

**CITY OF KRUM**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**



**City of Krum  
Annual Financial Report  
For the Year Ended September 30, 2008**

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## **FINANCIAL SECTION**





## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the City Council  
City of Krum, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Krum as of September 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and the budgetary comparison information on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Auldridge Griffin P.C.*

Cleburne, Texas  
January 26, 2009

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**Management's Discussion & Analysis (MD&A)**



# MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Krum (the City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with the City's financial statements and accompanying footnotes, which can be found on pages 28 through 38 of this report.

## FINANCIAL HIGHLIGHTS

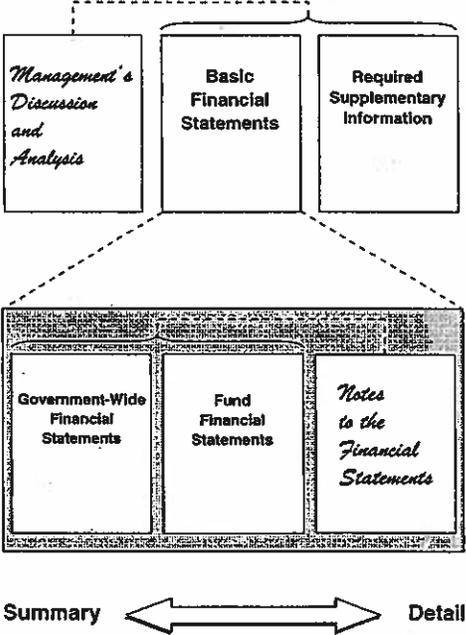
- The City's total combined net assets were \$4,299,011 at September 30, 2008.
- The general fund reported a fund balance this year of \$458,001.
- The City's combined governmental funds reported a fund balance this year of \$714,496.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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 the 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- and long-term* financial information about the activities the government operates *like businesses*.

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



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**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 assets Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of net assets Statement of revenues, expenses, and changes in fund net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
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 assets/liability information	All assets and liabilities, both financial and non-financial, short-term and long-term	Only assets expected to be paid up and liabilities that come due during the current year, next 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 financial and long-term; the Agency's funds do not include non-currently collectible 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

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.

### 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 assets 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 assets* and how they have changed. Net assets, the difference between the City's assets and liabilities, is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- 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, public safety, highways and streets, sanitation, economic development, and culture and recreation. Property taxes and grants 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.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

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 additional information at the bottom of the governmental funds statement, or on the subsequent page, 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- and short-term financial information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

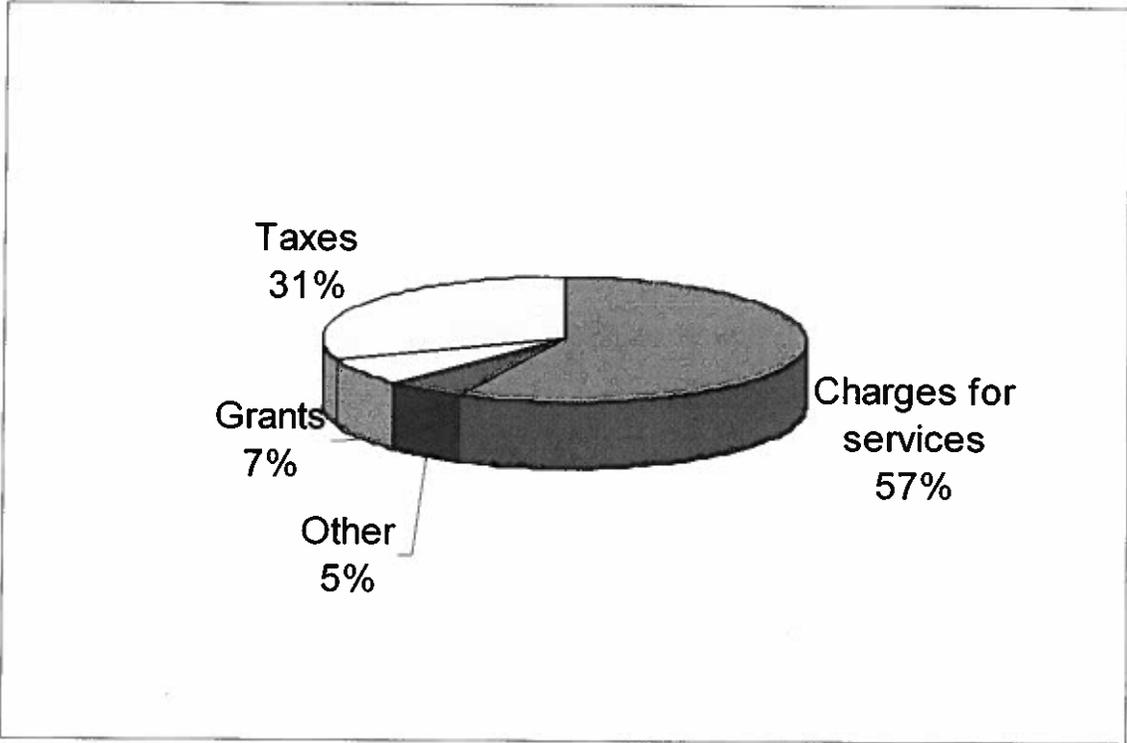
**Net assets.** The City's combined net assets were \$4,299,011 at September 30, 2008, compared to \$3,690,713 at September 30, 2007. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Cash and equivalents	\$ 660,551	\$ 548,000	\$ 1,199,345	\$ 1,798,487	\$ 1,859,896	\$ 2,346,487
Accounts receivable	80,076	70,268	93,461	95,785	173,537	166,053
Other assets	218,927	182,067	109,138	111,953	328,065	294,020
Fixed assets	4,396,234	4,168,007	7,675,766	7,047,856	12,072,000	11,215,863
Less accumulated depr.	(1,004,664)	(884,266)	(1,619,076)	(1,364,876)	(2,623,740)	(2,249,142)
<b>Total Assets</b>	<b>\$ 4,351,124</b>	<b>\$ 4,084,076</b>	<b>\$ 7,458,634</b>	<b>\$ 7,689,205</b>	<b>\$ 11,809,758</b>	<b>\$ 11,773,281</b>
Accounts payable	\$ 2,519	\$ 104,030	\$ 15,334	\$ 145,492	\$ 17,853	\$ 249,522
Due to other funds	-	-	-	-	-	-
Other liabilities	95,590	109,275	85,889	66,263	181,479	175,538
Current portion LTD	446,373	446,900	118,387	110,784	564,760	557,684
Long-term debt	5,213,218	5,460,303	1,533,436	1,639,521	6,746,654	7,099,824
<b>Total Liabilities</b>	<b>\$ 5,757,700</b>	<b>\$ 6,120,508</b>	<b>\$ 1,753,046</b>	<b>\$ 1,962,060</b>	<b>\$ 7,510,746</b>	<b>\$ 8,082,568</b>
<b>Net Assets</b>						
Invested in						
capital assets	(2,021,572)	(2,441,395)	4,462,424	2,645,524	2,440,852	204,129
Restricted for:						
Debt service	37,544	18,016	200,078	148,638	237,622	166,654
Other	94,685	85,174	-	-	94,685	85,174
Economic development	220,733	144,891	-	-	220,733	144,891
Unrestricted	262,033	156,882	1,043,086	2,932,983	1,305,119	3,089,865
<b>Total Net Assets</b>	<b>\$ (1,406,577)</b>	<b>\$ (2,036,432)</b>	<b>\$ 5,705,588</b>	<b>\$ 5,727,145</b>	<b>\$ 4,299,011</b>	<b>\$ 3,690,713</b>

