

**CITY OF KRUM**  
**ANNUAL FINANCIAL REPORT**  
**SEPTEMBER 30, 2014**



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**CITY OF KRUM**  
**ANNUAL FINANCIAL REPORT**  
**September 30, 2014**

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## **FINANCIAL SECTION**

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*Certified Public Accountants*  
A Professional Corporation

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## **INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Krum, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate blended presented component units, each major fund, and the aggregate remaining fund information of the City of Krum, Texas as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity'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, the business-type activities, the aggregate blended presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2014, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 3-10 and 46-48 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. 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 introductory section, and combining and individual nonmajor fund financial statements 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*AuldridgeGriffin, P.C.*

Fort Worth, Texas  
March 24, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Krum's discussion and analysis offers readers of the City's financial statement a narrative overview and analysis of the City's financial activities for the year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements.

The government-wide financial statements include only the City of Krum and its blended component units (known as the primary government). Information included in this discussion and analysis focuses on the activities of the primary government.

### FINANCIAL HIGHLIGHTS

- The City's total combined net position was \$9,717,079 at September 30, 2014 of which \$6,429,454 was unrestricted.
- During the year, the City's expenses were \$563,245 less than the \$5,514,582 generated in taxes and other revenues for all City activities.
- The general fund reported a fund balance at September 30, 2014 of \$519,514 of which \$551,654 is subject to use at the City's discretion.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting City's operations in *more detail* than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
  - Proprietary fund statements offer *short-term* and *long-term* financial information about the activities the government operates like *businesses*.
- The financial statements also include *notes to the financial statements* explaining some of the information in the financial statements and provide more detailed data.
- The report also contains other supplementary information in addition to the basic financial statements themselves.

**Figure A-1. Required Components of the City's Annual Financial Report**

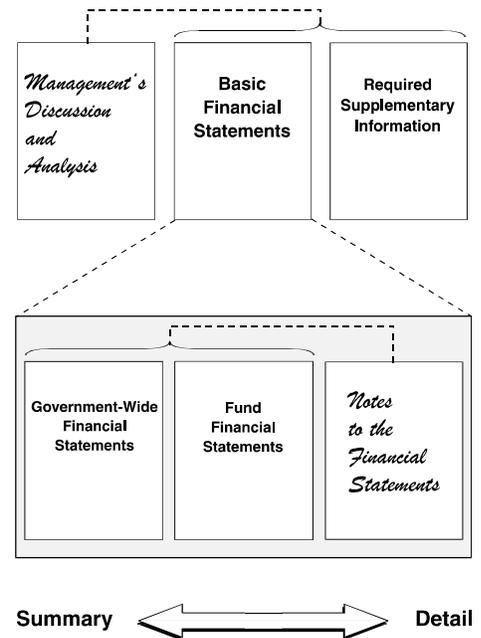


Figure A-1 shows how the required parts of this annual report are arranged and related to one another. Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the City’s Government-wide and Fund Financial Statements**

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency’s government (except fiduciary funds) and the Agency’s component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else’s resources
Required financial statements	♦ Statement of net position	♦ Balance sheet	♦ Statement of net position	♦ Statement of fiduciary net assets
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net position ♦ Statement of cash flows	♦ Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City’s *net position* and how it has changed. Net position, the difference between the City’s assets and liabilities, is one way to measure the City’s financial health.

- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City’s tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City’s basic services are included here, such as general government, municipal court, public safety, public works, culture and recreation, economic development, interest on long-term debt, and depreciation. Property taxes, sales taxes, fees for service and grants represent the primary sources that finance most of these activities.

## Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliations that explain the relationship (or differences) between them.
- *Proprietary funds (business type funds)*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net position:** The City's *combined* net position was \$9,717,079 at September 30, 2014 (see Table A-1).

**Table A-1**  
**City's Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	\$ 5,451,698	\$ 3,563,136	\$ 2,864,265	\$ 2,578,769	\$ 8,315,963	\$ 6,141,905
Capital and non-current assets	5,674,799	4,875,223	6,079,212	6,218,352	11,754,011	11,093,575
Total assets	<u>11,126,497</u>	<u>8,438,359</u>	<u>8,943,477</u>	<u>8,797,121</u>	<u>20,069,974</u>	<u>17,235,480</u>
<b>Liabilities</b>						
Current liabilities	750,083	525,747	505,392	453,776	1,255,475	979,523
Long-term liabilities	5,371,225	3,553,080	3,616,992	3,549,043	8,988,217	7,102,123
Total liabilities	<u>6,121,308</u>	<u>4,078,827</u>	<u>4,122,384</u>	<u>4,002,819</u>	<u>10,243,692</u>	<u>8,081,646</u>
<b>Deferred inflows of resources</b>						
Bond premium	89,277	-	19,926	-	109,203	-
Total deferred inflows	<u>89,277</u>	<u>-</u>	<u>19,926</u>	<u>-</u>	<u>109,203</u>	<u>-</u>
<b>Net position</b>						
Net investment in fixed assets	22,349	1,108,572	2,120,908	2,353,634	2,143,257	3,462,206
Restricted	1,144,368	960,417	-	-	1,144,368	960,417
Unrestricted	3,749,195	2,290,543	2,680,259	2,440,668	6,429,454	4,731,211
Total net position	<u>\$ 4,915,912</u>	<u>\$ 4,359,532</u>	<u>\$ 4,801,167</u>	<u>\$ 4,794,302</u>	<u>\$ 9,717,079</u>	<u>\$ 9,153,834</u>

**Changes in net position.** The City's total revenues were \$ 5,514,582 and total expenses were \$4,951,337 resulting in a change in net position of \$563,245 (see Table A-2).

