

CITY OF ANNA, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2015

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Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor’s Report.....	1-2
<u>Required Supplementary Information:</u>	
Management’s Discussion and Analysis.....	3-8
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position.....	9-10
Statement of Activities.....	11
<u>Fund Financial Statements</u>	
Balance Sheets – Governmental Type Funds.....	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position – Proprietary Fund.....	16
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	18
Notes to Basic Financial Statements.....	19-40
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule – General Fund.....	41
Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years.....	42
Schedule of TMRS Contributions.....	43
<u>Combining Statements</u>	
Non-Major Governmental Type Funds – Balance Sheets –	44
Non-Major Governmental Type Funds – Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –	45
COMPLIANCE AND INTERNAL CONTROLS SECTION	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46-48

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Anna, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Anna, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activity, each major fund, and the aggregate remaining fund information of the City of Anna, Texas, as of September 30, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The retirement system funding information on pages 42 and 43 are also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements on pages 44-45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Anna, Texas internal control over financial reporting and compliance.

For Jollett and Abbott PLLC

Tom Bean, Texas
March 8, 2016

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

Our discussion and analysis of City of Anna's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of FY15 by \$36,919,669. This is an increase of \$2,231,493 over FY14's restated net position value of \$34,688,176. Unrestricted net position at the close of FY15 is \$2,668,877 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$246,722 from FY14's unrestricted net asset value of \$2,915,599.
- The City's governmental funds reported on page 12 have an ending fund balance of \$4,196,102, which is an increase of \$609,620 in comparison with FY14 ending fund balances of \$3,586,482. This increase was mostly attributable to favorable results for the City's General Fund. \$2,414,801 of the governmental-type fund balance is classified as "unassigned" and available for spending at the City's discretion and in compliance with the City's financial policies.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9-11). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

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

The Statement of Net Position and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 9. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

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

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Sixty-one percent (61%) of the City's net position are invested in capital assets; land, streets, parks, buildings, water/sewer infrastructure, vehicles and equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

The following tables summarize the Statements of Net Position and Changes in Net Position for the years ended September 30, 2015 and 2014:

	Governmental Activities		Business-type Activities		Total	
	FY15	FY14	FY15	FY14	FY15	FY14
Current and other assets	\$ 5,618,149	\$ 4,114,822	\$ 12,701,342	\$ 14,206,765	\$ 18,319,491	\$ 18,321,587
Capital assets	19,388,284	18,787,557	35,400,713	33,815,299	54,788,997	52,602,856
Total assets	25,006,433	22,902,379	48,102,055	48,022,064	73,108,488	70,924,443
Deferred outflows of resources	204,805	-	264,325	-	469,130	-
Total deferred outflows of resources	204,805	-	264,325	-	469,130	-
Long-term liabilities outstanding	6,178,660	6,438,271	26,470,309	26,653,867	32,648,969	33,092,138
Other liabilities	1,800,083	461,859	2,080,658	1,931,667	3,880,741	2,393,526
Total liabilities	7,978,743	6,900,130	28,550,967	28,585,534	36,529,710	35,485,664
Deferred inflows of resources	89,266	-	38,973	-	128,239	-
Total deferred inflows of resources	89,266	-	38,973	-	128,239	-
Net Position:						
Net investment in capital assets	13,288,789	12,463,939	9,150,846	7,161,432	22,439,635	19,625,371
Restricted	1,781,301	1,265,399	10,029,856	11,632,410	11,811,157	12,897,809
Unrestricted	2,073,139	2,272,911	595,738	642,688	2,668,877	2,915,599
Total net position	\$ 17,143,229	\$ 16,002,249	\$ 19,776,440	\$ 19,436,530	\$ 36,919,669	\$ 35,438,779

	Governmental Activities		Business-type Activities		Total	
	FY15	FY14	FY15	FY14	FY15	FY14
Revenues:						
Program Revenues:						
Charges for services	\$ 1,060,450	\$ 1,057,939	\$ 6,194,327	\$ 5,980,176	\$ 7,254,777	\$ 7,038,115
Operating grants and contributions	15,053	11,525	-	-	15,053	11,525
Capital grants and contributions	1,417,514	783,182	755,508	486,155	2,173,022	1,269,337
General Revenues:						
Property taxes	3,322,054	2,807,140	-	-	3,322,054	2,807,140
Other taxes and franchise fees	1,923,896	1,767,071	-	-	1,923,896	1,767,071
Other	379,533	174,851	77,064	73,451	456,597	248,302
	8,118,500	6,601,708	7,026,899	6,539,782	15,145,399	13,141,490
Expenses:						
General government	1,058,719	963,243	-	-	1,058,719	963,243
Economic/Community Development	355,165	400,496	-	-	355,165	400,496
Police and court	1,634,235	1,447,695	-	-	1,634,235	1,447,695
Streets	1,053,123	954,932	-	-	1,053,123	954,932
Debt service - interest and issuance costs	316,079	258,663	-	-	316,079	258,663
Development and animal control	558,541	619,465	-	-	558,541	619,465
Parks	573,249	432,133	-	-	573,249	432,133
Fire	753,541	701,282	-	-	753,541	701,282
Ambulance	124,155	123,683	-	-	124,155	123,683
Water/Sewer/Sanitation	-	-	6,487,099	5,453,831	6,487,099	5,453,831
	6,426,807	5,901,592	6,487,099	5,453,831	12,913,906	11,355,423
Excess (deficiency) of revenues over expenditures before transfers	1,691,693	700,116	539,800	1,085,951	2,231,493	1,786,067
Transfers In (Out)	(649)	279,707	649	(279,707)	-	-
Increase in net position	1,691,044	979,823	540,449	806,244	2,231,493	1,786,067
Net position - October 1 (beginning)	16,002,249	15,109,929	19,436,530	19,058,331	35,438,779	34,168,260
Prior period adjustments	(550,064)	(87,503)	(200,539)	(428,045)	(750,603)	(515,548)
Net position - September 30 (ending)	\$ 17,143,229	\$ 16,002,249	\$ 19,776,440	\$ 19,436,530	\$ 36,919,669	\$ 35,438,779

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from \$15,452,185 to \$17,143,229. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$2,073,139 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$4,196,102 compared to \$3,586,482 in FY14. This represents an increase of \$609,620. The General Fund, Economic Development Corporation, and Community Development Corporation all experienced increases in fund balance for FY15.

Revenues and other financing sources for the City's General Fund were \$5,332,070, while total expenses and other financing uses were \$5,084,178. This resulted in an excess of revenues over expenditures of \$247,892 (see page 14). Last year's result was an excess of revenues over expenditures of \$429,972. The largest increases in FY15 General Fund revenues came from property taxes and inspection fees. Overall General Fund expenditures increased by \$583,745 when compared to FY14. The largest increases in FY15 General Fund expenditures were related to capital outlays and police expenses.

General Fund expenditures were \$91,851 less than budgeted, while General Fund revenues also experienced a favorable budget variance totaling \$218,895. The main reason for the variance in revenues is Inspection fees being under budgeted by \$187,925.

Revenues for the City's Utility Fund were \$6,271,391, while total expenses were \$6,487,099. This resulted in a loss before transfers of \$215,708 (see page 17). This is worse than 2014's result of income before contributions and transfers of \$599,796. One reason for the decrease was a \$412,846 increase in other contractual services. North Texas Municipal Water District contract expenses also increased by \$218,399. The FY15 unrestricted net position is \$595,738. Excluding depreciation expense, this unrestricted net position is equal to approximately 1.79 months of the Utility Fund's 2015 operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2015 amounts to \$55,550,757 compared to \$52,602,866 (net of accumulated depreciation) at September 30, 2014. This investment in capital assets includes land, buildings and improvements, street improvements, parks, water and sewer systems, equipment and vehicles. The net increase in the City's investment in capital assets for the current fiscal year was \$2,814,264. Some of the major capital asset expenditures during 2015 related to \$1.35M of additions to streets and drainage systems.

