have not been presented in the fund financial statements.

City of Anna, Texas

Notes to Financial Statements

2. Reconciliation of Government Wide and Fund Financial Statements

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the City Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the Council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Water and Sewer Funds.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. At year end, encumbrances are canceled or appropriated as part of the following year budget.

4. Cash and Cash Equivalents and Investments

As of September 30, 2010, the City maintains banking accounts at Texas Star Bank, Independent Bank, and the state-operated Texpool System. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC).

As of September 30, 2010, the City's deposits held in its depository banks totaled \$5,459,864 with \$750,000 insured by the FDIC. Securities have been pledged by the depository banks to collateralize 100% of all remaining deposits. Additionally, \$2,490,669 was held by the Greater Texoma Utility Authority (GTUA).

Summary of deposits with financial institutions:

Primary government cash and cash equivalents	\$ 4,110,667
Restricted cash (non GTUA)	1,350,497
Less: petty cash	(1,300)
Deposits with financial institutions	<u>5,459,864</u>
Add: petty cash	1,300
Restricted cash held by GTUA	<u>2,490,669</u>
Total primary government cash and cash equivalents	<u><u>\$ 7,951,833</u></u>

City of Anna, Texas

Notes to Financial Statements

The carrying amount of deposits for the EDC, a discretely presented component unit, was \$226,556 and the bank balance was \$226,556. The bank balance was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

The carrying amount of deposits for the CDC, a discretely presented component unit, was \$400,647 and the bank balance was \$134,637. The bank balance was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

As of September 30, 2009, the City's cash and cash equivalents balance held in TexPool was \$534,397.

5. Receivables

Receivables at September 30, 2009 consisted of the following:

	Primary Government			Component Units	
	General Fund	Debt Service Fund	Proprietary Fund	Economic Development Corporation	Community Development Corporation
Property tax	\$ 48,790	\$ 9,530	\$ -	\$ -	\$ -
Sales tax	67,878	-	-	33,882	33,882
Franchise tax and other	76,043	-	-	-	-
Court fines	79,741	-	-	-	-
Utility bills	-	-	311,932	-	-
Gross receivables	272,452	9,530	311,932	33,882	33,882
Less: Allowance for uncollectibles	(71,863)	-	(12,065)	-	-
Net receivables	\$ 200,589	\$ 9,530	\$ 299,867	\$ 33,882	\$ 33,882

Property taxes are based on the appraised values provided by the Collin County Central Appraisal District. Taxes are levied by October 1 of each year. Unpaid property taxes become delinquent on February 1 of the following year. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years.

Property taxes are due in full on October 1 and there are no discounts granted. The assessed value as of January 1, 2008, upon which the 2008/2009 levy was based, was approximately \$362,150,667. The tax rate for fiscal year 2008/2009 was \$0.5578 per \$100 of assessed valuation.

City of Anna, Texas

Notes to Financial Statements

6. Capital Assets

Capital asset activity for Governmental activities for the year ended September 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable assets:				
Land	\$ 845,318	\$ 378,358	\$ -	\$ 1,223,676
Construction in progress	-	32,596	-	32,596
Depreciable assets:				
Park improvements	1,534,843	1,084,123	-	2,618,966
Buildings	328,328	360,000	-	688,328
Furniture and fixtures	69,898	6,801	-	76,699
Streets and drainage	13,501,505	35,869	-	13,537,374
Machinery and equipment	792,826	190,117	(17,500)	965,443
Totals at historical cost	17,072,718	2,087,864	(17,500)	19,143,082
Less: Accumulated depreciation	(2,580,611)	(904,566)	17,500	(3,467,677)
Governmental activities capital assets, net	<u>\$ 14,492,107</u>	<u>\$ 1,183,298</u>	<u>\$ -</u>	<u>\$ 15,675,405</u>

Capital asset activity for Business-Type activities for the year ended September 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Nondepreciable assets:				
Land	\$ 143,883	\$ -	\$ -	\$ 143,883
Construction in progress	7,966,168	5,024,534	(8,420,719)	4,569,983
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	42,897	15,840	-	58,737
Equipment	293,757	169,367	(5,976)	457,148
Water treatment system	5,994,665	861,471	-	6,856,136
Water and sewer system	13,868,554	8,194,592	-	22,063,146
Totals at historical cost	28,315,544	14,265,804	(8,426,695)	34,154,653
Less: Accumulated depreciation	(3,316,058)	(613,814)	3,585	(3,926,287)
Business-type activities capital assets, net	<u>\$ 24,999,486</u>	<u>\$ 13,651,990</u>	<u>\$ (8,423,110)</u>	<u>\$ 30,228,366</u>