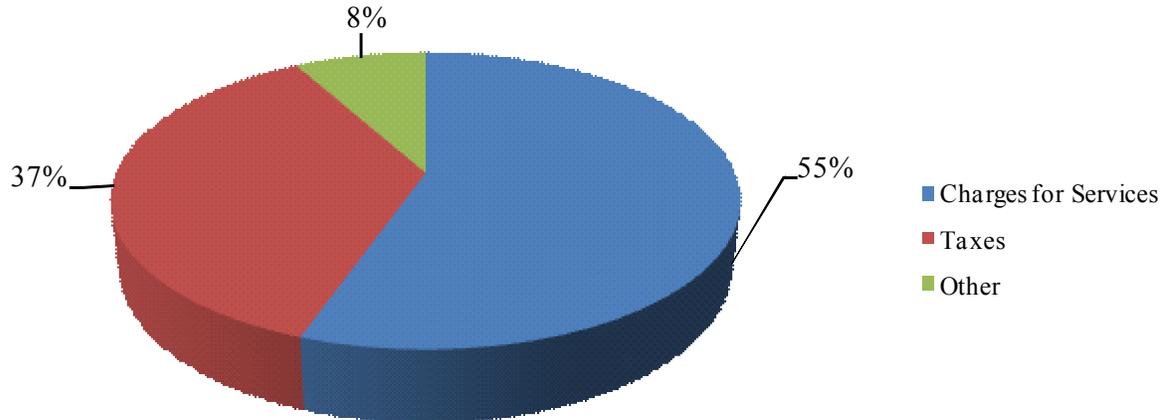
**Table A-2  
Changes in the City's Net Position**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,016,499	\$ 976,760	\$ 2,012,021	\$ 2,325,847	\$ 3,028,520	\$ 3,302,607
Capital grants & donations	245,688	-	-	-	245,688	-
Operating grants & donations	34,758	166,348	-	-	34,758	166,348
General revenues:						
Property taxes	1,438,075	1,393,621	-	-	1,438,075	1,393,621
Sales taxes	359,850	379,205	-	-	359,850	379,205
Franchise fees	197,050	175,719	-	-	197,050	175,719
Interest income	24,607	18,934	446	718	25,053	19,652
Loss on sale of asset	23,770	-	-	-	23,770	-
Other	160,948	32,591	870	229,293	161,818	261,884
<b>Total revenues</b>	<b>3,501,245</b>	<b>3,143,178</b>	<b>2,013,337</b>	<b>2,555,858</b>	<b>5,514,582</b>	<b>5,699,036</b>
<b>Expenses:</b>						
General government	650,910	560,120	-	-	650,910	560,120
Public safety	554,899	621,990	-	-	554,899	621,990
Fire and rescue	1,053,903	995,775	-	-	1,053,903	995,775
Municipal court	69,990	65,957	-	-	69,990	65,957
Public works	149,445	78,868	-	-	149,445	78,868
Culture and recreation	262,430	140,515	-	-	262,430	140,515
Economic development	29,402	36,272	-	-	29,402	36,272
Solid waste	196,532	173,150	-	-	196,532	173,150
Interest on long-term debt	171,802	126,652	257,453	352,742	429,255	479,394
Water and sewer	-	-	1,554,571	1,334,770	1,554,571	1,334,770
<b>Total expenses</b>	<b>3,139,313</b>	<b>2,799,299</b>	<b>1,812,024</b>	<b>1,687,512</b>	<b>4,951,337</b>	<b>4,486,811</b>
Excess before transfers	361,932	343,879	201,313	868,346	563,245	1,212,225
Transfers	194,448	(233,710)	(194,448)	233,710	-	-
<b>Change in net position</b>	<b>556,380</b>	<b>110,169</b>	<b>6,865</b>	<b>1,102,056</b>	<b>563,245</b>	<b>1,212,225</b>
<b>Net position - beginning of year</b>	<b>4,359,532</b>	<b>4,249,363</b>	<b>4,794,302</b>	<b>3,692,246</b>	<b>9,153,834</b>	<b>7,941,609</b>
<b>Net position - end of year</b>	<b>\$ 4,915,912</b>	<b>\$ 4,359,532</b>	<b>\$ 4,801,167</b>	<b>\$ 4,794,302</b>	<b>\$ 9,717,079</b>	<b>\$ 9,153,834</b>

## City Revenues

A significant portion, 53%, of the City's total revenues comes from charges for services and 35% comes from property, sales and franchise taxes. The remaining 12% is comprised of interest income, other charges, donations, and grant revenues (see Figure A-3).

**Figure A-3**  
Revenue Sources



## Growth Trends

### Governmental Activities

- The recent growth of the City is reflected in the slight increase in tax revenues received in the 2014 fiscal year. The City had a \$25,099 increase in additional tax revenues during 2014.

### Business-type Activities

Table A-3 presents the cost of each of the City's business-type activities as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local tax dollars.

- The cost of all *business-type* activities in fiscal 2014 was \$1,812,024.
- The charges for these services that our taxpayers paid in fiscal 2014 was \$2,012,021.

**Table A-3**  
Net Cost of Business-type Activities

	Total Cost of Services			Net Profit (Cost) of Services		
	2014	2013	% Change	2014	2013	% Change
Water and sewer	\$ 1,812,024	\$ 1,687,512	6.87%	\$ 199,997	\$ 638,335	-219.17%
<b>Total</b>	<b>\$ 1,812,024</b>	<b>\$ 1,687,512</b>	<b>6.87%</b>	<b>\$ 199,997</b>	<b>\$ 638,335</b>	<b>-219.17%</b>

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Including these adjustments, general fund revenues were \$183,598 over budgeted revenues and expenditures were \$31,603 under budgeted expenditures. The net budget increase for the general fund was \$215,201 for the year, which includes the net budget variances of other financing sources and uses and transfers.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At year end the City had invested \$11,754,011 in a broad range of capital assets, including land, equipment, buildings, and vehicles (see Table A-4).

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 326,916	\$ 253,625	\$ 166,910	\$ 166,910	\$ 493,826	\$ 420,535
Construction in progress	943,307	301,182	372,024	329,778	1,315,331	630,960
Park improvements	1,195,227	1,184,277	-	-	1,195,227	1,184,277
Infrastructure	1,851,232	1,851,232	8,313,647	8,313,647	10,164,879	10,164,879
Buildings and improvements	1,685,922	1,685,922	152,142	78,742	1,838,064	1,764,664
Equipment and vehicles	1,812,980	1,561,856	277,774	248,054	2,090,754	1,809,910
Other	-	-	63,382	63,382	63,382	63,382
Total at historical cost	7,815,584	6,838,094	9,345,879	9,200,513	17,161,463	16,038,607
Less accumulated depreciation	(2,140,785)	(1,962,871)	(3,266,667)	(2,982,161)	(5,407,452)	(4,945,032)
Net capital assets	<u>\$ 5,674,799</u>	<u>\$ 4,875,223</u>	<u>\$ 6,079,212</u>	<u>\$ 6,218,352</u>	<u>\$ 11,754,011</u>	<u>\$ 11,093,575</u>

#### Long-Term Debt

At year-end, the City had \$9,610,755 in long-term debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Notes payable	\$ 633,418	\$ 406,208	\$ -	\$ -	\$ 633,418	\$ 406,208
Capital leases	186,409	233,522	5,928	11,641	192,337	245,163
Bonds payable	4,832,623	3,126,923	3,952,377	3,853,077	8,785,000	6,980,000
Total	<u>\$ 5,652,450</u>	<u>\$ 3,766,653</u>	<u>\$ 3,958,305</u>	<u>\$ 3,864,718</u>	<u>\$ 9,610,755</u>	<u>\$ 7,631,371</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

An appraised ad-valorem taxable value used for the 2014 budget preparation was \$248 million dollars resulting in an estimated tax levy of \$1.84 million. The City's tax rate for 2014 is \$0.64749 per \$100 valuation. The maintenance and operation and debt service rates are \$0.46999 and \$0.17750 per \$100 valuation, respectively. This information was taken into consideration when adopting the budget for 2014. Additionally, estimated revenue from the water and sewer billing is projected to be \$1.83 million.

The tax rate of \$0.64749 together with the water and sewer revenue is expected to provide for adequate funding of expenditures in the general fund, water and sewer fund, and debt service fund to continue current operations and to appropriate funding for long-term debt and capital equipment.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Finance Director.