Long-term Debt

At year-end, the City had total notes, capital leases, bonds and contractual obligations outstanding of \$33,111,122. The City had two new debt issuances totaling \$4,060,000 during 2015. The Utility Fund's new Series 2014A Refunding Bonds were issued to partially refund \$2,598,000 of bonds from the series 2009 Combination Tax and Revenue Refunding Bonds. The Debt Service Fund's new Series 2014B General Obligation Refunding Bonds were issued to partially refund \$990,000 of the Series 2006 Combination Tax and Limited Revenue Certificates of Obligation. The City made all required bond, capital lease, note, and contractual obligation principal payments for 2015.

At the end of FY15, the City's total long-term commitments for governmental activities were \$6,742,529 and total long-term commitments for the Utility Fund are \$26,470,309. Total long-term commitments for the City increased by \$3,437,562 from 2014 to 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Since property values stabilized in 2013 following the 2008-2011 housing recession, the City has continued to see healthy increases in the value of existing properties. In 2014 the taxable value of existing property increased just under 10% from the previous year, and over \$37,000,000 in new value was added to the tax roll. Again in 2015, the City saw existing property values increase just over 10% and over \$43,000,000 in new value was added the tax roll. We remain cautiously optimistic that we will experience modest, but slowing, appreciation in the value of existing properties and that additional value will be added to the tax roll as a result of new construction in the near term. New value added to the tax role will continue to be primarily from residential growth, however, a new Wal-Mart store slated to begin construction in spring of 2016 will mark a substantial contribution to the growth of our commercial tax base.

The City continues to see consistent increases in the amount of sales tax revenue collected each year. Over the past five years, the City has seen an average year-to-year increase in sales tax revenue of about 10%. Sales tax revenue in FY 2015 was up 9% over the FY 2014 revenue. We anticipate that the opening of a new Wal-Mart store in 2017 will impact sales tax revenue. However given the difficulty of predicting consumer behavior as the national economy changes, we will continue to forecast very modest growth in sales tax revenue.

The growth in sales tax revenue and the taxable value of real property corresponds to a significant increase in residential growth and population over the past 36 months. According to the most recent population estimates published by the North Central Texas Council of Governments, the City of Anna population as of January 1, 2015 was 10,980. In 2015 the City issued 276 single family building permits which equates to approximately 900 new city residents. As the inventory of finished lots has declined, the City expects that the number of new single family homes will decline slightly from the previous year. The City has forecasted the construction of approximately 200 new single family homes as a factor in the in the FY 16 budget. There are currently seven residential developments under construction that will add 627 single family lots to our inventory over the next 12 to 18 months.

Of course with the growth in population comes a proportional increase in demand for municipal services that are funded primarily by property taxes. In order to fund the FY 2016 budget, the City adopted a tax rate of \$0.639 per \$100 valuation which is a decrease from the tax rate adopted in FY 2015. This marks the 2nd year in row that that the City Council has been able to decrease the City property tax rate. When compared with other cities in our area, the City of Anna still has one of lowest per-capita property tax levies.

Rapid population growth has also resulted in significant investment over the past 10 to 15 years in the City's water and sewer system. Currently the Water and Sewer Fund holds just over \$26.2 million in outstanding debt. The City has worked closely with our financial advisors, First Southwest, to develop a sound debt management plan for the Water and Sewer Fund. Looking to the future, the City anticipates a spike in debt service obligations in 2019. In order to appropriately manage this debt, the City and First Southwest developed a plan to take advantage of call dates and pursue advance refundings of the City's outstanding debt. Every effort has been made to minimize the present value costs to the City. The current plan makes very conservative assumptions regarding interest rates and was reviewed and analyzed in conjunction with a utility rate study to evaluate the current water and sewer rates. Depending on market conditions and the City's growth, two refunding are slated for mid-summer and late fall of 2017. These refundings will also free up cash and reduce pressure on utility rates.

In order to ensure that our utility rates will continue to support our operating costs and debt service obligations, the City hires a rate consultant to evaluate our utility system's operation costs and debt payments, and recommend any rate adjustments that would be necessary to fully fund the cost of operating our system while maintaining an adequate financial reserve. While water and sewer rates were unchanged in FY 15, the FY 16 budget included a 9% increase in the water and sewer rates. The primary factors contributing to this rate increase include:

- 1) Water conservation programs leading to a 23.2% decline over the past few years in the average amount of water sold on a per customer basis;
- 2) A significant increase in the amount budgeted for North Texas Municipal Water District (NTMWD) wastewater transport and treatment charges; and
- 3) An increase in the amount budgeted to purchase treated surface water from NTMWD through a contract with the Greater Texoma Utility Authority (GTUA).

The City has direct and indirect contracts with the NTMWD for the purchase of treated surface water and for the transport and treatment of wastewater. As our population increases, we will be purchasing more water from NTMWD and sending more of our wastewater into the NTMWD wastewater system. The unprecedented precipitation experienced in the spring of 2015 resulted in significant increase in our costs for transportation and treatment of wastewater. The increase was driven by storm water inflow and infiltration (I&I) introduced into the City's wastewater system and then transported to the NTMWD regional collection system. This increase in flow was not anticipated and the City has worked with NTMWD to arrange for the payment of costs exceeding our FY 15 budget to be paid throughout FY 16. As a result, the City has doubled the budget for NTMWD wastewater transport and treatment charges.

Increased demand coupled with the rising cost of treated surface water, and wastewater treatment charges from NTMWD will have a greater impact on the City's utility rate structure as we grow.

The City will continue to review its rate structure to determine what, if any, adjustments to the rate structure might be warranted in the coming fiscal years. This evaluation is necessary to ensure that the City is able to meet its outstanding debt obligations and prepare for future capital improvements that will be necessary to maintain utility service to our community

The construction of new municipal buildings and other facilities will require significant new capital investment over the next several years. City buildings are currently occupied at near maximum capacity, and the construction of a new city hall and subsequent public safety facilities will be necessary in the near future. With the growth in property and sales tax revenue, we anticipate that a new city hall can be constructed without raising the ad valorem tax rate. As growth continues, we also anticipate that the City will increase its investment in the construction of new and expanded roadway facilities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, at 111 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

City of Anna, Texas
Statement of Net Position
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,358,595	\$ 2,300,228	\$ 6,658,823
Investments	329,666	123,884	453,550
Accounts receivable - net	547,628	461,765	1,009,393
Inventory	-	26,132	26,132
Internal balances	240,523	(240,523)	-
Notes receivable - net	141,737	-	141,737
Restricted assets:			
Deposits held by GTUA	-	2,029,390	2,029,390
Restricted cash and pooled investments	-	8,000,466	8,000,466
Non-depreciable capital assets:			
Land and easements	2,177,876	708,016	2,885,892
Construction in progress	69,053	732,493	801,546
Depreciable capital assets (net):			
Water and sewer systems	-	33,960,204	33,960,204
Buildings, machinery, and equipment	2,546,494	-	2,546,494
Park improvements	4,222,582	-	4,222,582
Streets and other infrastructure	10,372,279	-	10,372,279
Total assets	<u>\$ 25,006,433</u>	<u>\$ 48,102,055</u>	<u>\$ 73,108,488</u>
Deferred Outflows of Resources			
Deferred loss on bond refunding	\$ -	\$ 184,824	\$ 184,824
Deferred unamortized investment losses	21,841	7,661	29,502
Deferred TMRS contributions	204,805	71,840	276,645
Total deferred outflows of resources	<u>\$ 226,646</u>	<u>\$ 264,325</u>	<u>\$ 490,971</u>