City of Anna, Texas

Notes to Financial Statements

Capital asset activity for EDC component unit activities for the year ended September 30, 2009 was as follows:

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

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

Governmental activities:

General government	\$ 34,989
Police	48,894
Inspections	2,950
Fire	60,214
Streets	675,075
Parks	82,444
Total depreciation expense - governmental activities	\$ 904,566

Business-type activities:

Water and sewer	\$ 613,815
Total depreciation expense - business-type activities	\$ 613,815

7. Interfund Receivables and Payables

Interfund balances at September 30, 2009 are as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	\$ 202,080
Water and sewer	General	17,999

8. Leases

The City has a capital lease agreement for equipment and vehicles. As of September 30, 2009, the equipment and vehicles leased under capital lease had a carrying value of \$60,143 which is included in the governmental activities on the Statement of Net Assets. Capital lease expenditures for 2009 were \$22,352, of which \$4,299 represented interest. Effective interest rate was 5.3%.

Pursuant to the terms of the capital lease agreements, the City will be required to make future minimum payments:

Year Ending September 30,	Fire Truck
2010	\$ 22,352
2011	22,352
2012	22,352
Future minimum lease payments	67,056
Less: amount representing interest	(6,913)
Present value of minimum lease payments	\$ 60,143

City of Anna, Texas

Notes to Financial Statements

9. Long-term Debt

The City issues general obligation bonds, certificate of obligation bonds, and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service.

General debt currently outstanding is as follows:

Governmental activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2009	Due Within One Year
2005 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 2,280,000	\$ 100,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	1,285,000	75,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	330,000	20,000
Capital lease for fire truck	161,017	2003	3/15/2012	5.35%	60,143	19,042
Fire truck note	170,000	2005	2012	5.625%	69,490	21,844
Police car note	40,400	2008	2/21/2011	5%	27,597	13,457
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	900,000	10,000
Fire rescue truck note	55,000	2009	2/3/2014	5.00%	55,000	9,940
Police car #8 note	37,988	2009	2/3/2012	5.00%	37,988	12,042
Compensated absences					50,651	50,651
Total Governmental Activities					<u>\$ 5,095,869</u>	<u>\$ 331,976</u>

Business-type activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2009	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ 24,000	\$ 4,500
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	33,000	4,000
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,895,000	80,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	730,000	25,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	1,075,000	35,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	2,245,000	80,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,335,000	25,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	520,000	20,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	620,000	18,750
CGMA Pipeline Project Phase II	2,168,750	2008	9/30/2040	5.68%-5.83	2,168,750	-
CGMA Pipeline Project Phase III	1,250,000	2008	10/1/2036	2.67%-5.62%	1,242,500	18,750
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,165,000	25,000
Backhoe note	87,344	2009	2/2/2014	5%	79,532	16,160
Compensated absences					17,888	17,888
Total Business-Type Activities					<u>20,330,670</u>	<u>370,048</u>

Total general debt (Governmental Type and Business-Type Activities)

\$ 25,426,539 \$ 702,024

City of Anna, Texas

Notes to Financial Statements

Annual debt service requirements to maturity for general debt is as follows:

Fiscal Year Ended	Total		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 702,024	\$ 1,073,008	\$ 331,976	\$ 230,545	\$ 370,048	\$ 842,463
2011	658,228	1,042,053	305,478	198,702	352,750	843,351
2012	688,203	1,028,553	309,953	185,719	378,250	842,834
2013	685,277	1,020,154	261,527	172,877	423,750	847,277
2014	795,685	1,011,773	261,935	162,243	533,750	849,530
2015-2019	6,331,250	5,222,783	1,220,000	961,595	5,111,250	4,261,188
2020-2024	6,720,000	4,795,315	1,365,000	941,912	5,355,000	3,853,403
2025-2029	5,503,750	1,874,808	1,040,000	227,662	4,463,750	1,647,146
2030-2034	1,915,000	673,447	-	-	1,915,000	673,447
2035-2039	1,170,000	245,408	-	-	1,170,000	245,408
2040-2044	257,122	12,097	-	-	257,122	12,097
	<u>\$ 25,426,539</u>	<u>\$ 17,999,399</u>	<u>\$ 5,095,869</u>	<u>\$ 3,081,255</u>	<u>\$ 20,330,670</u>	<u>\$ 14,918,144</u>

The City has two long-term contractual obligations with Capmark Financial. The current principal obligations of these two 1976 Series revenue bonds are \$24,000 and \$33,000, 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.

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 phases.