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF KRUM**  
**STATEMENT OF NET POSITION**  
**September 30, 2014**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 508,315	\$ 2,129,826	\$ 2,638,141
Receivables, net	201,633	212,251	413,884
Restricted cash and cash equivalents	4,741,750	522,188	5,263,938
Total current assets	<u>5,451,698</u>	<u>2,864,265</u>	<u>8,315,963</u>
Capital assets:			
Non-depreciable assets	1,270,223	538,934	1,809,157
Depreciable assets, net	4,404,576	5,540,278	9,944,854
Total capital assets	<u>5,674,799</u>	<u>6,079,212</u>	<u>11,754,011</u>
Total assets	<u>11,126,497</u>	<u>8,943,477</u>	<u>20,069,974</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	298,782	55,030	353,812
Salaries payable	10,720	621	11,341
Internal balances	38,352	(38,352)	-
Accrued interest	44,200	39,877	84,077
Customer deposits	-	96,188	96,188
Current portion long-term debt	358,029	352,028	710,057
Total current liabilities	<u>750,083</u>	<u>505,392</u>	<u>1,255,475</u>
Compensated absences	76,804	10,715	87,519
Long-term debt, less current portion	5,294,421	3,606,277	8,900,698
Total long-term liabilities	<u>5,371,225</u>	<u>3,616,992</u>	<u>8,988,217</u>
Total liabilities	<u>6,121,308</u>	<u>4,122,384</u>	<u>10,243,692</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Bond premium	89,277	19,926	109,203
	<u>89,277</u>	<u>19,926</u>	<u>109,203</u>
<b>NET POSITION</b>			
Net investment in capital assets	22,349	2,120,908	2,143,257
Restricted	1,144,368	-	1,144,368
Unrestricted	3,749,195	2,680,259	6,429,454
Total net position	<u>\$ 4,915,912</u>	<u>\$ 4,801,167</u>	<u>\$ 9,717,079</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF ACTIVITIES**  
**Year ended September 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>				
Governmental activities:				
Administration	\$ 650,910	\$ 100,483	\$ 8,502	\$ 215,688
Public safety	554,899	423	3,469	-
Fire and rescue	1,053,903	590,927	18,466	30,000
Municipal court	69,990	89,147	-	-
Streets	56,951	-	-	-
Development services	92,494	19,003	-	-
Library	216,237	15,340	2,276	-
Parks and recreation	46,193	3,810	2,045	-
Solid waste	196,532	197,366	-	-
Economic development corporation	29,402	-	-	-
Interest and amortization	171,802	-	-	-
Total governmental activities	<u>3,139,313</u>	<u>1,016,499</u>	<u>34,758</u>	<u>245,688</u>
Business-type activities:				
Water	797,821	955,562	-	-
Sewer	756,750	1,056,459	-	-
Interest and amortization	257,453	-	-	-
Total business-type activities	<u>1,812,024</u>	<u>2,012,021</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,951,337</u>	<u>\$ 3,028,520</u>	<u>\$ 34,758</u>	<u>245,688</u>

**General revenues:**

Taxes  
Property taxes, levied for general purposes  
Property taxes, levied for specific purposes  
Sales taxes  
Franchise fees  
Interest income  
Gain on disposal of assets  
Other  
Transfers  
Total general revenues and transfers  
Changes in net position

Net position - beginning of year  
Net position - end of year

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF ACTIVITIES**  
**Year ended September 30, 2014**

**Net (Expenses) Revenues and Changes in Net Assets**  
**Primary Government**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (326,237)	\$ -	\$ (326,237)
(551,007)	-	(551,007)
(414,510)	-	(414,510)
19,157	-	19,157
(56,951)	-	(56,951)
(73,491)	-	(73,491)
(198,621)	-	(198,621)
(40,338)	-	(40,338)
834	-	834
(29,402)	-	(29,402)
(171,802)	-	(171,802)
<u>(1,842,368)</u>	<u>-</u>	<u>(1,842,368)</u>
-	157,741	157,741
-	299,709	299,709
-	(257,453)	(257,453)
-	<u>199,997</u>	<u>199,997</u>
<u>(1,842,368)</u>	<u>199,997</u>	<u>(1,642,371)</u>
1,037,105	-	1,037,105
400,970	-	400,970
359,850	-	359,850
197,050	-	197,050
24,607	446	25,053
23,770	-	23,770
160,948	870	161,818
194,448	(194,448)	-
<u>2,398,748</u>	<u>(193,132)</u>	<u>2,205,616</u>
556,380	6,865	563,245
4,359,532	4,794,302	9,153,834
<u>\$ 4,915,912</u>	<u>\$ 4,801,167</u>	<u>\$ 9,717,079</u>

**CITY OF KRUM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2014**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 508,315	\$ -	\$ -
Receivables, net	140,767	5,558	23,462
Due from other funds	3,309	-	-
Restricted cash and cash equivalents	39,860	630,243	3,703,259
Total assets	<u>\$ 692,251</u>	<u>\$ 635,801</u>	<u>\$ 3,726,721</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 75,844	\$ -	\$ 222,938
Salaries payable	10,720	-	-
Due to other funds	-	-	41,661
Deferred revenue	14,173	5,558	-
Total liabilities	<u>100,737</u>	<u>5,558</u>	<u>264,599</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Bond premium	-	-	89,277
	<u>-</u>	<u>-</u>	<u>89,277</u>
<b>FUND BALANCES</b>			
Restricted	-	630,243	3,372,845
Committed	39,860	-	-
Unassigned	551,654	-	-
Total fund balances	<u>591,514</u>	<u>630,243</u>	<u>3,372,845</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 692,251</u>	<u>\$ 635,801</u>	<u>\$ 3,726,721</u>

The accompanying notes are an integral part of this financial statement.

<b>Krum Economic Development</b>	<b>4A Sales &amp; Use Tax Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 508,315
15,923	15,923	-	201,633
-	-	-	3,309
232,099	73,598	62,691	4,741,750
<u>\$ 248,022</u>	<u>\$ 89,521</u>	<u>\$ 62,691</u>	<u>\$ 5,455,007</u>
\$ -	\$ -	\$ -	\$ 298,782
-	-	-	10,720
-	-	-	41,661
-	-	-	19,731
<u>-</u>	<u>-</u>	<u>-</u>	<u>370,894</u>
-	-	-	89,277
<u>-</u>	<u>-</u>	<u>-</u>	<u>89,277</u>
248,022	89,521	62,691	4,403,322
-	-	-	39,860
-	-	-	551,654
<u>248,022</u>	<u>89,521</u>	<u>62,691</u>	<u>4,994,836</u>
<u>\$ 248,022</u>	<u>\$ 89,521</u>	<u>\$ 62,691</u>	<u>\$ 5,455,007</u>

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**CITY OF KRUM**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2014**

Total fund balance - governmental funds	\$ 4,994,836
Amounts reported for governmental activities in the statement of net position are different due to the following:	
Capital assets, net of accumulated depreciation, are not current financial resources and, therefore, are not reported in the fund-level balance sheet.	5,674,799
Long-term debt obligations which are not due in the current period and therefore, are not reported in the fund-level balance sheet.	(5,652,450)
Payables for compensated absences which are not due in the current period and, therefore, are not reported in the fund-level balance sheet.	(76,804)
Other liabilities related to long-term debt such as bond issuance costs and accrued interest are not reported in the fund-level balance sheet.	(44,200)
Current-year deferred property tax assessments are not available to pay current-year expenditures and, therefore, are deferred in the fund-level balance sheet.	19,731
Net position of governmental activities	\$ 4,915,912