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

City of Anna, Texas
Statement of Net Position
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 142,010	\$ 558,537	\$ 700,547
Interest payable	30,025	796,344	826,369
Salaries payable	107,632	32,235	139,867
Accrued liabilities	139,672	44,838	184,510
Customer meter deposits	-	648,704	648,704
Construction costs payable	816,875	-	816,875
Non-current liabilities:			
Due within one year	563,869	745,750	1,309,619
Due in more than one year	5,522,689	25,504,117	31,026,806
Net pension liability	655,971	220,442	876,413
Total liabilities	\$ 7,978,743	\$ 28,550,967	\$ 36,529,710
Deferred Inflows of Resources			
Deferred unamortized investment gains	\$ 111,107	\$ 38,973	\$ 150,080
Total deferred inflows of resources	\$ 111,107	\$ 38,973	\$ 150,080
Net Position			
Net investment in capital assets	\$ 13,288,789	\$ 9,150,846	\$ 22,439,635
Restricted for:			
GTUA deposits	-	2,029,390	2,029,390
Water and sewer improvements	-	8,000,466	8,000,466
Capital projects and other	1,623,825	-	1,623,825
Committed for revenue stabilization	157,476	-	157,476
Unrestricted	2,073,139	595,738	2,668,877
Total net position	\$ 17,143,229	\$ 19,776,440	\$ 36,919,669

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

City of Anna, Texas
Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Development and animal control	\$ 558,541	\$ 748,212	\$ -	\$ -	\$ 189,671	\$ -	\$ 189,671
Highways, streets, and utilities	1,053,123	-	-	1,296,618	243,495	-	243,495
General government	1,058,719	30,000	-	-	(1,028,719)	-	(1,028,719)
Police and court	1,634,235	149,147	-	57,299	(1,427,789)	-	(1,427,789)
Fire	753,541	69,826	15,053	-	(668,662)	-	(668,662)
Economic and community development	355,165	-	-	-	(355,165)	-	(355,165)
Ambulance	124,155	-	-	-	(124,155)	-	(124,155)
Parks	573,249	63,265	-	63,597	(446,387)	-	(446,387)
Interest on long-term debt and issuance costs	316,079	-	-	-	(316,079)	-	(316,079)
Total governmental activities	6,426,807	1,060,450	15,053	1,417,514	(3,933,790)	-	(3,933,790)
Business-type activities:							
Water and Sewer - operating	6,487,099	6,194,327	-	755,508	-	462,736	462,736
Total business-type activities	6,487,099	6,194,327	-	755,508	-	462,736	462,736
Total primary government	12,913,906	7,254,777	15,053	2,173,022	(3,933,790)	462,736	(3,471,054)
General revenues:							
Property taxes					3,322,054	-	3,322,054
Sales taxes					1,473,097	-	1,473,097
Franchise taxes					450,799	-	450,799
Investment interest					23,685	77,064	100,749
Miscellaneous					202,488	-	202,488
Gain on sold assets					39,160	-	39,160
Intergovernmental					114,200	-	114,200
Transfers in (out)					(649)	649	-
Total general revenues and transfers					5,624,834	77,713	5,702,547
Change in net position					1,691,044	540,449	2,231,493
Net position - beginning					16,002,249	19,436,530	35,438,779
Prior period adjustments					(550,064)	(200,539)	(750,603)
Net position - ending					\$ 17,143,229	\$ 19,776,440	\$ 36,919,669

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

City of Anna, Texas
Balance Sheet - Governmental Type Funds
September 30, 2015

	<u>Governmental Fund Types</u>		Total
	<u>General</u>	<u>Other Governmental</u>	<u>Governmental Funds</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,220,340	\$ 1,138,255	\$ 4,358,595
Investments	329,666	-	329,666
Accounts receivable - net	409,291	138,337	547,628
Notes receivable - net	-	141,737	141,737
Due from other funds	610,931	40,326	651,257
Total current assets	<u>4,570,228</u>	<u>1,458,655</u>	<u>6,028,883</u>
Liabilities			
Current liabilities:			
Accounts payable	142,010	-	142,010
Salaries payable	107,632	-	107,632
Other accrued liabilities	139,672	-	139,672
Construction costs payable	816,875	-	816,875
Due to other funds	-	410,734	410,734
Total current liabilities	<u>1,206,189</u>	<u>410,734</u>	<u>1,616,923</u>
Deferred Inflows of Resources			
Unavailable revenues - property taxes	45,974	8,690	54,664
Unavailable revenues - court	19,457	-	19,457
Unavailable revenues - business loans	-	141,737	141,737
Total deferred inflows of resources	<u>65,431</u>	<u>150,427</u>	<u>215,858</u>
Fund Balances			
Restricted	523,192	1,100,633	1,623,825
Committed - revenue stabilization	157,476	-	157,476
Unassigned	2,617,940	(203,139)	2,414,801
Total fund balances	<u>3,298,608</u>	<u>897,494</u>	<u>4,196,102</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 4,570,228</u>	<u>\$ 1,458,655</u>	<u>\$ 6,028,883</u>

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

City of Anna, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended September 30, 2015

Fund balances of governmental funds (page 12) \$ 4,196,102

Amounts reported for governmental activities in the Statement of Net Position
(pages 9-10) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 19,388,284

Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds. (30,025)

Net pension liability is not a financial resource; therefore, it is not reported in the governmental funds. (655,971)

TMRS contributions are not current financial resources/burden; therefore they are not reported in the governmental funds. The net of these amounts is: 204,805

Unamortized pension investment gains/losses are not current financial resources/burden; therefore they are not reported in the government funds. The net of these amounts is: (111,107)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (6,086,558)

Revenue earned from a CDC long-term receivable is not all due in the current period and, therefore, is deferred in the fund financial statements. 141,737

Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the Statement of Net Position. 74,121

Net position of governmental activities (page 10) \$ 17,121,388

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, 2015

	Governmental Fund Types		Total Governmental
	General	Other Governmental	
Revenues			
Taxes:			
Property	\$ 2,790,773	\$ 526,744	\$ 3,317,517
Sales	736,481	736,616	1,473,097
Franchise	450,799	-	450,799
Building permits	381,318	-	381,318
Inspection fees	187,925	-	187,925
Grants and contributions	15,053	120,896	135,949
Court	115,027	-	115,027
Intergovernmental	114,200	-	114,200
Other revenue	59,958	36,435	96,393
Developer and impact fees	92,012	-	92,012
Other development fees	86,957	-	86,957
Fire	69,826	-	69,826
Parks	63,265	-	63,265
Rentals	-	30,000	30,000
Police	25,400	-	25,400
Investment earnings	17,371	6,314	23,685
Total revenues	<u>5,206,365</u>	<u>1,457,005</u>	<u>6,663,370</u>
Expenditures			
Current:			
Police	1,370,091	-	1,370,091
Administrative and general	1,042,050	6,954	1,049,004
Fire	688,371	-	688,371
Development and animal control	559,583	-	559,583
Community and economic development	-	336,836	336,836
Parks	246,808	-	246,808
Streets	200,188	-	200,188
Court	132,675	-	132,675
Ambulance	124,155	-	124,155
Capital outlays	469,276	286,259	755,535
Debt service:			
Principal retirement	-	466,776	466,776
Interest expense	-	200,331	200,331
Total expenditures	<u>4,833,197</u>	<u>1,297,156</u>	<u>6,130,353</u>
Excess of revenues over (under) expenditures	373,168	159,849	533,017
Other financing sources (uses)			
Sale of capital assets	65,000	-	65,000
Bond Proceeds	-	1,462,000	1,462,000
Debt issuance costs	-	(38,350)	(38,350)
Debt principal paid to refunding escrow bond	-	(1,334,000)	(1,334,000)
Other payments to refunding escrow bond	-	(77,398)	(77,398)
Transfers in	60,705	274,429	335,134
Transfers (out)	(250,981)	(84,802)	(335,783)
Total other financing sources(uses)	<u>(125,276)</u>	<u>201,879</u>	<u>76,603</u>
Net changes in fund balances	247,892	361,728	609,620
Fund balances - beginning	3,050,716	535,766	3,586,482
Fund balances - ending	<u>\$ 3,298,608</u>	<u>\$ 897,494</u>	<u>\$ 4,196,102</u>