**Changes in net assets.** The City's total revenues were \$4,233,492.

**Figure A-2  
Revenues by Source - 2008**



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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 1,106,254	\$ 1,000,063	\$ 1,316,975	\$ 1,334,352	2,423,229	\$ 2,334,415
Operating grants	51,667	363,466	-	-	51,667	363,466
Capital grants	237,095	325,586	-	-	237,095	325,586
<b>General Revenues:</b>						
Property taxes	1,033,405	865,686	-	-	1,033,405	865,686
Sales tax	273,481	185,987	-	-	273,481	185,987
Franchise taxes	133,001	132,789	-	-	133,001	132,789
Investment earnings	22,306	68,900	37,059	78,678	59,365	147,578
Gain on sale of assets	22,249	-	-	-	22,249	-
Transfers	(22,288)	(903,290)	22,288	903,290	-	-
<b>Total Revenues</b>	<b>2,857,170</b>	<b>2,039,187</b>	<b>1,376,322</b>	<b>2,316,320</b>	<b>4,233,492</b>	<b>4,355,507</b>
<b>Expenses</b>						
General government	519,970	415,911	-	-	519,970	415,911
Public safety	1,210,031	1,484,662	-	-	1,210,031	1,484,662
Highways and streets	74,607	208,380	-	-	74,607	208,380
Culture and recreation	162,501	117,029	-	-	162,501	117,029
Interest on long-term debt	260,207	205,554	-	-	260,207	205,554
Water and sewer	-	-	1,397,879	1,447,188	1,397,879	1,447,188
<b>Total Expenses</b>	<b>2,227,316</b>	<b>2,431,536</b>	<b>1,397,879</b>	<b>1,447,188</b>	<b>3,625,195</b>	<b>3,878,724</b>
<b>Increase (decrease)</b>						
<b>in net assets</b>	<b>629,854</b>	<b>(392,349)</b>	<b>(21,557)</b>	<b>869,132</b>	<b>608,297</b>	<b>476,783</b>
<b>Beginning Net Assets</b>	<b>(2,036,431)</b>	<b>(1,644,083)</b>	<b>5,727,145</b>	<b>4,858,013</b>	<b>3,690,714</b>	<b>1,944,043</b>
<b>Ending Net Assets</b>	<b>\$ (1,406,577)</b>	<b>\$ (2,036,432)</b>	<b>\$ 5,705,588</b>	<b>\$ 5,727,145</b>	<b>\$ 4,299,011</b>	<b>\$ 2,420,826</b>

## 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 this year was \$1,397,879.
- The amount for charges for services that our taxpayers paid for these activities was \$1,316,975.

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

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2008	2007		2008	2007	
Water and Sewer	\$ 1,397,879	\$ 1,447,188	-3.41%	\$ 80,904	\$ 112,836	-28.30%
<b>Total</b>	<b>\$ 1,397,879</b>	<b>\$ 1,447,188</b>		<b>\$ 80,904</b>	<b>\$ 112,836</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 \$225,440 over budgeted revenues and expenses were \$109,814 over budgeted expenses. The net budget excess for the General Fund was \$169,138 for the year, which includes other financing sources and uses and transfers.

### Water and Sewer Fund Budgetary Highlights

Over the course of the year, the City also revised its budget for the Water and Sewer fund. For the year, revenues were \$29,234 over budgeted revenues and expenses were \$181,532 over budgeted expenses. The net budget deficit for the Water and Sewer fund was \$21,557 for the year, which includes other financing sources and uses and transfers.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008, the City had invested \$9,448,260 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

**Table A-4**  
**City's Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 58,833	\$ 58,833	\$ 166,910	\$ 166,910	\$ 225,743	\$ 225,743
Park land improvements	1,184,277	1,184,277	-	-	1,184,277	1,184,277
Infrastructure	1,522,051	1,522,051	7,224,658	6,596,748	8,746,709	8,118,799
Buildings	242,575	242,575	78,742	78,742	321,317	321,317
Equipment and vehicles	1,388,498	1,160,270	205,456	205,456	1,593,954	1,365,726
Totals at historical cost	4,396,234	4,168,006	7,675,766	7,047,856	12,072,000	11,215,862
Total accumulated depreciation	(1,004,664)	(884,266)	(1,619,076)	(1,364,876)	(2,623,740)	(2,249,142)
Net capital assets	\$ 3,391,570	\$ 3,283,740	\$ 6,056,690	\$ 5,682,980	\$ 9,448,260	\$ 8,966,720

### Long-Term Debt

Outstanding long-term debt is as shown in Table A-5.

**Table A-5**  
**City's Long-Term Debt**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Notes payable	\$ 62,274	\$ 91,762	\$ 8,500	\$ 14,000	\$ 70,774	\$ 105,762
Leases payable	328,471	291,265	26,521	38,305	354,992	329,570
Bonds payable	5,225,089	5,524,177	1,605,000	1,698,000	6,830,089	7,222,177
	\$ 5,615,834	\$ 5,907,204	\$ 1,640,021	\$ 1,750,305	\$ 7,255,855	\$ 7,657,509

More detailed information about the City's debt is presented in the Notes to the Financial Statements.

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

An appraised ad-valorem taxable value used for the 2009 budget preparation was \$190 million dollars resulting in an estimated tax levy of \$1.14 million. The City's tax rate for 2009 is \$0.59983 per \$100 valuation. The maintenance and operation and debt service rates are \$0.34493 and \$0.25490 per \$100 valuation, respectively. This information was taken into consideration when adopting the budget for 2009. Additionally estimated revenue from the water and sewer billing is projected to be \$1.24 million

The tax rate of \$0.59983 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. If these revenues projected in the 2009 budget are realized, the City will be able to continue current operations and absorb inflationary costs without a decrease in its fund balance.

## **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 funds it receives. If you have questions about this report or need additional financial information, please contact the City Secretary.

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## **Basic Financial Statements**

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**City of Krum**  
**Statement of Net Assets**  
**September 30, 2008**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 551,240	\$ 160,796	\$ 712,036
Account receivable	80,076	93,461	173,537
Due from other governmental agencies	41,828	-	41,828
Prepaid expenses	7,497	-	7,497
Total current assets	<u>680,641</u>	<u>254,257</u>	<u>934,898</u>
Noncurrent assets:			
Restricted cash	109,311	1,038,549	1,147,860
Equity in Upper Trinity System	-	63,383	63,383
Bond issue costs (net)	169,602	45,755	215,357
Capital assets:			
Land	58,833	166,910	225,743
Park land improvements	1,184,277	-	1,184,277
Infrastructure	1,522,051	7,224,658	8,746,709
Buildings	242,575	78,742	321,317
Equipment and vehicles	1,388,498	205,456	1,593,954
Less accumulated depreciation	<u>(1,004,664)</u>	<u>(1,619,076)</u>	<u>(2,623,740)</u>
Total noncurrent assets	<u>3,670,483</u>	<u>7,204,377</u>	<u>10,874,860</u>
Total assets	<u>4,351,124</u>	<u>7,458,634</u>	<u>11,809,758</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	2,519	15,334	17,853
Accrued expenses	30,342	19,637	49,979
Customer deposits	22,600	54,032	76,632
Notes payable	62,274	6,000	68,274
Capital lease obligation	85,861	12,387	98,248
Bonds payable	298,238	100,000	398,238
Accrued interest	42,648	12,220	54,868
Total current liabilities	<u>544,482</u>	<u>219,610</u>	<u>764,092</u>
Noncurrent liabilities:			
Notes payable	-	2,500	2,500
Capital lease obligation	242,610	14,134	256,744
Bonds payable	4,926,851	1,505,000	6,431,851
Compensated absences	43,757	11,802	55,559
Total noncurrent liabilities	<u>5,213,218</u>	<u>1,533,436</u>	<u>6,746,654</u>
Total liabilities	<u>5,757,700</u>	<u>1,753,046</u>	<u>7,510,746</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(2,021,572)	4,462,424	2,440,852
Restricted for:			
Debt service	37,544	200,078	237,622
Other	94,685	-	94,685
Economic development	220,733	-	220,733
Unrestricted	262,033	1,043,086	1,305,119
Total net assets	<u>\$ (1,406,577)</u>	<u>\$ 5,705,588</u>	<u>\$ 4,299,011</u>

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

**City of Krum  
Statement of Activities  
For the Year Ended September 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues - Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 519,970	\$ 463,743	\$ -
Public safety	1,210,031	637,215	-
Highways and streets	74,607	-	-
Culture and recreation	162,501	5,296	51,667
Interest on long-term debt	260,207	-	-
Total governmental activities	<u>2,227,316</u>	<u>1,106,254</u>	<u>51,667</u>
Business-type activities:			
Water and sewer	1,397,879	1,316,975	-
Total business-type activities	<u>1,397,879</u>	<u>1,316,975</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 3,625,195</u>	<u>\$ 2,423,229</u>	<u>51,667</u>

General revenues:  
 Property taxes, levied for general purposes  
 Franchise taxes  
 Interest income  
 Sales taxes  
 Gain (loss) on sale of assets  
 Transfers  
 Total general revenues and transfers  
 Change in net assets  
 Net assets - beginning  
 Net assets - ending

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

**Net (Expense) Revenue and Changes in Net Assets**

<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ -	\$ (56,227)	\$ -	\$ (56,227)
237,095	(335,721)	-	(335,721)
-	(74,607)	-	(74,607)
-	(105,538)	-	(105,538)
-	(260,207)	-	(260,207)
<u>237,095</u>	<u>(832,300)</u>	<u>-</u>	<u>(832,300)</u>
-	-	(80,904)	(80,904)
-	-	(80,904)	(80,904)
<u>237,095</u>	<u>(832,300)</u>	<u>(80,904)</u>	<u>(913,204)</u>
	1,033,405	-	1,033,405
	133,001	-	133,001
	22,306	37,059	59,365
	273,481	-	273,481
	22,249	-	22,249
	(22,288)	22,288	-
	<u>1,462,154</u>	<u>59,347</u>	<u>1,521,501</u>
	629,854	(21,557)	608,297
	(2,036,431)	5,727,145	3,690,714
	<u>\$ (1,406,577)</u>	<u>\$ 5,705,588</u>	<u>\$ 4,299,011</u>