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year ended September 30, 2014**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>REVENUES</b>			
Property taxes	\$ 1,034,722	\$ 403,306	\$ -
Sales taxes	180,808	-	-
Franchise fees	197,050	-	-
Licenses and permits	94,833	-	-
Fines and forfeitures	86,375	-	-
Charges for services	830,898	-	-
Donations	6,126	-	-
Grants	56,759	-	217,561
Interest	10,538	3,378	10,275
Other	167,651	-	16,155
Total revenues	<u>2,665,760</u>	<u>406,684</u>	<u>243,991</u>
<b>EXPENDITURES</b>			
Current:			
Administration	376,366	-	-
Public safety	522,626	-	-
Fire and rescue	934,758	-	-
Municipal court	54,933	-	-
Streets	56,951	-	-
Development services	92,494	-	-
Library	131,076	-	82,283
Parks and recreation	46,193	-	-
Solid waste	196,532	-	-
Economic development	-	-	-
Capital outlay	361,400	-	651,480
Capital outlay, non-capitalized	129,685	-	577
Debt service:			
Principal	111,902	169,300	-
Interest	20,268	120,527	-
Total expenditures	<u>3,035,184</u>	<u>289,827</u>	<u>734,340</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(369,424)</u>	<u>116,857</u>	<u>(490,349)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	350,588	(113,893)	(42,247)
Proceeds from long-term debt	-	-	2,167,000
Total other financing sources (uses)	<u>350,588</u>	<u>(113,893)</u>	<u>2,124,753</u>
Net change in fund balances	(18,836)	2,964	1,634,404
Fund balances - beginning of year	610,350	627,279	1,738,441
Fund balances - end of year	<u>\$ 591,514</u>	<u>\$ 630,243</u>	<u>\$ 3,372,845</u>

The accompanying notes are an integral part of this financial statement.

<b>Krum Economic Development</b>	<b>4A Sales &amp; Use Tax Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,438,028
89,521	89,521	-	359,850
-	-	-	197,050
-	-	-	94,833
-	-	4,393	90,768
-	-	-	830,898
-	-	-	6,126
-	-	-	274,320
416	-	-	24,607
900	-	2	184,708
<u>90,837</u>	<u>89,521</u>	<u>4,395</u>	<u>3,501,188</u>
-	-	-	376,366
-	-	-	522,626
-	-	-	934,758
-	-	14,965	69,898
-	-	-	56,951
-	-	-	92,494
-	-	-	213,359
-	-	-	46,193
-	-	-	196,532
29,402	-	-	29,402
73,291	-	-	1,086,171
-	-	-	130,262
-	-	-	281,202
-	-	-	140,795
<u>102,693</u>	<u>-</u>	<u>14,965</u>	<u>4,177,009</u>
<u>(11,856)</u>	<u>89,521</u>	<u>(10,570)</u>	<u>(675,821)</u>
-	-	-	194,448
-	-	-	2,167,000
-	-	-	2,361,448
(11,856)	89,521	(10,570)	1,685,627
259,878	-	73,261	3,309,209
<u>\$ 248,022</u>	<u>\$ 89,521</u>	<u>\$ 62,691</u>	<u>\$ 4,994,836</u>

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**CITY OF KRUM**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**Year ended September 30, 2014**

Net change in fund balances - total governmental funds	\$ 1,685,627
Amounts reported for governmental activities in the statement of activities are different due to the following:	
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	1,086,171
Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported with expenditures in the governmental funds.	(286,595)
Current-year long-term debt principal payments on leases, notes, and other debt are reported as expenditures in the fund financial statements, but are shown as reductions in the long-term debt in the government-wide financial statements.	281,202
Current-year changes in liabilities for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(12,072)
Deferred revenues are recognized in the government-wide financial statements, but not in the fund financial statements.	47
The issuance of long-term debt is an other financing source at the fund financial statements but is an increase in a liability on the government-wide statements.	(2,167,000)
Other liabilities related to long-term debt such as accrued interest are not reported in the fund-level balance sheet.	(31,000)
Changes in net position - governmental activities	\$ 556,380

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2014**

	<u><b>Enterprise Fund - Water and Sewer</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,129,826
Receivables, net	212,251
Prepaid expense	
Due from other funds	38,352
Restricted cash and cash equivalents	522,188
Total current assets	<u>2,902,617</u>
Capital assets:	
Non-depreciable assets	538,934
Depreciable assets, net	5,540,278
Total capital assets	<u>6,079,212</u>
Total assets	<u>8,981,829</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	55,030
Salaries payable	621
Accrued interest	39,877
Customer deposits	96,188
Current portion long-term debt obligations	352,028
Total current liabilities	<u>543,744</u>
Compensated absences	10,715
Long-term debt obligations, less current portion	3,606,277
Total long-term liabilities	<u>3,616,992</u>
Total liabilities	<u>4,160,736</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Bond premium	19,926
Total deferred inflows of resources	<u>19,926</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,120,908
Unrestricted	2,680,259
Total net position	<u>\$ 4,801,167</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**Year ended September 30, 2014**

	<b>Enterprise Fund - Water and Sewer</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,012,021
Other	870
Total operating revenues	2,012,891
<b>OPERATING EXPENSES</b>	
Personnel services	342,204
Contractual services	611,738
Operations	186,689
Repairs and maintenance	101,648
Supplies and materials	27,786
Depreciation	284,506
Total operating expenses	1,554,571
Operating income	458,320
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	446
Interest and amortization	(257,453)
Total non-operating expenses	(257,007)
Net income before transfers	201,313
<b>OTHER FINANCING SOURCES</b>	
Transfers in	(194,448)
Total other financing sources	(194,448)
Change in net position	6,865
Total net position - beginning of year	4,794,302
Total net position - end of year	\$ 4,801,167

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**September 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 2,044,696
Cash payments to employees for services	(280,505)
Cash payments to other suppliers for goods and services	(969,965)
Net cash provided by operating activities	794,226

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Transfers from other funds	
Payments from other funds	(194,417)
Net cash provided by non-capital financing activities	(194,417)

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from long-term debt	439,926
Principal paid on long-term debt	(326,413)
Interest paid on long-term debt	(257,455)
Purchase of capital assets	(145,367)
Net cash used in capital and related financing activities	(289,309)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest and dividends received	418
Net cash provided by investing activities	418

Net increase in cash and cash equivalents	310,918
Cash and cash equivalents - beginning of year	2,341,096
Cash and cash equivalents - end of year	\$ 2,652,014

**Reconciliation of operating income to net cash provided  
by operating activities:**

Operating income	\$ 458,320
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	284,506
Effect of changes in current assets and liabilities:	
Receivables	25,422
Accounts payable	9,746
Prepaid expense	(119)
Salaries payable	(8,503)
Customer deposits	7,254
Accrued interest payable	17,600
Net cash provided by operating activities	\$ 794,226

**SUPPLEMENTAL INFORMATION**

Cash and cash equivalents at September 30, 2014 consisted of the following:	
Cash and cash equivalents - unrestricted	\$ 2,129,826
Cash and cash equivalents - restricted	522,188
Total cash and cash equivalents - end of year	\$ 2,652,014

The accompanying notes are an integral part of this financial statement.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**A. Summary of significant accounting policies**

The accompanying financial statements of the City of Krum (the City) have been prepared in conformity with generally accepted accounting principles applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the City's financial statements are an integral part of the City's annual financial report.