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

City of Anna, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2015

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

Net change in fund balances - total governmental funds (page 14)	\$ 609,620
Governmental funds report capital outlays as expenditures. However, in the Statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period.	(670,051)
Governmental funds recognize the full amount received as revenue for sale of disposed assets, but net book value of the assets are factored in for the government-wide financial statements.	(25,840)
Governmental funds reports the effects of debt premiums, debt discounts, and deferred losses on refunding when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities	(128,000)
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	1,296,618
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	466,776
The decrease in accrued compensated absences does not use current financial resources and, therefore is not reported in the governmental funds.	12,937
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred inflows of resources and various other items. The net effect of these reclassifications is to decrease net position.	128,984
Change in net position of governmental activities (page 11)	<u>\$ 1,691,044</u>

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

City of Anna, Texas
Statement of Net Position - Proprietary Fund (Utility Fund)
September 30, 2015

Assets	<u>Utility Fund</u>
Current assets:	
Cash and cash equivalents	\$ 2,300,228
Certificates of deposit	123,884
Accounts receivable - net	461,765
Inventory	26,132
Restricted pooled investments	56,532
Restricted cash for capital improvements	<u>7,943,934</u>
Total current assets	<u>10,912,475</u>
Noncurrent assets:	
Restricted deposits held in trust with GTUA	2,029,390
Capital assets (non-depreciable):	
Land and easements	708,016
Construction in progress	732,493
Capital assets (net) plants, machinery, and equipment	<u>33,960,204</u>
Total capital assets	<u>35,400,713</u>
Total noncurrent assets	<u>37,430,103</u>
Total assets	<u>48,342,578</u>
Deferred Outflows of Resources	
Deferred loss on bond refunding	184,824
Deferred unamortized investment losses	7,661
Deferred TMRS Contributions	<u>71,840</u>
Total Deferred Outflows of Resources	<u>264,325</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 48,606,903</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 558,537
Salaries payable	32,235
Other liabilities	28,988
Bond interest payable	796,344
Due to General Fund	200,195
Due to Capital Projects Fund	40,326
Customer deposits	648,704
Accrued compensated absences	15,852
Current portion of long-term debt	<u>745,750</u>
Total current liabilities	<u>3,066,931</u>
Noncurrent liabilities:	
Bonds and notes payable	25,504,117
Net pension liability	<u>220,442</u>
Total noncurrent liabilities	<u>25,724,559</u>
Total liabilities	<u>28,791,490</u>
Deferred Inflows of Resources	
Deferred inflows of resources - unamortized investment gains	<u>38,973</u>
Total Liabilities and Deferred Inflows of Resources	<u><u>\$ 28,830,463</u></u>
Net Position	
Net investment in capital assets	9,150,846
Restricted - GTUA deposits	2,029,390
Restricted - water and sewer improvements	8,000,466
Unrestricted	<u>595,738</u>
Total net position	<u><u>\$ 19,776,440</u></u>

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

City of Anna, Texas
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2015

	2015
Operating revenues:	
Water income	\$ 2,648,953
Sewer income	1,776,107
Sanitation income	754,181
Developer and impact fees	592,000
Inspection fees	113,237
Connect, install, and tap fees	112,740
Water customer late fees	130,174
Groundwater production fees	50,518
Miscellaneous revenue	16,417
Total operating revenues	6,194,327
Operating expenses:	
Personnel and benefits	905,496
Sanitation contract	658,561
Supplies, repairs, and maintenance	539,542
N. Texas Municipal Water District contract	526,893
Utilities	420,574
Other contractual services	412,846
Reimbursed developer fees	397,325
Other operating expenses	97,396
Bad debt	28,622
Depreciation	1,326,634
Total operating expenses	5,313,889
Operating income	880,438
Non-operating revenues (expenses):	
Interest expense	(1,111,836)
Bond issuance costs	(61,374)
Interest income	77,064
Total non-operating revenues (expenses)	(1,096,146)
Income before contributions and transfers	(215,708)
Contributed capital assets	755,508
Transfers in from Debt Service Fund	84,802
Transfers out to the Capital Projects Fund	(84,153)
Change in net position	540,449
Total net position - beginning (restated)	19,235,991
Total net position - ending	\$ 19,776,440

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

City of Anna, Texas
Statement of Cash Flows - Proprietary Fund (Utility Fund)
For the Year Ended September 30, 2015

	2015
Operating Activities:	
Receipts from customers and users	\$ 6,313,463
Payments to suppliers	(2,753,688)
Payments to employees	(903,122)
Net cash provided (used) by operating activities	2,656,653
Capital and Related Financing Activities:	
Proceeds from debt issued	2,598,000
Cash paid to escrow agent for debt refunding principal	(2,335,000)
Other cost paid to escrow agent	(201,626)
Cash to GTUA reserve accounts	(97,731)
Cash paid for bond issuance costs	(61,374)
Cash from restricted capital improvements accounts	1,672,960
Cash paid for acquisition and construction of capital assets	(2,155,658)
Interest paid on long-term debt	(1,106,721)
Principal payments on debt	(667,000)
Net cash provided (used) by capital and related financing activities	(2,354,150)
Non-capital and Related Financing Activities	
Transfers in from other funds	84,802
Transfers (out) to other funds	(84,153)
Net cash provided (used) by non-capital and related financing activities	649
Investing Activities:	
Interest received	77,064
Net cash provided (used) by investing activities	77,064
Net increase (decrease) in cash and cash equivalents	380,216
Cash and cash equivalents, October 1	1,920,012
Cash and cash equivalents, September 30	\$ 2,300,228
Reconciliation of Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Operating income (loss)	\$ 880,438
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	1,326,634
Bad debt expense	28,622
Decrease (increase) in accounts receivable	80,786
Decrease (increase) in inventory	203,692
Increase (decrease) in due to General Fund	(1,600)
Increase (decrease) in accounts payable	79,247
Increase (decrease) in other liabilities	18,110
Increase (decrease) in customer deposits	38,350
Increase (decrease) in accrued compensated absences	2,374
Net cash provided by operating activities	\$ 2,656,653
Non-cash capital activities:	
Contributions of capital assets	\$ 755,508

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

CITY OF ANNA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

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

1. The Reporting Entity

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

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

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the City is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes or other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds and proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all of the eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Gross receipts and sales taxes are considered measurable when in the hands of intermediary collecting government and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which are recognized when due.

Proprietary funds distinguish operating revenues and expenses from *non-operating items*. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues and expenses. All proprietary funds are accounted for using the *accrual basis of accounting*. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility services receivables related to water, wastewater, and sanitation services are recorded at year-end.