**City of Krum  
Balance Sheet  
Governmental Funds  
September 30, 2008**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Non-Major Fund Economic Development</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 311,259	\$ 35,762	\$ 204,219	\$ 551,240
Accounts receivable:				
Property taxes, net	8,513	11,481	-	19,994
Other	60,082	-	-	60,082
Receivable from other governments	25,314	-	16,514	41,828
Prepaid expenses	7,497	-	-	7,497
Restricted cash	109,311	-	-	109,311
Total assets	<u>\$ 521,976</u>	<u>\$ 47,243</u>	<u>\$ 220,733</u>	<u>\$ 789,952</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 2,519	\$ -	\$ -	\$ 2,519
Deferred taxes	8,513	11,481	-	19,994
Accrued expenses	23,424	-	-	23,424
Customer deposits	22,600	-	-	22,600
Other current liabilities	6,918	-	-	6,918
Total liabilities	<u>63,974</u>	<u>11,481</u>	<u>-</u>	<u>75,455</u>
Fund balances:				
Reserved for debt service	-	35,762	-	35,762
Reserved for other purposes	94,685	-	220,733	315,418
Unreserved	363,316	-	-	363,316
Total fund balances	<u>458,001</u>	<u>35,762</u>	<u>220,733</u>	<u>714,496</u>
Total liabilities and fund balances	<u>\$ 521,975</u>	<u>\$ 47,243</u>	<u>\$ 220,733</u>	<u>\$ 789,951</u>

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

**City of Krum**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**September 30, 2008**

Fund balances - total governmental funds \$ 714,496

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 3,391,570

Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds 19,994

Certain liabilities, including bonds payable and capital leases, are not due and payable in the current period and, therefore, are not included in the funds (5,532,637)

Net assets of governmental activities \$ (1,406,577)

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**  
**For the Year Ended September 30, 2008**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Economic Development Corporation</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 309,760	\$ 724,138	\$ -	\$ 1,033,898
Sales taxes	189,606	-	83,875	273,481
Fines	106,667	-	-	106,667
Licenses and permits	240,285	-	-	240,285
Charges for services	699,332	-	-	699,332
Franchise taxes	11,836	-	3,185	15,021
Miscellaneous	105,436	-	-	105,436
Interest	133,001	7,235	-	140,236
Grants	268,234	-	-	268,234
Donations	2,778	-	-	2,778
Total revenues	<u>2,066,935</u>	<u>731,373</u>	<u>87,060</u>	<u>2,885,368</u>
<b>EXPENDITURES</b>				
Current:				
General government	458,897	-	-	458,897
Public safety	1,386,565	-	-	1,386,565
Streets and sanitation	44,900	-	-	44,900
Culture and recreation	137,849	-	-	137,849
Economic opportunity	-	-	11,218	11,218
Debt service:				
Principal	94,886	299,088	-	393,974
Interest and other	20,998	239,209	-	260,207
Total expenditures	<u>2,144,095</u>	<u>538,297</u>	<u>11,218</u>	<u>2,693,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(77,160)</u>	<u>193,076</u>	<u>75,842</u>	<u>191,758</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of long-term debt	93,256	-	-	93,256
Transfers in	153,042	-	-	153,042
Transfers out	-	(175,330)	-	(175,330)
Total other financing sources (uses)	<u>246,298</u>	<u>(175,330)</u>	<u>-</u>	<u>70,968</u>
Net change in fund balances	169,138	17,746	75,842	262,726
Fund balances - beginning	288,863	18,016	144,891	451,770
Fund balances - ending	<u>\$ 458,001</u>	<u>\$ 35,762</u>	<u>\$ 220,733</u>	<u>\$ 714,496</u>

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

**City of Krum**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2008**

Net change in fund balances - total governmental funds \$ 262,726

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

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 113,247

Governmental funds report net proceeds from the sale of an asset as revenue. However, in the statement of activities only the gain on the sale of the assets is reported. (5,418)

Governmental funds do not include revenues that are not available to pay current obligations. Such revenues are reported in the statement of activities when earned. (493)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 291,370

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund. (31,578)

Change in net assets of governmental activities \$ 598,276

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

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**City of Krum**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 403,618	\$ 305,000	\$ 309,760	\$ 4,760
Sales and other taxes	168,000	168,000	189,606	21,606
Fines	71,300	71,300	106,667	35,367
Licenses and permits	319,819	240,738	240,285	(453)
Charges for services	598,036	640,041	699,332	59,291
Franchise taxes	38,500	13,500	11,836	(1,664)
Interest	137,800	137,800	133,001	(4,799)
Grants	12,000	219,316	268,234	48,918
Donations	4,300	4,300	2,778	(1,522)
Miscellaneous	18,000	41,500	105,436	63,936
Total revenues	<u>1,771,373</u>	<u>1,841,495</u>	<u>2,066,935</u>	<u>225,440</u>
<b>EXPENDITURES</b>				
Current:				
General government	494,662	413,535	458,897	(45,362)
Public safety	1,144,372	1,343,854	1,386,565	(42,711)
Highways and streets	102,300	27,300	44,900	(17,600)
Culture and recreation	99,945	133,301	137,849	(4,548)
Debt Service:				
Principal	63,561	83,991	94,886	(10,895)
Interest and other	-	-	20,998	(20,998)
Capital outlay	22,000	32,300	-	32,300
Total expenditures	<u>1,926,840</u>	<u>2,034,281</u>	<u>2,144,095</u>	<u>(109,814)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(155,467)</u>	<u>(192,786)</u>	<u>(77,160)</u>	<u>115,626</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of long-term debt	-	-	93,256	93,256
Transfers in	-	126,011	153,042	27,031
Total other financing sources (uses)	<u>-</u>	<u>126,011</u>	<u>246,298</u>	<u>120,287</u>
Net change in fund balances	(155,467)	(66,775)	169,138	235,913
Fund balances - beginning	288,863	288,863	288,863	-
Fund balances - ending	<u>\$ 133,396</u>	<u>\$ 222,088</u>	<u>\$ 458,001</u>	<u>\$ 235,913</u>

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

**City of Krum  
Statement of Net Assets  
Proprietary Fund  
September 30, 2008**

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Water and Sewer</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 160,796
Accounts receivable, net	93,461
Total current assets	254,257
Noncurrent assets:	
Restricted cash	1,038,549
Equity in Upper Trinity	63,383
Bond issue costs (net)	45,755
Capital assets:	
Land	166,910
Infrastructure	7,224,658
Buildings and improvements	78,742
Machinery and equipment	205,456
Less accumulated depreciation	(1,619,076)
Total noncurrent assets	7,204,377
Total assets	7,458,634
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	15,334
Customer deposits	54,032
Salaries payable	19,637
Accrued interest	12,220
Notes payable	6,000
Capital lease obligation	12,387
Bonds payable	100,000
Total current liabilities	219,610
Noncurrent liabilities:	
Notes payable obligation	2,500
Capital lease obligation	14,134
Bonds payable	1,505,000
Compensated absences	11,802
Total noncurrent liabilities	1,533,436
Total liabilities	1,753,046
<b>NET ASSETS</b>	
Unrestricted	5,505,510
Total net assets	\$ 5,705,588

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

**City of Krum**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended September 30, 2008**

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Water and Sewer</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 950,225
Connection fees	366,750
Total operating revenues	1,316,975
<b>OPERATING EXPENSES</b>	
Salaries and wages	345,878
Purchased professional and technical services	62,958
Purchased utilities	158,170
Water purchases	146,609
Sewer treatment and impact fees	166,363
Depreciation	254,200
Repairs and maintenance	72,222
Supplies and other expenses	67,024
Insurance	13,833
Vehicle expense	9,489
Total operating expenses	1,296,746
Operating income (loss)	20,229
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment income	37,059
Interest expense	(101,133)
Total nonoperating revenues (expenses)	(64,074)
Net income (loss) before transfers	(43,845)
Transfers in	148,299
Transfers out	(126,011)
Change in net assets	(21,557)
Total net assets - beginning	5,727,145
Total net assets - ending	\$ 5,705,588

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

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**City of Krum  
Statement of Cash Flows  
Proprietary Fund  
September 30, 2008**

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Water and Sewer</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,319,300
Payments to suppliers	(816,392)
Payments to employees	(322,071)
Net cash provided (used) by operating activities	180,837
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from (to) primary government	
Transfers from (to) other funds	22,288
Net cash provided (used) by noncapital financing activities	22,288
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal and interest paid on long-term debt	(211,417)
Purchase of capital assets	(627,910)
Net cash provided (used) by capital and related financing activities	(839,327)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends received	37,059
Net cash provided (used) by capital and related financing activities	37,059
Net increase (decrease) in cash and cash equivalents	(599,143)
Cash and cash equivalents - beginning of year	1,798,488
Cash and cash equivalents - end of year	\$ 1,199,345
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 26,516
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	257,516
Decrease (increase) in accounts receivable	2,325
Increase (decrease) in accounts payable	(130,158)
Increase (decrease) in customer deposits	7,621
Increase (decrease) in payroll liabilities	17,017
Net cash provided (used) by operating activities	\$ 180,837

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

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

**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. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate statements to be misleading or incomplete. Based on these considerations, the City's financial statements include the Krum Economic Development Corporation as a discretely presented component unit.