**1. Reporting entity**

The City of Krum was incorporated under the laws of the State of Texas in 1955 and operates under a Mayor-Council form of government. The City's financial statements include the accounts of all City operations. Generally accepted accounting principles require all funds that are controlled by or are independent on the City Council to be included in the City's financial statements. The reporting entity is the primary government, or the City, and those component units for which the primary government is financially accountable.

Financial accountability is defined as the appointment of a voting majority of the potential component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based on these considerations, the City's financial statements include the Krum Economic Development Corporation (KEDC) and the 4A Sales and Use Tax Fund (4A) as a blended component units. KEDC and 4A were created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. It is funded through voter-authorized sales tax. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, the net position of the KEDC and 4A shall be converted to the City.

Related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the respective organizations. Greater Texoma Utility Authority (GTUA) assists local governments, including the City, in the development of water, sewer and solid waste facilities. The City financed certain water and sewer facilities through debt issued by GTUA and the City is contractually obligated to make sufficient payments to GTUA for annual debt service requirements of that debt. The City has no significant influence over the operations of GTUA, as its scope benefits other entities beside the City.

**2. Government-wide and fund financial statements**

*a. Basis of presentation*

**Government-wide financial statements** - the statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole, or in part by fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues in the government-wide financial statements and non-operating revenues in the proprietary financial statements.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**2. Government-wide and fund financial statements (Continued)**

*a. Basis of presentation (Continued)*

**Fund financial statements** - the fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General fund** – the primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

**Capital projects fund** – used to account for financial resources to be used for the acquisition, construction, or rehabilitation of capital assets. Such resources are derived from proceeds of general obligation bonds or other sources of revenue specifically set aside for capital projects.

**Debt service fund** – the primary long-term debt obligation fund. It is used to account for tax revenues and the payment of principal, interest, and related costs on debt for which a tax has been dedicated. Any unused sinking fund balances are transferred to the General Fund after all debt obligations have been met.

The City reports the following major proprietary fund:

**Water and sewer fund** - this is the City's primary operating fund for water and sewer distribution. It also accounts for all financial resources of the City concerning water and sewer sales. Its activity is financed with debt secured by a pledge of the net revenues and has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

*b. Measurement focus/basis of accounting*

**Government-wide and proprietary fund financial statements** - these financial statements are reported using the economic resources measurement focus and are accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Under the accrual basis of accounting, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental fund financial statements** - governmental funds are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**2. Government-wide and fund financial statements (Continued)**

*b. Measurement focus/basis of accounting (Continued)*

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

**3. General policies**

*a. Cash and cash equivalents*

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

*b. Restricted resources*

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted first, then unrestricted resources.

*c. Restriction of fund equity*

Restrictions of fund balances of the City's funds indicate the portion of fund equity that is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for the utilization of resources in future periods.

*d. Property tax revenues*

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Personal property taxes not collected by April 1 are forwarded for collection proceedings. Real property taxes not collected by July 1 are forwarded for collection proceedings.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

*e. Inventories and prepaid expenses*

The City records certain purchases of utility parts and supplies as inventories, utilizing the lower of cost or market method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

*f. Capital assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets acquired in excess of \$5,000 are capitalized by the City.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**3. General policies (Continued)**

*f. Capital assets*

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Park improvements	20-30 years
Infrastructure	20-30 years
Buildings and improvements	10-50 years
Equipment and vehicles	3-20 years

*g. Nature and Purpose of Restrictions and Commitments of Fund Equity*

The fund equity categories for revenue bond retirement and construction, prepaid items and debt service are discussed later in the notes. In the fiscal year ended September 30, 2012, the City implemented GASB 54, “Fund Balance, Reporting and Governmental Fund Type Definitions”, for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Nonspendable fund balance – Includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted fund balance – Includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include impact fees and bond proceeds.

Committed fund balance – Includes the portion of net resources upon which Council has imposed limitations on use and amounts that can be used only for the specific purposes determined by a formal action of the council. Commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned fund balance – Includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance – Includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Order of expenditure of funds – When multiple categories of fund balance are available for expenditure the Council will first spend the most restricted funds before moving down to the next most restrictive category with available funds. Appropriation of Unassigned fund balance – Appropriation from the minimum unassigned fund balance shall require the approval of the City Council and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing operating expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted. The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**3. General policies (Continued)**

*h. Net Position*

Net Position represents the difference between assets and liabilities. Net investment of capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use by either legislations adopted by the City or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

*i. Inter-fund activity*

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers-in and transfers-out are netted and presented as transfers in the government-wide statement of activities. Similarly, inter-fund receivables and payables, if applicable, are netted and presented as internal balances in the government-wide statement of net position.

*j. Compensated absences*

The amounts owed to employees for unpaid vacations and sick leave liabilities are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the proprietary activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements.

*k. Pension costs*

State law governs pension contribution requirements and benefits. Pension costs are composed of normal cost and, where applicable, amortization of unfunded accrual liability and of unfunded prior service cost.

*l. Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**4. Budgetary Information**

Annual appropriated budgets are adopted for the following major governmental funds: general fund, certain special revenue funds, and debt service fund. The City did not adopt a legal budget for special revenue funds classified under general special revenue funds. Also appropriated budgets are adopted for the following major proprietary funds: water and sewer fund, the municipal airport fund, and the drainage utility fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects.

Budgets for the major governmental funds and major proprietary funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the budget for the general fund and 4B Sales Tax Corporation Fund. Their budgets are adopted on a non-GAAP budgetary basis and are presented in this report as such. Operating budgets are not required to be legally adopted for fiduciary fund types, and accordingly, budgetary data is not presented. Capital project funds do not adopt an annual budget, but rather project-length financial plans are adopted at the inception of each project and do not lapse at year end.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**4. Budgetary Information (Continued)**

The City Finance Director, at least sixty days prior to the beginning of each budget year, shall submit to the Council a proposed budget and an explanatory budget message. The Finance Director, or an officer designated by him, shall obtain from the head of each department estimates of revenue and expenditure of that department with supporting data as may be requested. In preparing the budget, the Finance Director shall review the estimates, shall hold hearings thereon, and may revise the estimates, as he may deem advisable.

The budget will be adopted no later than the first regular council meeting of the last month of the current fiscal year. If the Council takes no final action on, or prior to such day, the budget, as submitted by the Finance Director, shall be deemed to have been adopted by the Council.

The City of Krum's budget can be amended by the City Council in any of the following methods: through line item changes at the departmental level, changes between departments or programs, and changes in the total appropriation. The Finance Director may start this process at any time, with the approval of the Council, in order to transfer any unencumbered appropriation balance or portion thereof between general classifications of expenditures within an office, department, or agency. Another provision in the Charter states that at the request of the Finance Director and within the last three months of the budget year, the Council may, by resolution, transfer any unencumbered appropriation balance or portion thereof from one office, department, or agency to another.

In addition to the above amendments, staff presents a report of revenue and expenditures to the Council each month. This provides the opportunity for adjustments, if needed, to budgeted revenues and expenditures based on actual results during the fiscal year.