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

4. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The City, for financial purposes, includes all of the funds relevant to the operations of the City of Anna. Funds designated as "major" funds for the City each year are considered particularly important due to the level of activity in these funds. The General Fund is always considered a major fund for the City. For 2015, the Utility Fund is also a major fund. The various funds are grouped, in the financial statements in this report, into two fund categories as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Fund

Accounts for the acquisition and construction of governmental-type assets from expenditures of debt proceeds, capital grants, or other sources restricted for governmental type asset acquisition.

Special Revenue Funds

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

PROPRIETARY FUND TYPES

Utility Fund

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

5. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Other deposits with longer maturities are classified as investments.

6. Inventory

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

7. Capital Assets

Property, plant and equipment used in governmental fund type operations are shown on the Statement of Net Position, rather than governmental funds. The City has a \$5,000 capitalization threshold for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The service lives by type of asset are follows:

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

8. Long Term Liabilities

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

9. Due To and From Funds

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

10. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City will not pay any unused amounts when employees separate from service with the City. Vacation pay is accrued in the government-wide and proprietary financial statements.

11. Fund Balances

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

12. Budget and Budgetary Accounting

The official city budget is prepared for adoption for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

13. Revenue Recognition – Property taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end.

NOTE B - CASH, CASH EQUIVALENTS, AND POOLED INVESTMENTS

As of September 30, 2015, the City maintains banking accounts at Texas Star Bank, Independent Bank, and the state-operated Texpool system. The City’s investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC.

At September 30, 2015, City’s deposits held in its depository banks totaled \$15,546,170 with \$997,767 insured by the Federal Deposit Insurance Corporation. Securities have been pledged in the City’s name by the depository banks to collateralize 100% of all remaining deposits.

Summary of deposits with financial institutions:	
Primary government cash and cash equivalents	\$ 4,706,716
Primary government investments	2,181,313
Restricted cash	8,658,141
Deposits with financial institutions	<u>15,546,170</u>
Add: petty cash	1,860
Total primary government cash and other deposits	<u>\$ 15,548,030</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The City's pooled investments at September 30, 2015, are comprised of governmental investment pools in the Texas Local Government Investment Pool (TexPool) as follows:

	<u>Carrying Amount & Fair Value</u>
<u>Public fund investment pools:</u>	
TexPool General Account	\$ 205,782
TexPool Sewer Capital Improvement Fund	<u>56,532</u>
Total public funds investment pools:	\$ 262,314

Custodial credit risk

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

Interest rate risk

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

Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Concentration of credit risk

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

NOTE C – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Collin County Tax Assessor/Collector. The total property tax levy for the 2014/2015 tax year was \$3,291,889. At September 30, 2015, \$3,290,905 of the tax has been collected, which is 99.97%.

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

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

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

NOTE D - RECEIVABLES

Receivables at September 30, 2015, consisted of the following:

	Primary Government		
	General Fund	Other Governmental- Type Funds	Proprietary Fund
Property tax	\$ 45,974	\$ 8,691	\$ -
Sales tax	129,645	129,646	-
Franchise fees	92,820	-	-
Court fines	561,460	-	-
Loans (long-term)	-	141,737	-
Utility bills	-	-	598,228
Other	111,411	-	-
Gross receivables	941,310	280,074	598,228
Less: Allowance for uncollectibles	(532,019)	-	(136,463)
Net receivables	<u>\$ 409,291</u>	<u>\$ 280,074</u>	<u>\$ 461,765</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

GOVERNMENTAL FUND TYPE ACTIVITIES

Governmental fund type capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 2,039,210	\$ 138,666	\$ -	\$ 2,177,876
Construction in progress	437,057	69,052	(437,056)	69,053
Depreciable assets:				
Park improvements	5,355,204	54,879	437,056	5,847,139
Buildings	1,483,499	92,810	-	1,576,309
Furniture and fixtures	219,196	85,810	-	305,006
Streets and drainage	16,076,076	1,353,862	-	17,429,938
Machinery and equipment	2,202,455	257,077	(77,205)	2,382,327
Totals at historical cost	27,812,697	2,052,156	(77,205)	29,787,648
Less: Accumulated depreciation	(9,025,140)	(1,425,588)	51,364	(10,399,364)
Governmental fund type capital assets, net	\$ 18,787,557	\$ 626,568	\$ (25,841)	\$ 19,388,284

PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land and easements	\$ 411,068	\$ 296,948	\$ -	\$ 708,016
Construction in progress	3,423,222	643,110	(3,333,839)	732,493
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	486,244	-	-	486,244
Equipment	1,349,770	42,956	-	1,392,726
Water treatment system	5,994,665	1,034,221	825,121	7,854,007
GTUA water improvements	16,979,634	366	(366)	16,979,634
GTUA sewer improvements	939,796	-	-	939,796
Water and sewer system	13,617,049	894,813	2,508,718	17,020,580
Totals at historical cost	43,207,068	2,912,414	(366)	46,119,116
Less: Accumulated depreciation	(9,391,769)	(1,326,634)	-	(10,718,403)
Proprietary fund type activities capital assets, net	\$ 33,815,299	\$ 1,585,780	\$ (366)	\$ 35,400,713

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<i>Governmental activities:</i>	
Streets	\$ 852,935
Parks	326,879
Police	135,762
General government	24,985
Fire	66,698
Economic development	18,329
Total depreciation expense - governmental activities	<u>\$ 1,425,588</u>
 <i>Business-type activities:</i>	
Water and sewer	<u>\$ 1,326,634</u>
Total depreciation expense - business-type activities	<u>\$ 1,326,634</u>

NOTE F - LONG-TERM DEBT

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

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

Fiscal Year Ended	Total		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,207,903	\$ 1,212,408	\$ 462,153	\$ 195,201	\$ 745,750	\$ 1,017,206
2017	1,199,236	1,163,918	426,736	186,501	772,500	977,417
2018	1,150,724	1,306,997	407,474	214,662	743,250	1,092,335
2019	1,438,462	1,531,601	439,712	273,326	998,750	1,258,275
2020	1,859,799	1,483,952	413,549	283,543	1,446,250	1,200,409
2021-2025	10,268,718	5,787,059	2,231,218	1,044,595	8,037,500	4,742,464
2026-2030	8,952,250	2,355,613	1,334,000	314,350	7,618,250	2,041,263
2031-2035	5,037,500	723,975	270,000	8,906	4,767,500	715,069
2036-2040	1,036,250	171,799	-	-	1,036,250	171,799
	<u>\$ 32,150,842</u>	<u>\$ 15,737,322</u>	<u>\$ 5,984,842</u>	<u>\$ 2,521,084</u>	<u>\$ 26,166,000</u>	<u>\$ 13,216,238</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of the terms of the City's long-term debt at September 30, 2015:

Governmental Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2015	Due Within One Year
2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 650,000	\$ 120,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	795,000	95,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	205,000	25,000
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	720,000	40,000
Series 2014B General Obligation Refunding Bond	1,462,000	2014	2/15/2026	.3%-2.395%	1,410,000	27,000
EDC - Note payable	335,000	2012	11/14/2021	4.465%	223,876	32,255
EDC - Note payable	380,300	2008	2018	5%	166,966	40,898
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	396,000	2012	2/15/2018	3.25%	204,000	67,000
CDC - Sales Tax Revenue Bonds-Series 2012B	\$ 1,655,000	2012	2032	3.30%	1,610,000	15,000
Compensated absences					101,716	101,716
Total Governmental Activities					\$ 6,086,558	\$ 563,869