The Krum Economic Development Corporation (KEDC) has been included in the reporting entity as a discretely presented component unit. KEDC can not be considered a blended component unit because the revenues are not only for the benefit of the City. KEDC was 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, net assets of KEDC shall be converted to the City. The City accounts for KEDC as a discretely presented component unit on the government-wide financial statements.

Separate audited financial statements are not issued for KEDC. Unaudited financial statements may be obtained from the City's finance office.

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

*a. Basis of presentation*

**Government-wide financial statements** - The statement of net assets and the statement of activities include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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.

**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

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor 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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

**General Fund.** This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

**Debt Service Fund.** This is the City's primary long-term debt obligation fund. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

**Special Revenue Fund.** This is used to account for the proceeds of the Krum Economic Development Corporation sales tax revenues. The fund balance is reserved to signify amounts that are restricted to be used for economic development and promotion within the City.

The City reports the following major enterprise funds:

**Water and Sewer Fund.** This is the City's primary operating fund for water and sewer distribution and sewer control. It also accounts for all financial resources of the City concerning water, sewer and refuse 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. Nonexchange 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.

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 resources first, then unrestricted resources.

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

**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. Property taxes*

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.

*c. Inventories and prepaid items*

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items at the lower of cost or market.

*d. 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 \$1,000 are capitalized by the City.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20-30 years
Buildings	10-50 years
Equipment	3-20 years
Water and Sewer System	2-15 years

*e. Receivable and payable balances*

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year-end.

**CITY OF KRUM**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2008**

*f. Interfund activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund 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 interfund transactions are treated as transfers. Transfers-in and transfers-out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables, if applicable, are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets. As of year end, there were no interfund receivables and payables.

*g. Use of estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

**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.

Cash Deposits:

At September 30, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,859,896 and the bank balance was \$1,924,297. The City's cash deposits at September 30, 2008 and during the year ended September 30, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
None	N/A	\$ -
Total Investments		<u>\$ -</u>

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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. At year-end, the City was not exposed to a significant amount of credit risk.

*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.

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.

At year-end, the City was not exposed to custodial credit risk.

*c. Concentration of credit risk*

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

*d. Interest rate risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

*e. Foreign currency risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. Short-term investments are those which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

**C. Capital assets**

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated -</i>				
Land	\$ 58,834	\$ -	\$ -	\$ 58,834
Total capital assets not being depreciated	<u>58,834</u>	<u>-</u>	<u>-</u>	<u>58,834</u>
<i>Capital assets being depreciated:</i>				
Park land improvements	1,184,277	-	-	1,184,277
Infrastructure	1,522,052	-	-	1,522,052
Buildings	242,575	-	-	242,575
Equipment and vehicles	1,160,270	308,610	80,382	1,388,498
Total capital assets being depreciated	<u>4,109,174</u>	<u>308,610</u>	<u>80,382</u>	<u>4,337,402</u>
Less accumulated depreciation for:				
Parkland improvements	82,629	22,311	-	104,940
Infrastructure	96,086	50,984	-	147,070
Buildings	88,215	4,852	-	93,067
Equipment and vehicles	617,336	117,216	74,965	659,587
Total accumulated depreciation	<u>884,266</u>	<u>195,363</u>	<u>74,965</u>	<u>1,004,664</u>
Total capital assets being depreciated, net	<u>3,224,908</u>	<u>113,247</u>	<u>5,417</u>	<u>3,332,738</u>
Governmental activities capital assets, net	<u>\$ 3,283,742</u>	<u>\$ 113,247</u>	<u>\$ 5,417</u>	<u>\$ 3,391,572</u>
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated -</i>				
Land	\$ 166,910	\$ -	\$ -	\$ 166,910
Total capital assets not being depreciated	<u>166,910</u>	<u>-</u>	<u>-</u>	<u>166,910</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	78,742	-	-	78,742
Equipment	205,455	-	-	205,455
Water system	2,779,071	602,520	-	3,381,591
Sewer system	3,817,678	25,390	-	3,843,068
Total capital assets being depreciated	<u>6,880,946</u>	<u>627,910</u>	<u>-</u>	<u>7,508,856</u>
Less accumulated depreciation for:				
Buildings and Improvements	48,222	4,069	-	52,291
Equipment	124,144	14,822	-	138,966
Water system	570,231	105,232	-	675,463
Sewer system	622,279	130,077	-	752,356
Total accumulated depreciation	<u>1,364,876</u>	<u>254,200</u>	<u>-</u>	<u>1,619,076</u>
Total capital assets being depreciated, net	<u>5,516,070</u>	<u>373,710</u>	<u>-</u>	<u>5,889,780</u>
Business-type activities capital assets, net	<u>\$ 5,682,980</u>	<u>\$ 373,710</u>	<u>\$ -</u>	<u>\$ 6,056,690</u>

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

Depreciation was charged to functions as follows:

General government:		
Administration	\$ 8,928	
Police	34,294	
Fire and Ambulance	76,505	
Library	2,341	
Streets	50,984	
Parks	22,311	\$ 195,363
<hr/>		
Business activity:		
Water and Sewer		254,200
		<u>\$ 589,085</u>

**D. Interfund balances and activity**

1. Due To and From Other Funds

There were no due to and from other funds at September 30, 2008.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2008 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water and sewer fund	General fund	\$ 126,011
Debt service fund	General fund	27,031
Debt service fund	Water and sewer fund	148,299
	Total	<u>\$ 301,341</u>

The transfers primarily resulted from debt payments made by the Debt Service fund.

**E. Long-term obligations**

1. Long-term obligation activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2008 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 5,524,177	\$ -	\$ 299,088	\$ 5,225,089	\$ 298,238
Capital leases	291,265	93,256	56,049	328,472	85,861
Notes	91,762	-	29,488	62,274	62,274
Compensated absences*	24,644	19,113	-	43,757	-
	<u>\$ 5,931,848</u>	<u>\$ 112,369</u>	<u>\$ 384,625</u>	<u>\$ 5,659,592</u>	<u>\$ 446,373</u>

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type activities:</u>					
General obligations bonds	\$ 1,698,000	\$ -	\$ 93,000	\$ 1,605,000	\$ 100,000
Capital leases	38,305	-	11,784	26,521	12,387
Notes	14,000	-	5,500	8,500	6,000
Compensated absences*	6,604	5,199	-	11,803	-
Total business-type activities	<u>\$ 1,756,909</u>	<u>\$ 5,199</u>	<u>\$ 110,284</u>	<u>\$ 1,651,824</u>	<u>\$ 118,387</u>

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General fund
Compensated absences	Business-type	Enterprise funds

2. Debt service requirements

Debt service requirements on long-term debt at September 30, 2008 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 360,512	\$ 242,220	\$ 602,732
2010	299,684	244,928	544,612
2011	295,998	247,315	543,313
2012	176,314	275,528	451,842
2013	229,855	218,330	448,185
2014-2018	1,505,000	751,650	2,256,650
2019-2023	1,875,000	390,510	2,265,510
2024-2029	545,000	29,790	574,790
Totals	<u>\$ 5,287,363</u>	<u>\$ 2,400,271</u>	<u>\$ 7,687,634</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 106,000	\$ 96,647	\$ 202,647
2010	104,500	89,498	193,998
2011	110,000	84,236	194,236
2012	113,000	78,834	191,834
2013	120,000	72,983	192,983
2014-2018	350,000	286,340	636,340
2019-2023	480,000	164,235	644,235
2024-2028	230,000	21,875	251,875
Totals	<u>\$ 1,613,500</u>	<u>\$ 894,648</u>	<u>\$ 2,508,148</u>

Governmental Activities Rates

Series 2004 Refunding and Improvement Bond	2.55 to 4.90%
Series 2005 Combination Tax and Revenue	3.75 to 5.625%
Series 2004 Tax Notes	3.44%

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

Business-Type Activities Rates

Series 2000 Combination Tax and Revenue	5.55 to 6.25%
Series 2005 Tax Notes	4.65%

3. Capital leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2008 as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>
2009	\$ 85,861	\$ 12,387
2010	90,213	13,019
2011	94,786	1,115
2012	52,972	-
2013	4,639	-
Total minimum rentals	<u>\$ 328,471</u>	<u>\$ 26,521</u>
Rental expenditures in 2008	<u>\$ 56,049</u>	<u>\$ 11,784</u>

The effective interest rate on capital leases outstanding ranges from 4.45% - 5.40%.