Appropriations lapse at the end of the fiscal period requiring a budget amendment to account for expenditures budgeted in one fiscal period, but expended in the next fiscal period. If these items are known in advance, the expenditures will be properly allocated in the new budget.

**B. Deposits and investments**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank, approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

**1. Cash Deposits**

At September 30, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$7,902,079. The bank balance was \$8,173,354. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. With regards to cash deposits, there was security pledged by the bank in the amount of approximately \$8,759,845 to cover balances in excess of FDIC limits.

**2. Analysis of Specific Deposit and Investment Risks**

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

*a. Credit risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. In the opinion of management, the City was not exposed to a significant amount of credit risk at September 30, 2014.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**B. Deposits and investments (Continued)**

**2. Analysis of Specific Deposit and Investment Risks (Continued)**

*b. Custodial credit risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

*c. Custodial credit risk*

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the City's name. In the opinion of management, the City was not exposed to custodial credit risk at September 30, 2014.

*d. Concentration of credit risk*

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In the opinion of management, the City was not exposed to concentration of credit risk at September 30, 2014.

*e. Interest rate risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. In the opinion of management, the City was not exposed to interest rate risk at September 30, 2014.

*f. Foreign currency risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. In the opinion of management, the City was not exposed to foreign currency risk at September 30, 2014.

**C. Receivables, Uncollectible Accounts, and Deferred Revenue**

**1. Sales Taxes**

Sales taxes are collected and remitted to the City by the State Comptroller's Office. All sales taxes are collected within 60 days of year-end. At fiscal year-end, the receivables represent taxes collected but not yet received by the City are recorded as revenue.

**2. Property Taxes and Deferred Revenue**

Property taxes are assessed and remitted to the City by the Denton County Tax Assessor's Office. Taxes, levied annually on October 1, are due by January 31. Major tax payments are received December through March. Lien dates for real property occur annually in July. Allowances for uncollectible tax receivables reported in the general fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislature.

In the governmental fund-level financial statements, property taxes receivable are recorded in the general fund when assessed (October 1 of each fiscal year). At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of fiscal year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property tax receivables and related revenues include all amounts due to the City regardless of when cash is received.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**C. Receivables, Uncollectible Accounts, and Deferred Revenue (Continued)**

**2. Property Taxes and Deferred Revenue (Continued)**

***Governmental Activities Receivables***

At September 30, 2014, receivables are summarized in the government-wide financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Receivables, net
Sales taxes	\$ 47,770	\$ -	\$ 47,770
Property taxes	31,560	(11,710)	19,850
Ambulance receipts	278,994	(205,540)	73,454
Other	60,559	-	60,559
Total receivables, net	<u>\$ 418,883</u>	<u>\$ (217,250)</u>	<u>\$ 201,633</u>

***Business-type Activities Receivables***

Customer receivables represent amounts due from customers for water, wastewater, and sanitation services. These receivables are due within one month. Receivables are reported net of an allowance for uncollectible accounts and revenues net of what is estimated to be uncollectible. The allowance is estimated using accounts receivable past due more than ninety days.

At September 30, 2014, enterprise receivables are summarized in the financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Receivables, net
Accounts receivable from customers	\$ 229,421	\$ (17,436)	\$ 211,985
Other receivables	266	-	266
Total receivables, net	<u>\$ 229,687</u>	<u>\$ (17,436)</u>	<u>\$ 212,251</u>

**3. Emergency Medical Services (EMS)**

EMS revenues are collected and remitted to the City by a third-party administrator. All revenues are billed when services are performed by the City. Allowances for uncollectible EMS receivables reported in the general fund are based upon historical experience in collecting EMS revenues. Uncollectible EMS revenues are periodically reviewed and written off when deemed uncollectible.

In the governmental fund-level financial statements, EMS revenues are recorded in the general fund when the services are performed. Any delinquent revenues not paid within 60 days of the fiscal year-end are recorded as deferred revenue.

**4. Utility Revenues**

Receivables in the City's proprietary fund represent amounts due from customers for water and wastewater services. These receivables are generally due within one month. Receivables are reported net of an allowance for uncollectible accounts and revenues net of what is estimated to be uncollectible. The allowance is estimated based upon accounts receivable past due by more than 90 days.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**D. Restricted Assets**

At September 30, 2014, restricted cash consisted of the following:

	Governmental Activities
Capital projects	\$ 3,703,259
Court security	4,105
Court technology	3,407
Debt service	630,243
Economic development	305,697
General	39,860
Street sales tax	55,179
Total restricted cash and cash equivalents	\$ 4,741,750

The water and sewer fund contains an amount designated as restricted cash and cash equivalents in the amount of \$522,188. Such amount is restricted for customer utility deposits and expenses related to the construction of the public works building.

**E. Inter-fund balances and activity**

Balances due to and due from other funds at September 30, 2014 consisted of the following:

Due to	Due From	Amount
General Fund	Capital Projects Fund	\$ 3,309
Water and Sewer	Capital Projects Fund	38,352
		\$ 41,661

All amounts due are scheduled to be repaid within one year.

Transfers to and from other funds at September 30, 2014 consisted of the following:

Transfer From	Transfer To	Amount	Reason
Capital Projects Fund	Water and Sewer	\$ 42,247	CIP expenses
Water and Sewer	General Fund	300,000	Internal services
Water and Sewer	General Fund	50,588	Payment of debt
Debt Service Fund	Water and Sewer	113,893	Payment of debt
		\$ 506,728	

**F. Restricted net position**

As of September 30, 2014, the following amounts of net position were restricted:

Restricted net position	
Streets	\$ 55,177
Debt service	744,136
Economic development	337,543
Court technology	3,407
Court security	4,105
Total restricted net position	\$ 1,144,368

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**G. Capital Assets**

Capital asset activity for the year ended September 30, 2014 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 253,625	\$ 73,291	\$ -	\$ 326,916
Construction in progress	301,182	642,125	-	943,307
Total capital assets not being depreciated	<u>554,807</u>	<u>715,416</u>	<u>-</u>	<u>1,270,223</u>
Capital assets being depreciated:				
Park improvements	1,184,277	10,950	-	1,195,227
Infrastructure	1,851,232	-	-	1,851,232
Buildings and improvements	1,685,922	-	-	1,685,922
Equipment and vehicles	1,561,856	359,805	108,681	1,812,980
Total capital assets being depreciated	<u>6,283,287</u>	<u>370,755</u>	<u>108,681</u>	<u>6,545,361</u>
Total accumulated depreciation	<u>(1,962,871)</u>	<u>(286,595)</u>	<u>(108,681)</u>	<u>(2,140,785)</u>
Total capital assets being depreciated, net	<u>4,320,416</u>	<u>84,160</u>	<u>-</u>	<u>4,404,576</u>
Governmental activities capital assets, net	<u>\$ 4,875,223</u>	<u>\$ 799,576</u>	<u>\$ -</u>	<u>\$ 5,674,799</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 166,910	\$ -	\$ -	\$ 166,910
Construction in progress	329,778	42,246	-	372,024
Total capital assets not being depreciated	<u>496,688</u>	<u>42,246</u>	<u>-</u>	<u>538,934</u>
Capital assets being depreciated:				
Infrastructure	8,313,647	-	-	8,313,647
Buildings and improvements	78,742	73,400	-	152,142
Equipment and vehicles	248,054	29,720	-	277,774
Other	63,382	-	-	63,382
Total capital assets being depreciated	<u>8,703,825</u>	<u>103,120</u>	<u>-</u>	<u>8,806,945</u>
Total accumulated depreciation	<u>(2,982,161)</u>	<u>(284,506)</u>	<u>-</u>	<u>(3,266,667)</u>
Total capital assets being depreciated, net	<u>5,721,664</u>	<u>(181,386)</u>	<u>-</u>	<u>5,540,278</u>
Business-type activities capital assets, net	<u>\$ 6,218,352</u>	<u>\$ (139,140)</u>	<u>\$ -</u>	<u>\$ 6,079,212</u>