Business-Type Activities:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2015	Due Within One Year
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	\$ 5,000	\$ 5,000
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	1,990,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,355,000	100,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	555,000	35,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	820,000	50,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	1,710,000	105,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,110,000	50,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	395,000	25,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	488,750	26,250
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%	1,007,500	52,500
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	1,705,000	-
2012 combination tax and revenue certificates of obligation	4,210,000	2013	2/15/2033	1.5%-2.5%	4,130,000	80,000
2014 combination tax and revenue certificates of obligation	\$ 4,180,000	2014	2/15/2034	2.0%-3.65%	4,180,000	70,000
Series 2014A refunding bonds	\$ 2,598,000	2014	2/15/2026	2.11%	2,546,000	52,000
Bond premiums	various	various	various	n/a	83,867	-
Total Business-Type Activities					26,249,867	745,750
Total general debt (Governmental Type and Business-Type Activities)					\$ 32,336,425	\$ 1,309,619

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 1,755,000	\$ -	\$ (1,105,000)	\$ 650,000	\$ 120,000
2007 Certificate of Obligation	885,000	-	(90,000)	795,000	95,000
2007 Revenue Bond	230,000	-	(25,000)	205,000	25,000
2011 Public Property Finance Act Certificates of Obligation	344,000	-	(344,000)	-	-
Series 2014B General Obligation Regunding Bond	-	1,462,000	(52,000)	1,410,000	27,000
EDC - FY12 Bank note payable - 4.465% a.p.r. Matures 11/14/2021 - Original issue - \$335,000	254,724	-	(30,848)	223,876	32,255
EDC - FY08 Bank note payable - 5% a.p.r. - Matures 2019 - Original amount was \$380,300	205,894	-	(38,928)	166,966	40,898
2009 Tax and Revenue Certificate of Obligation	755,000	-	(35,000)	720,000	40,000
CDC - Sales Tax Revenue Refunding Bonds- Series 2012A	269,000	-	(65,000)	204,000	67,000
CDC Sales Tax Revenue Bonds- Series 2012B	1,625,000	-	(15,000)	1,610,000	15,000
Other liabilities	114,653	-	(12,937)	101,716	101,716
Total Governmental activity long term liabilities	\$ 6,438,271	\$ 1,462,000	\$ (1,813,713)	\$ 6,086,558	\$ 563,869

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
1976 General Obligation Water Bonds	\$ 10,000	\$ -	\$ (5,000)	\$ 5,000	\$ 5,000
2005 GTUA contract	2,085,000	-	(95,000)	1,990,000	95,000
Series 2006 GTUA contract revenue bonds (12&15)	1,455,000	-	(100,000)	1,355,000	100,000
Series 2007 GTUA contract revenue bonds	590,000	-	(35,000)	555,000	35,000
2007 GTUA contract	870,000	-	(50,000)	820,000	50,000
2007 GTUA contract	1,810,000	-	(100,000)	1,710,000	105,000
2007 GTUA contract	3,160,000	-	(50,000)	3,110,000	50,000
2008 GTUA contract	420,000	-	(25,000)	395,000	25,000
CGMA Pipeline Project Phase I	513,750	-	(25,000)	488,750	26,250
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,057,500	-	(50,000)	1,007,500	52,500
2009 combination tax and revenue refunding bond	4,040,000	-	(2,335,000)	1,705,000	-
2012 combination tax and revenue certificates of obligation	4,210,000	-	(80,000)	4,130,000	80,000
2014 combination tax and revenue certificates of obligation	4,180,000	-	-	4,180,000	70,000
Series 2014A refunding bonds	-	2,598,000	(52,000)	2,546,000	52,000
Bond premiums	83,867	-	-	83,867	-
Total business-type activities long term liabilities	\$ 26,653,867	\$ 2,598,000	\$ (3,002,000)	\$ 26,249,867	\$ 745,750

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CONTRACTUAL OBLIGATIONS WITH GREATER TEXOMA UTILITY AUTHORITY

Under the terms of long term water supply and sewer service contracts between the City and Greater Texoma Utility Authority (GTUA), the City recognizes that GTUA has an undivided ownership interest in the City's water system and sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance of GTUA bonds.

The City has a contractual obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds. Under terms of the contracts the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facilities terminates, when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

Collin Grayson Municipal Alliance Transmission Water Pipeline

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

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

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

CDC Series 2012A Sales Tax Revenue Refunding Bonds

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CDC Series 2012B Sales Tax Revenue Bonds

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

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

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

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

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

Series 2014A, \$2,598,000 Combination Tax and Revenue Refunding Bonds

Dated October 28, 2014, these Utility Fund certificates of obligation were issued to partially refund \$2,598,000 of bonds from the Series 2009 Combination Tax and Revenue Refunding Bonds (“Series 2009”). This ten-year debt has interest rates of 0.3% to 2.395% that will be paid each February and August 15th. Principal is paid every February 15th. The debt is to be repaid with Utility Fund revenue. Final maturity is on February 15, 2016.

Series 2014B, \$1,462,000 General Obligation Refunding Bonds

Dated October 28, 2014, this governmental-type refunding bonds were issued to partially refund \$990,000 of the Series 2006 Combination Tax and Limited Surplus Revenue Certificates of Obligation (“Series 2006 C.O.’s”). This ten-year debt has interest rates of 0.3% to 2.395% that will be paid each February and August 15th. Principal is paid every February 15th. The debt is to be repaid with governmental revenue. Final maturity is on February 15, 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G – PRIOR PERIOD ADJUSTMENTS

The City had the following restatements to net position:

<u>Government-wide effects</u>	Governmental Activities
Net Position - beginning as previously reported	\$ 16,002,249
Prior period adjustment - Deferred outflows for TMRS contributions	144,779
Prior period adjustment - Net pension liability per GASB 68	(694,843)
Net Position - beginning as adjusted	<u>\$ 15,452,185</u>
 <u>Proprietary Fund Types</u>	 Utility Fund
Net Position - beginning	\$ 19,436,530
Prior period adjustment - Deferred outflows for TMRS contributions	51,894
Prior period adjustment - Net pension liability per GASB 68	(252,433)
Net Position - beginning as adjusted	<u>\$ 19,235,991</u>

NOTE H – FUND BALANCES AND RESTRICTED NET POSITION

Governmental-Type Fund Balances

The City authorized the City Administrator to designate certain fund balances as assigned. Excluding unassigned fund balances, the following describes the City’s fund balance classifications at September 30, 2015:

Restricted Fund Balances

All fund balances in spendable form for the Capital Projects, Debt Service, and Special Revenue funds are restricted for the intended purpose of these funds. Restricted Fund Balances of \$523,192 for the General Fund represents assets restricted by law or by agreements with third parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Impact fees for park improvements	\$	277,874
Eastside Park improvements		12,645
Fire Department improvements		76,347
State Seizure funds held in trust		17,878
Impact fees for street improvements		66,606
Public Education Government Fees		40,083
Child safety programs		3,917
Municipal court building security		14,962
Court bond funds held in trust		5,677
Municipal court technology		4,411
Sweetwater Crossing funds held in trust		463
Law enforcement officer training fund		2,329
	\$	<u>523,192</u>

Committed Fund Balances

The City Council has committed \$157,476 of General Fund fund balance for 2016 revenue stabilization in the event of budget shortfalls. This contingency amount must be expended in accordance with Section 7.08 of the Anna City Charter.

Negative Fund Balances

The Capital Projects Fund has a negative \$158,974 fund balance and the Debt Service Fund has a \$44,165 negative fund balance at September 30, 2015. The City's annual budget is adopted and amended as necessary to ensure any negative fund balances are only temporary in nature. The City expects both fund balances to become positive during fiscal year 2016 with reimbursement made to them by other funds and/or third parties.