F. Commitments under operating leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2008 as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>
2009	\$ 62,274	\$ 6,000
2010	-	2,500
Total minimum rentals	<u>\$ 62,274</u>	<u>\$ 8,500</u>
Rental expenditures in 2008	<u>\$ 29,488</u>	<u>\$ 5,500</u>

The imputed interest rate on operating leases outstanding ranges from 4.85% - 8.50%.

G. 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 2008, 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.

H. Pension plan

1. Plan description

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tmrs.org>.

2. Funding policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 2.41% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2008, 2007, and 2006 were \$21,572, \$25,715, and \$26,780, respectively, and were equal to the required contributions for each year.

3. Annual pension cost

The City's annual pension cost of \$21,572 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percentage of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the Plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The TMRS does not value the assets of individual cities and accordingly, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole.

4. Trend information for the plan

Fiscal Year Ended	Pension Cost (APC)	of APC Contributed	Pension Obligation
September 30, 2006	\$ 26,780	100%	-
September 30, 2007	25,715	100%	-
September 30, 2008	21,572	100%	-

I. Health care coverage

During the year ended September 30, 2008, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$412 per month per employee to the Plan for October through June 2008 and \$317 per month per employee to the Plan for July through September 2008. Certain 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 third-party administrator is renewable on December 31 each year, and terms of coverage and premium costs are included in the contractual provisions.

**CITY OF KRUM**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2007, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

**J. 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 collectibility 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

No reportable litigation was pending against the City at September 30, 2008.

**K. Contracts**

The City has a contract with the Upper Trinity Water District to purchase water for the City. Water purchase expense for the year ended September 30, 2008 was \$146,609.

The City has a contract with the City of Denton whereby the City of Denton has agreed to provide wastewater treatment and disposal for certain subdivisions in the City of Krum. Sewer treatment expense for the fiscal year ending September 30, 2008 was \$112,109. As part of the same agreement, the City pays to the City of Denton, an impact fee for each new customer that connects to the wastewater lines owned by the City of Denton. Total impact fee expense for the fiscal year ended September 30, 2008 was \$54,255.

**L. Subsequent events**

None.

## **Required Supplementary Information**

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**City of Krum**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balance - Budget and Actual**  
**Debt Service Fund**  
**For the Year Ended September 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 627,409	\$ 713,780	\$ 724,138	\$ 10,358
Interest income	7,000	7,000	7,235	235
Total revenues	<u>634,409</u>	<u>720,780</u>	<u>731,373</u>	<u>10,593</u>
<b>EXPENDITURES</b>				
Principal	620,549	299,088	299,088	-
Interest and other charges	-	239,209	239,209	-
Total expenditures	<u>620,549</u>	<u>538,297</u>	<u>538,297</u>	<u>-</u>
Excess of revenues over expenditures	<u>13,860</u>	<u>182,483</u>	<u>193,076</u>	<u>10,593</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(175,330)	(175,330)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(175,330)</u>	<u>(175,330)</u>
Net change in fund balances	13,860	182,483	17,746	(164,737)
Fund balances - beginning	18,016	18,016	18,016	-
Fund balances - ending	<u>\$ 31,876</u>	<u>\$ 200,499</u>	<u>\$ 35,762</u>	<u>\$ (164,737)</u>

**City of Krum**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balance - Budget and Actual**  
**Economic Development Corporation**  
**For the Year Ended September 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales and miscellaneous taxes	\$ 51,555	\$ 51,555	\$ 83,875	\$ 32,320
Franchise taxes	3,600	3,600	3,185	(415)
Total revenues	<u>55,155</u>	<u>55,155</u>	<u>87,060</u>	<u>31,905</u>
<b>EXPENDITURES</b>				
Economic opportunity	123,500	123,500	11,218	112,282
Total expenditures	<u>123,500</u>	<u>123,500</u>	<u>11,218</u>	<u>112,282</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(68,345)</u>	<u>(68,345)</u>	<u>75,842</u>	<u>144,187</u>
Net change in fund balances	(68,345)	(68,345)	75,842	144,187
Fund balances - beginning	144,891	144,891	144,891	-
Fund balances - ending	<u>\$ 76,546</u>	<u>\$ 76,546</u>	<u>\$ 220,733</u>	<u>\$ 144,187</u>

**City of Krum**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balance - Budget and Actual**  
**Water and Sewer Fund**  
**For the Year Ended September 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 863,600	\$ 896,500	\$ 950,225	\$ 53,725
Connection fees	634,132	411,000	366,750	(44,250)
Interest and investment revenue	7,000	17,300	37,059	19,759
Total revenues	<u>1,504,732</u>	<u>1,324,800</u>	<u>1,354,034</u>	<u>29,234</u>
<b>EXPENDITURES</b>				
Personnel services	415,982	399,840	345,878	53,962
Purchased professional and technical services	76,327	66,468	62,958	3,510
Water purchases	100,000	120,000	146,609	(26,609)
Sewer treatment and impact fees	350,931	185,000	166,364	18,636
Utilities	122,000	140,000	158,170	(18,170)
Repairs and maintenance	112,500	112,500	72,222	40,278
Other supplies and expenses	292,017	171,846	67,024	104,822
Insurance	2,834	12,693	13,833	(1,140)
Depreciation	-	-	254,200	(254,200)
Vehicle expense	8,000	8,000	9,489	(1,489)
Interest and other charges	-	-	101,132	(101,132)
Total expenditures	<u>1,480,591</u>	<u>1,216,347</u>	<u>1,397,879</u>	<u>(181,532)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,141</u>	<u>108,453</u>	<u>(43,845)</u>	<u>(152,298)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	148,299	148,299
Transfers out	-	(126,011)	(126,011)	-
Total other financing sources (uses)	<u>-</u>	<u>(126,011)</u>	<u>22,288</u>	<u>148,299</u>
Net change in fund balances	24,141	(17,558)	(21,557)	(3,999)
Fund balances - beginning	5,727,145	5,727,145	5,727,145	-
Fund balances - ending	<u>\$ 5,751,286</u>	<u>\$ 5,709,587</u>	<u>\$ 5,705,588</u>	<u>\$ (3,999)</u>



## **OTHER INFORMATION SECTION**



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 the financial statements of the governmental activities, the business-type activities, 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the control deficiency described below to be a material weakness in internal control over financial reporting.

*Financial Management, Reporting Limitations and Segregation of Duties*

In connection with the performance of our audit procedures, we identified over 50 adjusting entries that were necessary to correct the City's fiscal 2008 financial statements. None of these journal entries were considered to be unusual in nature, given the relatively small size of the City administrative and accounting staff, limitations on their time, and lack of accounting expertise in certain areas, including the government-wide entries required by GASB 34. However, in the future, we believe that some of these entries should be addressed by the City's accounting staff prior to year-end. While many of these entries were not significant on an individual basis, newly adopted professional standards require that we communicate such matters to both management and the City Council. These types of entries could also have a significant effect on the City's future financial statements if not properly identified and recorded in a timely manner. We also noted during our audit that there was not always a proper segregation of duties within the City's administrative and accounting departments.

The City has in place a system of internal controls; however, there will be certain limitations at times as a result of the City's current financial management and staffing levels. We recommend that the City continue evaluating its system of internal controls, accounting policies and procedures, and monthly financial statement review procedures, and implementing improvements as considered necessary. Improved control procedures and management oversight will help ensure that the City's accounting records and financial statements provide users with complete, accurate and timely information. These steps can also help reduce the risk of potential material misstatements in the City's financial statements.

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 16, 2009.

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

*Auldridge Griffin P. C.*

Cleburne, Texas  
January 26, 2009

### *Financial Management, Reporting Limitations and Segregation of Duties*

In connection with the performance of our audit procedures, we identified over 50 adjusting entries that were necessary to correct the City's fiscal 2008 financial statements. None of these journal entries were considered to be unusual in nature, given the relatively small size of the City administrative and accounting staff, limitations on their time, and lack of accounting expertise in certain areas, including the government-wide entries required by GASB 34. However, in the future, we believe that some of these entries should be addressed by the City's accounting staff prior to year-end. While many of these entries were not significant on an individual basis, newly adopted professional standards require that we communicate such matters to both management and the City Council. These types of entries could also have a significant effect on the City's future financial statements if not properly identified and recorded in a timely manner. We also noted during our audit that there was not always a proper segregation of duties within the City's administrative and accounting departments.