Depreciation was charged to functions, but reported in the aggregate in the statement of activities for governmental activities as follows:

Police	\$ 27,701
Fire and ambulance	112,783
Administration	143,560
Library	2,551
Total depreciation expense	<u>\$ 286,595</u>

Total depreciation expense for the City's business-type activities during the year-ended September 30, 2014 was \$284,506.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**H. Long-Term Obligations**

Changes in long-term obligations for the year ended September 30, 2014 are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 3,126,923	\$ 1,875,000	\$ 169,300	\$ 4,832,623	\$ 203,900
Notes payable	406,208	292,000	64,790	633,418	105,117
Capital leases	233,522	-	47,113	186,409	49,012
Compensated absences	64,732	12,072	-	76,804	-
Total governmental activities	<u>\$ 3,831,385</u>	<u>\$ 2,179,072</u>	<u>\$ 281,203</u>	<u>\$ 5,729,254</u>	<u>\$ 358,029</u>
<b>Business-type activities</b>					
General obligation bonds	\$ 2,763,077	\$ 420,000	\$ 250,700	\$ 2,932,377	\$ 271,100
Certificates of obligation bonds	1,090,000	-	70,000	1,020,000	75,000
Capital leases	11,641	-	5,713	5,928	5,928
Compensated absences	10,715	-	-	10,715	-
Total governmental activities	<u>\$ 3,875,433</u>	<u>\$ 420,000</u>	<u>\$ 326,413</u>	<u>\$ 3,969,020</u>	<u>\$ 352,028</u>

Debt service requirements on long-term debt at September 30, 2014 are as follows:

**Bonds Payable**

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2015	\$ 203,900	\$ 220,356	\$ 424,256
2016	243,500	187,466	430,966
2017	245,800	179,412	425,212
2018	262,700	170,504	433,204
2019	267,300	160,876	428,176
2020-2024	1,514,423	639,742	2,154,165
2025-2029	995,000	374,875	1,369,875
2030-2034	1,100,000	135,525	1,235,525
	<u>\$ 4,832,623</u>	<u>\$ 2,068,756</u>	<u>\$ 6,901,379</u>
Years Ending September 30,	Business-type Activities		
	Principle	Interest	Total
2015	\$ 346,100	\$ 162,997	\$ 509,097
2016	361,500	146,237	507,737
2017	299,200	134,665	433,865
2018	317,300	123,728	441,028
2019	327,700	111,734	439,434
2020-2024	1,825,577	344,587	2,170,164
2025-2029	335,000	52,123	387,123
2029-2033	140,000	17,525	157,525
	<u>\$ 3,952,377</u>	<u>\$ 1,093,596</u>	<u>\$ 5,045,973</u>

The effective interest rate on outstanding bonds ranged from 3.00% - 4.750% at September 30, 2014.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**H. Long-Term Obligations (Continued)**

*Notes Payable*

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2015	\$ 105,117	\$ 24,817	\$ 129,934
2016	99,430	16,034	115,464
2017	103,170	12,872	116,042
2018	105,968	9,609	115,577
2019	109,826	6,241	116,067
2020-2024	109,907	2,767	112,674
	<u>\$ 633,418</u>	<u>\$ 72,340</u>	<u>\$ 705,758</u>

The effective interest rate on the outstanding notes ranged from 2.69% to 4.50% at September 30, 2014. The carrying value for collateralized assets as of September 30, 2014 was about \$274,000.

*Capital Leases*

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2015	\$ 49,012	7,428	\$ 56,440
2016	50,907	5,599	56,506
2017	42,387	3,535	45,922
2018	44,103	1,803	45,906
	<u>\$ 186,409</u>	<u>\$ 18,365</u>	<u>\$ 204,774</u>

Years Ending September 30,	Business-type Activities		
	Principle	Interest	Total
2015	\$ 5,928	\$ 532	\$ 6,460
	<u>\$ 5,928</u>	<u>\$ 532</u>	<u>\$ 6,460</u>

The effective interest rates on capital leases outstanding ranged from 3.85% to 4.50% at September 30, 2014. The carrying value of collateralized assets as of September 30, 2014 was about \$149,000 for the governmental activities and \$6,000 for the Business-type activities.

**Operating Leases**

Future minimum rentals on office equipment operating leases for the City at September 30, 2014 are as follows:

Years Ending September 30,	
2015	\$ 22,915
	<u>\$ 22,915</u>

Rental expense of \$33,426 was charged to expense during the year ended September 30, 2014.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**I. Commitments**

In 2013, the City entered into an agreement with Greater Texoma Utility Authority (GTUA), whereby GTUA agreed to issue revenue bonds and to finance the construction of water and sewer facilities and infrastructure within the City. GTUA subsequently issued \$2,825,000 in contract revenue bonds for the purpose stated above. The City has agreed and is obligated to GTUA to make payments from pledged revenues of the Utility proprietary fund in amounts sufficient to provide for the payment and redemption of the principal and interest of these revenue bonds as they become due.

During the year ended September 30, 2014, the City paid \$84,312 to the Authority in accordance with these contracts. Future payments under these contracts average approximately \$152,289 per year for the next 25 years. A summary of the remaining debt service as of September 30, 2014, is as follows:

<u>Year Ending September 30,</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 40,000	\$ 49,313	\$ 89,313
2016	40,000	49,313	89,313
2017	65,000	49,313	114,313
2018	65,000	49,313	114,313
2019	375,000	239,643	614,643
2020-2024	460,000	212,437	672,437
2025-2029	565,000	167,339	732,339
2030-2034	685,000	103,557	788,557
2035-2039	485,000	22,691	507,691
	<u>\$ 2,780,000</u>	<u>\$ 942,919</u>	<u>\$ 3,722,919</u>

The debt obligation for the GTUA's revenue bond is not reflected in the City's financial statements and is presented for disclosure purposes only. The liability for the debt obligation, however, is separately presented in the publicly available September 30, 2014 financial statement of the GTUA.

**J. Risk Management**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**K. Pension Plan**

**1. Plan description**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**CITY OF KRUM  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2014**

**K. Pension Plan (Continued)**

**2. Plan Provisions**

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 are as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expresses as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

**3. Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$ 27,210
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	-
4. Annual Pension Cost (APC)	<u>27,210</u>
5. Contributions Made	<u>(27,210)</u>
6. Increase (decrease) in net pension	-
7. Net Pension Obligation/(Asset), beginning of year	-
8. Net Pension Obligation/(Asset), end of year	<u><u>\$ -</u></u>

**Three-year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 15,452	\$ 15,452	100%	\$ -
2012	\$ 19,152	\$ 19,152	100%	\$ -
2013	\$ 27,210	\$ 27,210	100%	\$ -

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**K. Pension Plan (Continued)**

**3. Contributions (Continued)**

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actual cost method	Projected unit credit	Projected unit credit	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	26.6 years; closed period	24.9 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

The funded status as of December 31, 2014, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Funded Ratio (a) / (b)	(d) Unfunded AAL (UAAL) (b) - (a)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (d) / (e)
12/31/2013	1,030,588	950,225	108.5%	(80,363)	11,859,696	-0.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**L. Other Post Employment Benefits (OPEB)**

**1. Plan Description**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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.