Proprietary Fund Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At September 30, 2015, the City's proprietary fund net position was restricted for the following purposes:

- The Utility Fund has restricted deposits held in trust by GTUA in the amount of \$2,029,390 that will be used for water and sewer system capital improvements and repayment of contractual obligations.
- The Utility Fund has restricted net position in the form of cash deposits, pooled investments, and due from other fund balances totaling \$8,000,466 that will be used for water and sewer system capital improvements and debt service related to such improvements. The balance is comprised of the following Statement of Net Position balances:

Restricted pooled investments	\$ 56,532
Restricted cash for capital improvements	3,317,598
Special purpose operating account	4,626,336
	\$ 8,000,466

NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2015 are as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General	Utility	\$ 200,195	For services earned/paid on behalf of other fund.
General	Capital Projects	\$ 355,884	For services earned/paid on behalf of other fund.
General	Debt Service	\$ 54,850	For services earned/paid on behalf of other fund.
Capital Projects	Utility	\$ 40,328	For services earned/paid on behalf of other fund.

The net internal balances between governmental and proprietary type funds presented above is \$240,523.

Interfund transfers during fiscal year 2015 are as follows:

Transfer In Fund	Transfer Out Fund	Amount	Purpose
Capital Projects	General	\$ 190,277	To transfer cash for capital projects.
Utility	Debt Service	\$ 84,153	To support I&S payments.
Capital Projects	Utility	\$ 84,153	To support future capital facility needs of the City.
Utility	Debt Service	\$ 65,312	To support I&S payments.
Capital Projects	Utility	\$ 65,312	To support future capital facility needs of the City.
Utility	Debt Service	\$ 19,490	To support I&S payments.
Capital Projects	Utility	\$ 19,490	To support future capital facility needs of the City.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to litigation, theft, property damage, errors and omissions, injuries, and natural disasters. The City's insurance is by membership in the Texas Municipal League, a public entity risk pool operated by the Texas Municipal League Board for the benefit of governmental units in Texas. Insurance in effect at September 30, 2015 is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

NOTE K – PENSION PLAN

A. Plan Description

The City of Anna participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Employee deposit rate	7
Matching ratio (City to employee)	2-1
Years required for vesting	5 years of service
Service retirement eligibility	Minimum age 60 with 5 years of service Any age with 20 years of service
Updated service credits	0%
Annuity increase (to retirees)	0% of CPI

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	15
Active employees	44
<hr/> Total	<hr/> 62

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.49% and 11.11% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$322,913, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-term Expected Real Rate of return (arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2013	\$ 3,838,212	\$ 2,890,936	\$ 947,276
Changes for the year:			
Service Cost	429,268	-	429,268
Interest	277,884	-	277,884
Change of benefit terms	-	-	-
Difference between expected and actual experience	(173,824)	-	(173,824)
Changes of assumptions	-	-	-
Contributions - employer	-	270,279	(270,279)
Contributions - employee	-	170,293	(170,293)
Net investment income	-	165,488	(165,488)
Benefit payments, including refunds of employee contributions	(166,160)	(166,160)	-
Administrative expense	-	(1,727)	1,727
Other Changes	-	(142)	142
Net Changes	367,168	438,031	(70,863)
Balance at 12/31/2014	\$ 4,205,380	\$ 3,328,967	\$ 876,413

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

1% Decrease 6.00%	Current Single Rate assumption 7.00%	1% Increase 8.00%
\$1,624,806	\$876,413	\$278,109

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended of September 30, 2015 the City recognized pension expense of \$322,913. The calculation and amount is provided in the GRS Reporting Package.

At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred (Inflows) / Outflows in Future Expense
Differences between expected and actual economic experience	\$ (150,080)
Changes in actuarial assumptions	\$ -
Difference between projected and actual investment earnings	\$ 29,502
Contributions subsequent to the measurement date	\$ 276,645
Total	<u>\$ 156,067</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$276,645 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending on September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Net deferred outflows (inflows) of resources
2015	\$ (16,368)
2016	(16,368)
2017	(16,368)
2018	(16,370)
2019	(23,744)
<u>Thereafter</u>	<u>(31,360)</u>
Total	\$ (120,578)

F. Other Postemployment Benefit

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

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

The City’s contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$3,182, \$3,135 and \$2,890, respectively, which equaled the required contributions each year.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance, which is the date of the auditor’s report, and there are no known items.

REQUIRED SUPPLEMENTARY INFORMATION

City of Anna, Texas
Budgetary Comparison Schedule
Budget and Actual - General Fund
For the Year Ended September 30, 2015

	Original Budget	Amended Budget	Actual Amounts	Variance with Amended Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,788,561	\$ 2,788,561	\$ 2,790,773	\$ 2,212
Sales	630,000	700,000	736,481	36,481
Franchise	365,000	440,000	450,799	10,799
Building permits	324,000	324,000	381,318	57,318
Developer and impact fees	135,250	135,250	92,012	(43,238)
Intergovernmental	108,925	108,925	114,200	5,275
Court	113,950	113,950	115,027	1,077
Inspection fees	-	-	187,925	187,925
Other development fees	55,300	55,300	86,957	31,657
Fire	69,406	69,406	69,826	420
Parks	10,950	20,950	63,265	42,315
Other revenue	39,592	39,592	59,958	20,366
Grants and contributions	132,569	132,569	15,053	(117,516)
Investment earnings	12,000	12,000	17,371	5,371
Police	7,607	7,607	25,400	17,793
Total revenues	<u>4,793,110</u>	<u>4,948,110</u>	<u>5,206,365</u>	<u>258,255</u>
Expenditures				
Current:				
Police	1,430,264	1,423,900	1,370,091	53,809
Administrative and general	1,012,129	1,034,079	1,042,050	(7,971)
Development and animal control	558,188	538,188	559,583	(21,395)
Fire	735,107	738,107	688,371	49,736
Parks	229,989	249,989	246,808	3,181
Streets	182,221	182,221	200,188	(17,967)
Ambulance	123,683	123,683	124,155	(472)
Court	138,519	138,519	132,675	5,844
Capital outlays:	247,412	496,362	469,276	27,086
Total expenditures	<u>4,657,512</u>	<u>4,925,048</u>	<u>4,833,197</u>	<u>91,851</u>
Excess of revenues over (under) expenditures	135,598	23,062	373,168	350,106
Other financing sources (uses)				
Proceeds from sold assets	39,000	104,000	65,000	(39,000)
Transfers in (out)	-	-	(190,276)	(190,276)
Total other financing sources(uses)	<u>39,000</u>	<u>104,000</u>	<u>(125,276)</u>	<u>(229,276)</u>
Net changes in fund balance	174,598	127,062	247,892	120,830
Fund balance - beginning	<u>3,050,716</u>	<u>3,050,716</u>	<u>3,050,716</u>	
Fund balances - ending	<u>\$ 3,225,314</u>	<u>\$ 3,177,778</u>	<u>\$ 3,298,608</u>	

Notes to the budgetary comparison schedule: This schedule was prepared on the modified-accrual basis of accounting and thus has no reconciling items with General Fund amounts on the Statement of Revenues, Expenditures, and Changes in Fund Balances presented on page 14.