Each CGMA 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 CGMA cities in the summer of 2008. From the time water has been delivered to each CGMA 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

City of Anna, Texas

Notes to Financial Statements

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.

Long-term liability activity for governmental activities for the year ended September 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Combination Tax and Limited Surplus					
Revenue Certificates of Obligation	\$ 2,380,000	\$ -	\$ (100,000)	\$ 2,280,000	\$ 100,000
2007 Certificate of Obligation	1,355,000	-	(70,000)	1,285,000	75,000
2007 Revenue Bond	350,000	-	(20,000)	330,000	20,000
Capital lease for fire truck	78,195	-	(18,052)	60,143	19,042
Fire truck note	89,712	-	(20,222)	69,490	21,844
Police car note	40,400	-	(12,803)	27,597	13,457
2009 Tax and Revenue Certificate of Obligation	-	900,000	-	900,000	10,000
Fire rescue truck note	-	55,000	-	55,000	9,940
Police car #8 note	-	37,988	-	37,988	12,042
Other liabilities	35,039	15,612	-	50,651	50,651
Total Governmental activity long term liabilities	\$ 4,328,346	\$ 1,008,600	\$ (241,077)	\$ 5,095,869	\$ 331,976

Long-term liability activity for business-type activities for the year ended September 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business activities:					
1976 Junior Lien Waterworks and Sewer System					
Revenue Bonds	\$ 28,000	\$ -	\$ (4,000)	\$ 24,000	\$ 4,500
1976 General Obligation Water Bonds	37,000	-	(4,000)	33,000	4,000
1997 GTUA contract	155,000	-	(155,000)	-	-
2000 GTUA contract	540,000	-	(540,000)	-	-
2004 GTUA contract	860,000	-	(860,000)	-	-
2005 GTUA refunding contract obligation	1,970,000	-	(1,970,000)	-	-
2005 GTUA contract	2,610,000	-	(430,000)	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	1,975,000	-	(80,000)	1,895,000	80,000
Series 2007 GTUA contract revenue bonds	755,000	-	(25,000)	730,000	25,000
2007 GTUA contract	1,100,000	-	(25,000)	1,075,000	35,000
2007 GTUA contract	2,325,000	-	(80,000)	2,245,000	80,000
2007 GTUA contract	3,360,000	-	(25,000)	3,335,000	25,000
2008 GTUA contract	540,000	-	(20,000)	520,000	20,000
CGMA Pipeline Project Phase I	637,500	-	(17,500)	620,000	18,750
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,247,500	-	(5,000)	1,242,500	18,750
2009 combination tax and revenue refunding bond	-	4,165,000	-	4,165,000	25,000
Backhoe note	-	87,344	(7,812)	79,532	16,160
Compensated absences	9,173	8,715	-	17,888	17,888
Totals	\$ 20,317,923	\$ 4,261,059	\$ (4,248,312)	\$ 20,330,670	\$ 370,048

Community Development Corporation (CDC) Long Term Liabilities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2009	Due Within One Year
Note payable	629,000	2008	8/1/2018	Federal fixed rate plus 3%	\$ 559,978	\$ 57,771
Note payable	250,100	2009	3/23/2014	5.5%	228,067	46,038
Total CDC					\$ 788,045	\$ 103,809

In 2008, the CDC borrowed \$629,000 for park improvement and transferred the proceeds to the City. This Note is collateralized by Section 4B sales tax.

City of Anna, Texas

Notes to Financial Statements

Economic Development Corporation (EDC) Long Term Liabilities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance	
					September 30, 2009	Due Within One Year
Note payable	410,400	2008	2018	5%	\$ 375,451	\$ 7,874

In 2008, the EDC borrowed \$410,400 from Independent Bank to finance the purchase of 48 acres of land.

10. Prior Period Adjustment

The beginning fund balance as of September 30, 2010 was increased by a total amount of \$69,504 as a result of a prior period adjustment to correct misclassifications effecting beginning balances. The effect on beginning fund balances is summarized as follows:

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
Fund balances - beginning	\$1,794,851	\$ 500,926	\$ 14,682	\$ 2,310,459
Prio period adjustment	75,496	(98,809)	92,817	69,504
Fund balances - beginning as adjusted	\$1,870,347	\$ 402,117	\$ 107,499	\$ 2,379,963

11. Other Information

A. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of 1,821 individual governmental units located with Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