**2. Plan Provisions**

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.

**3. Contributions**

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 the employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$0, \$0 and \$0, respectively, which equaled the required contributions each year.

**4. Health Care Coverage**

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$117,807 to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable June 1, and terms of coverage and premium costs are included in the contractual provisions.

**M. Commitments and Contingencies**

**1. Contingencies**

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

**2. Litigation**

The City is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City's financial position, results of operations, or cash flows.

**CITY OF KRUM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

**N. New Accounting Principles**

Significant new accounting standards issued included the following:

Statement No. 65 (“GASB 65”), *Items Previously Recorded as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for the City’s financial periods beginning October 1, 2013.

Statement No. 66 (“GASB 66”), *Technical Corrections – 2012, an amendment of GASB Statement No. 10 and No. 62* was issued by the GASB in March of 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB 54 and GASB 62. This Statement also removes provisions that limit fund-based reporting of an entity’s risk financing activities to the general fund and internal service fund type for governments to base decisions about fund type classifications on the nature of the activity to be reported. This Statement is effective for the City’s financial periods beginning October 1, 2013.

Statement No. 67 (“GASB 67”), *Financial Reporting for Pensions Plans* was issued in June of 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for the City’s financial periods beginning October 1, 2013.

Statement No. 68 (“GASB 68”), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting by state and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for the City’s financial periods beginning October 1, 2014.

**O. Subsequent Events**

There were no subsequent events identified by management as of the issuance date of these financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KRUM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended September 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget -</u> <u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 1,036,863	\$ 1,036,863	\$ 1,034,722	\$ (2,141)
Sales taxes	141,974	141,974	180,808	38,834
Franchise taxes	190,700	193,700	197,050	3,350
Licenses and permits	154,100	154,100	94,833	(59,267)
Fines	93,000	93,000	86,375	(6,625)
Charges for services	766,025	766,025	830,898	64,873
Donations	-	-	6,126	6,126
Grants	2,500	2,500	56,759	54,259
Interest	10,000	10,000	10,538	538
Other	84,000	84,000	167,651	83,651
Total revenues	<u>2,479,162</u>	<u>2,482,162</u>	<u>2,665,760</u>	<u>183,598</u>
<b>EXPENDITURES</b>				
Administration	439,367	452,149	376,366	75,783
Public safety	549,972	549,972	522,626	27,346
Fire and rescue	845,524	851,021	934,758	(83,737)
Municipal court	76,800	76,800	54,933	21,867
Streets	70,500	70,500	56,951	13,549
Development services	86,750	88,148	92,494	(4,346)
Library	109,313	131,150	131,076	74
Parks and recreation	20,750	41,255	46,193	(4,938)
Solid waste	179,000	179,769	196,532	(16,763)
Capital outlay	-	553,024	491,085	61,939
Debt service:				
Principal	70,474	70,474	111,902	(41,428)
Interest	2,525	2,525	20,268	(17,743)
Total expenditures	<u>2,450,975</u>	<u>3,066,787</u>	<u>3,035,184</u>	<u>31,603</u>
Excess of expenditures over appropriations	<u>28,187</u>	<u>(584,625)</u>	<u>(369,424)</u>	<u>215,201</u>

**CITY OF KRUM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended September 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget -</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u> <u>Basis</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	-	-	350,588	350,588
Total other financing sources	-	-	350,588	350,588
Net change in fund balance	28,187	(584,625)	(18,836)	565,789
Fund balance - beginning of year	610,350	610,350	610,350	-
Fund balance - end of year	<u>\$ 638,537</u>	<u>\$ 25,725</u>	591,514	<u>\$ 565,789</u>
<b>RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)</b>				
Invested in capital assets, net of related debt			22,349	
Revenue accruals			19,731	
Expenditure accruals			(121,004)	
<b>FUND BALANCE - END OF YEAR (GAAP)</b>			512,590	
<b>OTHER FUND BALANCES - END OF YEAR (GAAP)</b>				
Debt service fund			744,136	
Capital projects fund			3,372,845	
Economic development corporations			337,543	
Other governmental funds			62,691	
<b>TOTAL NET POSITIONS - END OF YEAR (GAAP)</b>			<u>\$ 5,029,805</u>	

See notes to required supplementary information.

**CITY OF KRUM**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**September 30, 2014**  
**(Unaudited)**

**A. GENERAL FUND BUDGETARY ANALYSIS**

**Budgetary Information**

The City Council adopts an annual budget prepared on a non-GAAP cash basis. City management may transfer part or all of any unencumbered appropriation balance within specific categories (i.e., personnel, operations, supplies, or capital outlay) within programs; however, any revisions that alter the total expenditures of the categories must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds, and the legal level of control is the fund level.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the debt service fund or in the general fund. Revised budgets, if any, are used for budget versus actual comparisons.

**Reconciliation of Non-GAAP Budgetary Information to GAAP Information**

Because the City budgets on a non-GAAP cash basis, which includes capital outlay expenditures and debt payments in operating expenditure categories, these expenditures were reclassified for budgetary comparison purposes. General fund capital assets purchased in the current year and debt payments related to capital asset purchases are presented as other financing uses. The General Fund non-GAAP fund balance is reconciled to GAAP basis by showing all investments in capital assets net of related debt, revenue accruals, expenditure accruals, and intrafund transfer eliminations.

**B. BUDGET VERSUS ACTUAL RESULTS**

Operating revenues were \$183,598 over budgeted amount and expenditures were \$31,603 under budgeted expenditures, resulting in an overall favorable operating variance of \$215,201.

**CITY OF KRUM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS (Unaudited)**  
**Year Ended September 30, 2014**

Year	Actuarial Value of Assets (a)	Actuarial Accued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/2011	791,209	774,267	(16,942)	102.19%	971,802	-1.74%
12/31/2012	\$ 891,112	\$ 828,864	\$ (62,248)	107.51%	\$ 1,075,541	-5.79%
12/31/2013	\$1,030,588	\$ 950,225	\$ (80,363)	108.46%	\$ 1,185,696	-6.78%

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**OTHER SUPPLEMENTARY INFORMATION SECTION**



**Auldridge Griffin**  
*Certified Public Accountants*  
*A Professional Corporation*

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Michael W. Griffin, CPA

W.L. "Woody" Mathews, Jr., CPA

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Karen O. Thompson, CPA

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**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 Krum, 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 activities, the aggregate blended presented component units, each major fund, and the aggregate remaining fund information of the City of Krum (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **COMPLIANCE AND OTHER MATTERS**

As a part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 did not disclose any instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

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

*AuldridgeGriffin, P.C.*

Fort Worth, Texas  
March 24, 2015