CITY OF ANNA
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)

	2014
Total pension liability	
Service Cost	\$ 429,268
Interest (on the Total Pension Liability)	277,884
Changes of benefit terms	-
Difference between expected and actual experience	(173,824)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(166,160)
Net Change in Total Pension Liability	367,168
Total Pension Liability - Beginning	3,838,212
Total Pension Liability - Ending (a)	\$ 4,205,380
Plan Fiduciary Net Position	
Contributions - Employer	\$ 270,279
Contributions - Employee	170,293
Net Investment Income	165,488
Benefit payments, including refunds of employee contributions	(166,160)
Administrative Expense	(1,727)
Other	(142)
Net Change in Plan Fiduciary Net Position	438,031
Plan Fiduciary Net Position - Beginning	2,890,936
Plan Fiduciary Net Position - Ending (b)	\$ 3,328,967
Net Pension Liability - Ending (a) - (b)	\$ 876,413
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.16%
Covered Employee Payroll	\$ 2,432,756
Net Pension Liability as a Percentage of Covered Employee Payroll	36.03%

Notes to Schedule:

GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this schedule over the next 10 year period.

CITY OF ANNA
SCHEDULE OF T.M.R.S.CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	2015
Actuarially Determined Contribution	\$ 353,170
Contributions in relation to the actuarially determined	\$ 353,170
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 2,881,090
Contributions as a percentage of covered employee payroll	12.26%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes

Adopted 20 year, any age retirement eligibility.

COMBINING STATEMENTS – NON-MAJOR GOVERNMENTAL FUNDS

CITY OF ANNA, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL TYPE FUNDS
SEPTEMBER 30, 2015

	Capital Projects Fund	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 156,584	\$ 10,684	\$ 493,422	\$ 477,565	\$ 1,138,255
Accounts receivable - Net					
Ad valorem taxes	-	8,691	-	-	8,691
Sales tax	-	-	64,823	64,823	129,646
Due from other funds	40,326	-	-	-	40,326
Note Receivable - Local business	-	-	41,310	100,427	141,737
Total current assets	<u>196,910</u>	<u>19,375</u>	<u>599,555</u>	<u>642,815</u>	<u>1,458,655</u>
LIABILITIES					
Liabilities:					
Due to other funds	<u>355,884</u>	<u>54,850</u>	<u>-</u>	<u>-</u>	<u>410,734</u>
Total liabilities	<u>355,884</u>	<u>54,850</u>	<u>-</u>	<u>-</u>	<u>410,734</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property taxes	-	8,690	-	-	8,690
Unavailable revenues - business loans	-	-	41,310	100,427	141,737
Total deferred inflows of resources	<u>-</u>	<u>8,690</u>	<u>41,310</u>	<u>100,427</u>	<u>150,427</u>
FUND BALANCES:					
Restricted for:					
Economic development	-	-	-	542,388	542,388
Community development	-	-	558,245	-	558,245
Unassigned	<u>(158,974)</u>	<u>(44,165)</u>	<u>-</u>	<u>-</u>	<u>(203,139)</u>
Total fund balances	<u>(158,974)</u>	<u>(44,165)</u>	<u>558,245</u>	<u>542,388</u>	<u>897,494</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 196,910</u>	<u>\$ 19,375</u>	<u>\$ 599,555</u>	<u>\$ 642,815</u>	<u>\$ 1,458,655</u>

CITY OF ANNA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL TYPE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Capital Projects Fund	Debt Service Fund	Community Development Corporation	Economic Development Corporation	Total Other Governmental Funds
REVENUES					
Taxes					
Ad valorem	\$ -	\$ 526,744	\$ -	\$ -	\$ 526,744
Sales and use	-	-	368,308	368,308	736,616
Other income	500	-	35,935	-	36,435
Grants and contributions	120,896	-	-	-	120,896
Rentals	-	-	-	30,000	30,000
Interest earned	392	964	2,578	2,380	6,314
Total revenues	<u>121,788</u>	<u>527,708</u>	<u>406,821</u>	<u>400,688</u>	<u>1,457,005</u>
EXPENDITURES					
Operating:					
General government	2,291	4,664	108,658	11,346	126,959
Promotions	-	-	35,612	37,097	72,709
Contract services	-	-	4,648	139,475	144,123
Capital Outlays:	237,345	-	48,914	-	286,259
Debt Service:					
Principal retirement	-	317,000	80,000	69,776	466,776
Interest expense	-	121,942	58,155	20,234	200,331
Total expenditures	<u>239,636</u>	<u>443,606</u>	<u>335,987</u>	<u>277,928</u>	<u>1,297,157</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(117,848)</u>	<u>84,102</u>	<u>70,834</u>	<u>122,760</u>	<u>159,848</u>
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	1,462,000	-	-	1,462,000
Debt Issuance	-	(38,350)	-	-	(38,350)
Debt principal paid to refunding escrow bond	-	(1,334,000)	-	-	(1,334,000)
Other payments to refunding escrow bond	-	(77,398)	-	-	(77,398)
Transfers In (Out) - General Fund	190,277	-	-	-	190,277
Transfers In (Out) - Utility Fund	84,153	(84,802)	-	-	(649)
Total other financing sources (uses)	<u>274,430</u>	<u>(72,550)</u>	<u>-</u>	<u>-</u>	<u>201,880</u>
Net change in fund balances	156,582	11,552	70,834	122,760	361,728
Fund balances beginning, October 1	<u>(315,556)</u>	<u>(55,717)</u>	<u>487,411</u>	<u>419,628</u>	<u>535,766</u>
Fund balances ending, September 30	<u>\$ (158,974)</u>	<u>\$ (44,165)</u>	<u>\$ 558,245</u>	<u>\$ 542,388</u>	<u>\$ 897,494</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



LaFollett and Abbott PLLC
Certified Public Accountants

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

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Anna, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Anna, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 8, 2016.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiency to be a material weakness: Finding 2015-1 – Year-end closing procedures for the Utility Fund did not identify and capitalize \$767,937 of new long-term assets and also did not record the new \$2,598,000 of Series 2014A Combination Tax and Revenue Refunding Bonds long-term debt.

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

Compliance and Other Matters

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

City of Anna, Texas Response to Findings

The City's response is as follows:

Each year the City of Anna has relied upon the expertise of an accounting consultant to complete year end closing entries and reconciliations. Each year City staff has been diligent to achieve greater responsibility in the year-end processes and diminish the role of the consultant; however, increased development, including capital projects, has led to more complex accounting transactions and entries. In particular, FY 15 included significant capital project activity and debt transactions issued to refund existing debt instruments into more favorable terms. The increased capital project activity and refunded debt are directly related to the material weakness identified.

The first issue resulting in not identifying and capitalizing \$767,937 in capital projects was an oversight by staff that can be easily corrected in future years. All internal work papers included the assets on the capital outlay and depreciation schedules, but did not include the final adjusting entry to capitalize the expenditures. Staff will conduct an additional check reconciling internal work papers to the general ledger trial balance once all adjusting entries have been entered into the accounting system. Once the weakness was identified, staff completed the work and presented the proposed entry to the auditors which was subsequently accepted.

The second issue resulting in not recording the \$2,598,000 in new debt issued to refund existing bonds was the result of poor coordination between staff and our accounting consultant and was overlooked in the Utility Fund debt work papers. Staff has discussed the issue with the consultant and once the weakness was identified, the consultant performed the work and presented the proposed entry to the auditors which was subsequently accepted. This weakness can easily be remedied by more effective coordination with the consultant on debt issues. Staff waits until the end of the fiscal year to coordinate any entries related to debt issues when all adjusting entries related to existing debt are entered into the general ledger. Journal transactions for new debt involve several general ledger accounts and can be difficult especially when refunding debt. As a matter of practice and policy, staff will coordinate with the consultant immediately following the issue of all future debt rather than waiting until the end of the fiscal year.

Finally, the City of Anna finance department added a full time accountant in the middle part of FY 15. Having a full time accountant has reduced reliance upon our accounting consultant for the FY 15 audit and we anticipate this trend to continue in future years.

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

Purpose of this Report

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

In Fallito and Abbott PLLC

Tom Bean, Texas
March 8, 2016