SUPPLEMENTAL INFORMATION

City of Anna, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund

For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 1,840,807	\$ 1,840,807	\$ 1,886,685	\$ 45,878
Sales	338,650	338,650	384,964	46,314
Franchise	305,000	305,000	314,720	9,720
Intergovernmental	50,000	50,000	-	(50,000)
Grants	-	-	-	-
Development/Building permits	307,000	307,000	182,559	(124,441)
Court	55,850	55,850	74,727	18,877
Investment earnings	50,000	50,000	19,409	(30,591)
Parks	-	-	16,430	16,430
Police	4,000	4,000	3,340	(660)
Fire	-	-	-	-
Other revenue	24,604	24,604	-	(24,604)
Total revenues	2,975,911	2,975,911	2,882,834	(93,077)
Expenditures				
Current:				
Administrative and general	820,085	820,085	754,816	65,269
Development	437,895	417,895	432,709	(14,814)
Police	988,159	988,159	890,868	97,291
Fire	269,481	269,481	242,792	26,689
Streets	200,470	188,470	148,781	39,689
Court	74,172	74,172	76,492	(2,320)
Ambulance	102,793	102,793	102,793	(0)
Parks	50,500	62,500	33,120	29,380
Capital outlay:			-	
Parks	15,500	15,500	233,237	(217,737)
Debt service:			-	
Principal retirement	54,480	54,480	58,889	(4,409)
Interest expense	10,377	10,377	11,319	(942)
Total expenditures	3,023,911	3,003,911	2,985,816	18,095
Excess of revenues over (under) expenditures	(48,000)	(28,000)	(102,982)	(74,982)
Other financing sources (uses)				
Other	-	-	197,926	197,926
Total other financing sources(uses)	-	-	197,926	(197,926)
Net changes in fund balance	(48,000)	(28,000)	94,944	(272,908)
Fund balance - beginning	1,794,851	1,794,851	1,794,851	-
Prior period adjustment (Note 11)	-	-	75,496	(75,496)
Fund balances - ending	\$ 1,746,851	\$ 1,766,851	\$ 1,965,291	\$ (348,404)

See Report of Independent Auditors.

City of Anna, Texas

Supplementary Information

Retirement System – Pension Funding Data

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent of the employees accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is 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 City 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 City, 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 City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25 year closed period amortization period, using the level percent of payroll amortization method. 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 new 25 year period. Currently, the unfunded actuarial liability is being amortized over the 25 year period which began January, 2007. The projected unit credit actuarial cost method is used for determining the government contribution rate. Contributions are made monthly by both the employees and the government. Since the government needs to know its contribution rate in advance for budgetary purposes, 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, 2009, the City's annual pension cost of \$156,180 for TMRS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the projected 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. A 3.0%

inflation rate was used to computing (a) and (b). The actuarial value of TMRS assets was determined using amortized cost.

Three Year Trend Information for TMRS

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>Pension Cost (APC)</u>	<u>Contributions</u> <u>Made</u>	<u>Net Pension</u> <u>Obligation</u>
09/30/07	\$ 93,851	100%	\$0
09/30/08	\$ 129,428	100%	\$0
09/30/09	\$ 156,180	100%	\$0

Schedule of Funding Progress for TMRS
(In Thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b)-(a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a)/(b)</u>	<u>U.A.A.L. as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(c)</u>	<u>U.A.A.L. as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>[(b)-(a)/(c)]</u>
12/31/06	\$ 214	384	170	55.7%	\$ 1,114	15.3%
12/31/07	\$ 407	1,029	622	60.4%	\$ 1,283	48.5%
12/31/08	\$ 622	1,467	846	52.6%	\$ 1,607	52.6%

C. Supplemental Death Benefits Fund

The City provides Supplemental Death Benefits to retirees through a multiple-employer defined benefit group term life insurance plan operated by TMRS; this is a separate trust administered by the TMRS Board of Trustees for 714 participating entities.

The City's cost is determined annually using the projected unit credit method, with a level percent of payroll, amortized over a 25 year open period, using the fund value method. The funding assumptions assume a 4.25% investment rate of return, no salary increases, 3% inflation and no cost of living adjustments.

Three Year Trend Information

09/30/06	\$ 1,747
09/30/07	\$ 2,073
09/30/08	\$ 3,050

COMPLIANCE AND INTERNAL CONTROLS SECTION



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

Honorable Mayor
and Members of 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, 2009, and have issued our report thereon dated April 12, 2010. 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.



VAIL WARREN & KNAUTH, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX & ACCOUNTING SUPPORT SERVICES

We consider the following deficiency to be a significant deficiency in internal control:

The Statement on Auditing Standards No. 112 requires that we document that the City does not have the capability to prepare financial statements including the government wide financial statements and the related notes to the financial statements.

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.

Vail Warren + Knauth, LLP

Dallas, Texas
April 12, 2010