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*Auldridge Griffin P. C.*

Cleburne, Texas  
January 26, 2009



To the Honorable Mayor and City Council  
City of Krum, Texas

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, 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, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

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

#### Material Weakness

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described below constitutes a material weakness:

#### *Financial Management, Reporting Limitations and Segregation of Duties*

In connection with the performance of our audit procedures, we identified over 50 adjusting entries that were necessary to correct the City's fiscal 2008 financial statements. None of these journal entries were considered to be unusual in nature, given the relatively small size of the City administrative and accounting staff, limitations on their time, and lack of accounting expertise in certain areas, including the government-wide entries required by GASB 34. However, in the future, we believe that some of these entries should be addressed by the City's accounting staff prior to year-end. While many of these entries were not significant on an individual basis, newly adopted professional standards require that we communicate such matters to both management and the City Council. These types of entries could also have a

individual basis, newly adopted professional standards require that we communicate such matters to both management and the City Council. These types of entries could also have a significant effect on the City's future financial statements if not properly identified and recorded in a timely manner. We also noted during our audit that there was not always a proper segregation of duties within the City's administrative and accounting departments.

The City has in place a system of internal controls; however, there will be certain limitations at times as a result of the City's current financial management and staffing levels. We recommend that the City continue evaluating its system of internal controls, accounting policies and procedures, and monthly financial statement review procedures, and implementing improvements as considered necessary. Improved control procedures and management oversight will help ensure that the City's accounting records and financial statements provide users with complete, accurate and timely information. These steps can also help reduce the risk of potential material misstatements in the City's financial statements.

### Other Matters

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

#### *Capitalization of Fixed Assets*

We noted that the City was not consistently following its capitalization policy of recording capital expenditures over \$1,000 in the proper account. We recommend that the City consider raising the threshold in its capitalization policy to \$5,000, which will help reduce the quantity of small insignificant amounts included in the City's depreciation schedule. In conjunction with this change, we recommend that the chart of accounts be modified whereby expenditures would be recorded in two separate accounts: one account used for expenditures greater than \$5,000 and a second account used to account for expenditures less than \$5,000.

#### *Purchase Order Procedures*

The City has an internal control procedure of requiring pre-approved purchase orders prior to any purchase being made by a department or an employee. During our testing of payables and expenditures, we noted in some instances that purchase orders were prepared after the respective purchases were made or submitted without specified amounts documented on the purchase orders. We recommend that the City's purchase order procedures be carefully followed and that all purchase orders be reviewed by appropriate personnel to insure that all expenditures are valid and properly approved.

#### *Safeguarding of Assets*

Throughout our audit fieldwork procedures, we observed that the entrance to the City Hall and access to the City's accounting and administrative records, including cash on-hand, were not adequately secured at all times. We recommend that the City take appropriate steps to help prevent unauthorized access to City property and records, and thereby reduce the risk of theft or other security breaches.

### *Review of General Ledger and Certain Balance Sheet Accounts*

During the course of our audit engagement, we identified various account reconciliations that had not been performed by the City's accounting personnel. For example, monthly water and sewer billing and deposit accounts were not reconciled to the general ledger on a regular basis, and there is no formal policy in place to review the accounts receivable aging report on a monthly basis to identify delinquent account write-offs. Additionally, we noted that certain payroll accounts contained various coding errors and mispostings.

In connection with the City's impending accounting software conversion in 2009, the new software will help facilitate a more effective system of reconciliation and review controls that can be implemented on a monthly basis. We recommend that management continue to carefully evaluate and implement monthly reconciliation and review controls in order to help reduce the number of accounting errors in the City's monthly financial statements.

### *Audit Planning and Interim Audit Procedures*

The majority of our fiscal 2008 audit procedures were not performed until well after the City's year-end. In order to conduct a more efficient and timely audit, we recommend that more planning and interim procedures be performed in the July/August timeframe. Such procedures would consist of general planning, testing of internal controls, review of certain material transactions (fixed asset additions, new debt issuances, etc.), preliminary analysis of revenues and expenses, and identification of items requiring special attention with respect to the City's year-end closing process. The performance of these interim audit procedures, coupled with the City strengthening its quarterly review procedures as discussed above, will help accelerate the completion of our year-end audit procedures and issuance of the City's audited financial statements.

### **Changes Implemented in Fiscal 2009**

Based on discussions with the Mayor and City personnel subsequent to the completion of our audit fieldwork, it is our understanding that the following actions have already been taken or will be implemented during fiscal 2009:

- The City began utilizing the services of an outside accounting consultant to assist with a monthly review of the City's financial records and the preparation of monthly financial statements and budget reports. The City has also recently upgraded its internal accounting staff and realigned certain job duties and responsibilities to help improve segregation of duties within the accounting and administrative departments.
- The City is in the process of implementing an accounting system conversion, whereby new accounting software and related controls will be utilized beginning in fiscal 2009. The new accounting software should help improve the overall quality of the City's accounting records, internal controls, and monthly financial statements.
- The City Council recently created a finance committee to provide more focused financial oversight on a regular basis and to help ensure that proper internal controls are properly implemented and maintained, including the preparation of internal financial statements in a more timely and accurate manner.

- With respect to internal controls over purchases, various meetings and training sessions have been conducted by the Mayor to emphasize to all department heads the importance of following the City's policies and procedures over the processing of purchase orders.

We fully support the recent changes and implementation of new procedures as described above, and encourage the City to continue taking the right steps towards improving the overall quality of its accounting function. However, the recent adoption of these procedures was not considered during the completion of our fiscal 2008 audit engagement. In connection with the audit of the City's financial statements for the year ending September 30, 2009, the effectiveness of these new procedures will be evaluated and our audit findings and recommendations will be communicated to management and the City Council.

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This communication is intended solely for the information and use of the Honorable Mayor, management, the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Auldridge Griffin P.C.*

Cleburne, Texas  
February 16, 2009



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

Jack L. Auldridge, Jr., CPA  
Michael W. Griffin, CPA  
W.L. "Woody" Mathews, Jr., CPA  
Kenneth L. von Tungeln, CPA  
Keith A. Hollar, CPA

Michael D. Dunlap, CPA  
Karen O. Thompson, CPA  
John A. Stanbery, CPA  
Kenneth W. Sanders, CPA

February 16, 2009

To the Honorable Mayor and City Council  
City of Krum, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Krum (the City) for the year ended September 30, 2008, and have issued our report thereon dated January 26, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Auditing Standards

As stated in our engagement letter dated September 30, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the City's financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Other Information in Documents Containing Audited Financial Statements

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI) such as Management's Discussion and Analysis (MD&A), to accompany the City's basic financial statements. As part of our engagement, we applied certain limited procedures related to the City's RSI. These limited procedures consisted principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter to us. The City's RSI, as required by generally accepted accounting principles, was subjected to certain limited procedures, but was not audited by us. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Certain supplementary information other than RSI also accompanies the City's basic financial statements. Such supplementary information, as applicable, was subjected to the auditing procedures applied in our audit of the basic financial statements and we provided an opinion on it in relation to the basic financial statements taken as whole.

### Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated September 30, 2008; however, as discussed more fully below, the completion of our audit procedures required significantly more time than originally anticipated due to difficulties encountered.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. After considering certain audit adjustments as described below, there are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be more sensitive than others because of their potential significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the City's financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their potential significance to financial statement users.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management and staff personnel in performing and completing our audit. However, due to the limited size and expertise of the City's accounting staff, along with a large number of financial statement adjustments identified during the performance of our audit procedures, our engagement required significantly more time than originally budgeted. Such additional time helped contribute to the overall delay in the completion of our procedures and issuance of the City's 2008 audited financial statements.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attachment I summarizes the uncorrected misstatements of the City's fiscal 2008 financial statements identified during our audit engagement. Management has determined that their effects are immaterial, both individually and in the aggregate, to the City's basic financial statements taken as a whole.

Additionally, during the course of our audit engagement, we identified and proposed over 50 audit adjustments, most of which were recorded in the City's financial statements for the year ended September 30, 2008. Certain audit adjustments related to the City's government-wide financial

statement presentation (GASB 34 adjustments). We have previously discussed and provided to management a complete listing of our fiscal 2008 audit adjustments, including the GASB 34 adjustments (see Attachments II and III).

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 26, 2009.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

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

Very truly yours,



AuldridgeGriffin, P.C.



Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.01 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>		<b>4030.34</b>		
To adjust customer deposits to actual				
200-210101	CURRENT LIABILITIES - Customer Utility Deposits		13,755.00	
200-41-42001	WATER MISC REVENUE - Water Billing			13,755.00
<b>Total</b>			<u>13,755.00</u>	<u>13,755.00</u>
<b>Adjusting Journal Entries JE # 2</b>		<b>4030.32</b>		
To reclass court security fees collected and not spent during the current year.				
100-41-41842B	TOTAL GENERAL REVENUE:MUNICIPAL COURT - Security Fees		2,080.00	
100-210408	Child Safety Fund Payable			2,080.00
<b>Total</b>			<u>2,080.00</u>	<u>2,080.00</u>
<b>Adjusting Journal Entries JE # 3</b>		<b>3012.03</b>		
To adjust AR at year end per schedule above				
200-41-42001	WATER MISC REVENUE - Water Billing		2,325.00	
200-1104	Accounts Receivable-W&S			2,325.00
<b>Total</b>			<u>2,325.00</u>	<u>2,325.00</u>
<b>Adjusting Journal Entries JE # 4</b>		<b>4030.33</b>		
Payables adjusted to actual at year end				
100-210405	CURRENT LIABILITIES - State Court Costs Payable		11,175.00	
100-210406	CURRENT LIABILITIES - Time Payment Fees		919.00	
100-41-41861	TOTAL GENERAL REVENUE:MUNICIPAL COURT - Seatbelt Safety		326.00	
100-210407	CURRENT LIABILITIES - Child Safety Seat Belt Costs			326.00
100-41-41843	TOTAL GENERAL REVENUE:MUNICIPAL COURT - Fines			12,094.00
<b>Total</b>			<u>12,420.00</u>	<u>12,420.00</u>
<b>Adjusting Journal Entries JE # 5</b>		<b>3012.04</b>		
To reclass payment received from TWC on prior year AR per schedule				
100-51-51043	GENERAL FUND EXPENSES:ADMINISTRATION - Payroll Taxes (General)		3,543.00	
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable			3,543.00
<b>Total</b>			<u>3,543.00</u>	<u>3,543.00</u>
<b>Adjusting Journal Entries JE # 6</b>		<b>3012.04</b>		
To adjust AR balance per schedule				
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable		20,337.00	
100-41-41205	TOTAL GENERAL REVENUE:FIRE - EMS Billing			20,337.00
<b>Total</b>			<u>20,337.00</u>	<u>20,337.00</u>
<b>Adjusting Journal Entries JE # 7</b>		<b>3012.04</b>		
To rcl sales tax receivable to new account				
100-110452	AR Sales Tax		25,314.00	
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable			25,314.00
<b>Total</b>			<u>25,314.00</u>	<u>25,314.00</u>
<b>Adjusting Journal Entries JE # 8</b>		<b>3012.04</b>		
To adj AR for garbage per schedule				
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable		1,793.00	
100-41-41041	TOTAL GENERAL REVENUE:GENERAL REVENUE - Solid Waste Collections			1,793.00
<b>Total</b>			<u>1,793.00</u>	<u>1,793.00</u>
<b>Adjusting Journal Entries JE # 9</b>		<b>3012.04</b>		
Entries are to adjust sales tax revenue/receivable to actual at 9/30/08				
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable		4,241.00	
100-110451	ACCOUNTS RECEIVABLE - Other Accts. Receivable		16,962.00	
700-110451	Sales Tax Receivable		16,514.00	
100-41-41016	TOTAL GENERAL REVENUE:GENERAL REVENUE - Street Maint. Tax			4,241.00
100-41-41017	TOTAL GENERAL REVENUE:GENERAL REVENUE - State Sales Tax			16,962.00
700-700017	sales tax revenue			16,514.00
<b>Total</b>			<u>37,717.00</u>	<u>37,717.00</u>
<b>Adjusting Journal Entries JE # 11</b>				
To rcl accounts which offset				
100-150-110409	DUE TO/DUE FROM - Gen Fund due from W & S Fund		388,611.00	
100-150-15110	DUE TO/DUE FROM - Debt Service Fund due to Gen Fu		185,096.00	
100-150-15120	DUE TO/DUE FROM - CIP Fund due to Gen Fund		119,374.00	
100-150-15010	DUE TO/DUE FROM - Gen Fund due from Debt Service			185,096.00
100-150-15020	DUE TO/DUE FROM - Gen Fund due from CIP Fund			119,374.00

ATTACHMENT II

Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.01 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
100-150-210702	DUE TO/DUE FROM - W & S due to Gen Fund			388,611.00
<b>Total</b>			<u>693,081.00</u>	<u>693,081.00</u>
<b>Adjusting Journal Entries JE # 12</b>		4025.02		
To record new capital leases in the LTDAG				
900-22-3009	GF - GENERAL FUND LONG TERM DEBTS - Amount to be Raised		93,256.00	
900-22-22019AG	N/P 2008 PW Pickup			35,002.00
900-22-22020AG	N/P 2008 F150 Police			21,277.00
900-22-22021AG	N/P 2008 Ford Expedition Police			36,977.00
<b>Total</b>			<u>93,256.00</u>	<u>93,256.00</u>
<b>Adjusting Journal Entries JE # 13</b>		4025.02		
To separate principal payments from interest expense.				
100-51-51292	GENERAL FUND EXPENSES:FIRE DEPARTMENT EXPENSES - Fire Truck Interest		18,179.00	
100-51-51291	GENERAL FUND EXPENSES:FIRE DEPARTMENT - Fire Truck Principal			18,179.00
<b>Total</b>			<u>18,179.00</u>	<u>18,179.00</u>
<b>Adjusting Journal Entries JE # 14</b>		4025.02		
To reverse expense and adjust the payable balance and interest expense amount to actual at FYE.				
200-22-22016	WS - WATER & SEWER LONG TERM DEBTS - Caterpillar Loan		11,784.00	
200-52-52097	WATER DEPARTMENT EXPENSES - Interest Expense		1,647.00	
200-52-52095	Water Expense:WATER DEPT EXPENSES - Equipment Purchase			6,716.00
200-53-53095	SEWER EXPENSE:SEWER - Equipment Purchase			6,715.00
<b>Total</b>			<u>13,431.00</u>	<u>13,431.00</u>
<b>Adjusting Journal Entries JE # 15</b>		4025.02		
To reverse expense and adjust the payable balance to actual at FYE.				
200-22-22220	WS - WATER & SEWER LONG TERM DEBTS - Bolivar Water Payable		5,500.00	
200-52-52104	Water Expense:WATER DEPT EXPENSES - Bolivar Water payoff			5,500.00
<b>Total</b>			<u>5,500.00</u>	<u>5,500.00</u>
<b>Adjusting Journal Entries JE # 16</b>		4024.02		
To separate principal and interest expense.				
500-54-54041	DEBT SERVICE FUND EXPENSES - 2004 Bond Interest		163,543.00	
500-54-54045	DEBT SERVICE FUND EXPENSES - 2004 Tax Note Interest		11,524.00	
500-54-54055	DEBT SERVICE FUND EXPENSES - 2005 Bond Interest		64,142.00	
500-51-54010	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES - 2004 Tax Note Payments			43,988.00
500-51-54020	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES - 2004 GO Bond Payments			162,850.00
500-51-54040	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES - 2005 CO Bond Payments			32,371.00
<b>Total</b>			<u>239,209.00</u>	<u>239,209.00</u>
<b>Adjusting Journal Entries JE # 17</b>		4024.02		
To reclassify "Bond expense" to net against the bonds payable for current year.				
200-22-22003	WS - WATER & SEWER LONG TERM DEBTS - 2000 CO Bond Payable		45,000.00	
200-22-22005	WS - WATER & SEWER LONG TERM DEBTS - 2008 Tax Notes Payable		48,000.00	
200-52-52097	WATER DEPARTMENT EXPENSES - Interest Expense		96,670.00	
500-53-53098	Transfers Out		148,299.00	
200-48-48100	TRANSFERS - Transfers W/S to/from Debt Svc			148,299.00
200-53-53065	SEWER EXPENSE:SEWER - Payment on Bonds			41,371.00
500-51-54050	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES - 2006 Tax Note Payments			61,928.00
500-51-54065	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES - Series 2000 CO Bond Pymts			86,371.00
<b>Total</b>			<u>337,969.00</u>	<u>337,969.00</u>
<b>Adjusting Journal Entries JE # 18</b>		3012.05		
To adjust property taxes and allowance account at year end.				
100-11046	ACCOUNTS RECEIVABLE - Taxes-Accts. Receivable GF		1,847.00	
100-210351	Deferred Taxes		2,275.00	
500-11046	ACCOUNTS RECEIVABLE - Taxes-Accts. Receivable		3,706.00	
100-11047AG	Allow for Doubtful Accounts			4,122.00
500-11047AG	Allow for Doubtful Accounts			1,924.00
500-210351	Deferred Taxes			1,782.00
<b>Total</b>			<u>7,828.00</u>	<u>7,828.00</u>
<b>Adjusting Journal Entries JE # 19</b>		4026.06		
To reclassify amount as a prepaid expense				
100-11090AG	Prepaid Expenses		7,497.00	
100-2000	ACCOUNTS PAYABLE			7,497.00
<b>Total</b>			<u>7,497.00</u>	<u>7,497.00</u>
<b>Adjusting Journal Entries JE # 20</b>		4026.07		

Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.01 - Adjusting Journal Entries Report

ATTACHMENT II

Account	Description	W/P Ref	Debit	Credit
To adjust payables to actual at year end.				
200-52-52094	Water Expense:WATER DEPT EXPENSES · Water Purchase		12,370.00	
200-53-53027	SEWER EXPENSE:SEWER · Engineering Fees		2,964.00	
200-2020a	Accounts Payable-Audit W&S			15,334.00
<b>Total</b>			<b>15,334.00</b>	<b>15,334.00</b>
<b>Adjusting Journal Entries JE # 21</b>				
To reclassify tax note payments to proper expenditure accounts and interest expense accounts. 0				
100-51-51384	GENERAL FUND EXPENSES:POLICE DEPARTMENT · Police Lease Principal	4025.02	29,488.00	
100-51-51385	GENERAL FUND EXPENSES:POLICE DEPARTMENT · Police Lease Interest		2,819.00	
100-51-51393	GENERAL FUND EXPENSES:POLICE · Motor Vehicles-Police			5,276.00
100-53-53099AG	Transfer In (from debt Service)			27,031.00
<b>Total</b>			<b>32,307.00</b>	<b>32,307.00</b>
<b>Adjusting Journal Entries JE # 22</b>				
To record debt service payment for GF police vehicles				
500-53-53098	Transfers Out		27,031.00	
500-51-54030	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES · 2005 Tax Note Payments			27,031.00
<b>Total</b>			<b>27,031.00</b>	<b>27,031.00</b>
<b>Adjusting Journal Entries JE # 23</b>				
Client did not post these to an expense account.				
100-51-51043	GENERAL FUND EXPENSES:ADMINISTRATION · Payroll Taxes (General)	4028.02	25,060.00	
100-112100	PAYROLL LIABILITIES			5,176.00
100-112100-12025	PAYROLL LIABILITIES · Supplemental Insurance-emp paid			3,093.00
100-112100-12026	PAYROLL LIABILITIES · Medical Insurance Payable			6,840.00
100-112100-210703	PAYROLL LIABILITIES · Vision Insurance Payable			558.00
100-112100-210704	PAYROLL LIABILITIES · Dental Insurance Payable			7,886.00
100-112100-210707	PAYROLL LIABILITIES · UNUM Life Insurance			1,507.00
<b>Total</b>			<b>25,060.00</b>	<b>25,060.00</b>
<b>Adjusting Journal Entries JE # 24</b>				
Client did not reverse accrual account in the CY.				
100-2100501	CURRENT LIABILITIES · Payroll Taxes Withheld	4028.02	6,295.00	
100-51-51043	GENERAL FUND EXPENSES:ADMINISTRATION · Payroll Taxes (General)			6,295.00
<b>Total</b>			<b>6,295.00</b>	<b>6,295.00</b>
<b>Adjusting Journal Entries JE # 25</b>				
To adjust wages payable at year end.				
100-51-51003	GENERAL FUND EXPENSES:ADMINISTRATION · Office Personnel	4028.02	18,898.00	
200-52-52002	Water Expense:WATER DEPT EXPENSES · Regular Salaries W-D		6,287.00	
100-1234AG	Accrued Salaries			18,898.00
200-11-1234AG	Accrued Salaries			6,287.00
<b>Total</b>			<b>25,185.00</b>	<b>25,185.00</b>
<b>Adjusting Journal Entries JE # 26</b>				
To record Bond Amortization				
200-53-53097	SEWER DEPARTMENT EXPENSES: · Interest Expense	3021.01	2,816.00	
200-110752	Cost of Issuance-Bonds			2,816.00
<b>Total</b>			<b>2,816.00</b>	<b>2,816.00</b>
<b>Adjusting Journal Entries JE # 27</b>				
To adjust customer deposits at year end.				
200-210101	CURRENT LIABILITIES · Customer Utility Deposits	4030.34		
200-41-42001	WATER MISC REVENUE · Water Billing			
<b>Total</b>			<b>0.00</b>	<b>0.00</b>
<b>Adjusting Journal Entries JE # 28</b>				
To adjust the City's accrued vacation to actual.				
200-52-52002	Water Expense:WATER DEPT EXPENSES · Regular Salaries W-D	4028.03	2,599.00	
200-53-53002	SEWER DEPARTMENT EXPENSES · Labor (w/s/s)		2,599.00	
200-210054	Accrued Vacation W&S			5,198.00
<b>Total</b>			<b>5,198.00</b>	<b>5,198.00</b>
<b>Adjusting Journal Entries JE # 32</b>				
To capitalize total construction costs for the water well project.				
200-11-12019	ws · WATER & SEWER FIXED ASSETS · Water System	3020.05	602,520.00	
200-52-52079	Water Expense:WATER DEPT EXPENSES · WATER/WATER WELL PROJECTS BOND			602,520.00

ATTACHMENT II

Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.01 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>Total</b>			<u><u>602,520.00</u></u>	<u><u>602,520.00</u></u>
<b>Adjusting Journal Entries JE # 33</b>				
		<b>3020.05</b>		
To capitalized fixed assets that were booked as an expense in the EF.				
200-11-12021	ws · WATER & SEWER FIXED ASSETS · Sewer System		8,490.00	
200-11-12021	ws · WATER & SEWER FIXED ASSETS · Sewer System		16,900.00	
200-53-53095	SEWER EXPENSE:SEWER · Equipment Purchase			8,490.00
200-53-53095	SEWER EXPENSE:SEWER · Equipment Purchase			16,900.00
<b>Total</b>			<u><u>25,390.00</u></u>	<u><u>25,390.00</u></u>
<b>Adjusting Journal Entries JE # 38</b>				
		<b>3020.02</b>		
To record depreciation for CY.				
200-52-52090	WATER DEPARTMENT EXPENSES · Water Dept. Depreciation		114,678.00	
200-53-53090	SEWER DEPARTMENT EXPENSES · Sewer Dept. Depreciation		139,522.00	
200-11-13000	ws · WATER & SEWER FIXED ASSETS · Accumulated Depreciation-W&S			254,200.00
<b>Total</b>			<u><u>254,200.00</u></u>	<u><u>254,200.00</u></u>
<b>Adjusting Journal Entries JE # 44</b>				
		<b>5037.00</b>		
To show restricted amounts of fund balance on Gwide Statement				
100-3003	Fund Balance Gen Fund		76,467.00	
100-3005AG	Reserved for Fire, Park & Library			76,467.00
<b>Total</b>			<u><u>76,467.00</u></u>	<u><u>76,467.00</u></u>
<b>Adjusting Journal Entries JE # 45</b>				
		<b>5037.00</b>		
To reclassify restricted amount of fund balance.				
200-3100	Retained Earnings W&S		200,078.00	
200-3101AG	Reserved for Debt Service			200,078.00
<b>Total</b>			<u><u>200,078.00</u></u>	<u><u>200,078.00</u></u>
<b>Adjusting Journal Entries JE # 47</b>				
		<b>4025.02</b>		
To record new leases as other financing sources at the fund level				
100-51-51391AG	Capital Lease - Safety		71,979.00	
100-51-51498AG	Capital lease - Works		21,277.00	
100-53-53199AG	Proceeds on Capital Leases			93,256.00
<b>Total</b>			<u><u>93,256.00</u></u>	<u><u>93,256.00</u></u>
<b>Adjusting Journal Entries JE # 51</b>				
		<b>5037.00</b>		
To reflect grant monies not spent as of year end.				
100-3003	Fund Balance Gen Fund		18,218.00	
100-3005AG	Reserved for Fire, Park & Library			18,218.00
<b>Total</b>			<u><u>18,218.00</u></u>	<u><u>18,218.00</u></u>
<b>Adjusting Journal Entries JE # 55</b>				
		<b>4026.06.2</b>		
To reverse prior year AP 9/30/07				
100-2000a	AP · AP Per 9/30/07 audit		60,040.81	
100-41-41053	TOTAL GENERAL REVENUE:GENERAL REVENUE · Misc. Income- Gen Fund			11,641.42
100-51-51007	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Office Supplies - Admin			353.51
100-51-51008	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Misc.			826.83
100-51-51011	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Postage			311.98
100-51-51015	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Repair & Maint. Building			3,850.13
100-51-51017	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Electric and Gas Utilities			347.32
100-51-51019	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Municipal Lighting			1,654.33
100-51-51021	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Legal Services			2,473.76
100-51-51027	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Engineering Fees (Plats,Prep)			15,618.08
100-51-51033	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Health Insurance - Admin			11,878.12
100-51-51098	GENERAL FUND EXPENSES:ADM SALARIES/BENEFITS · Council Meeting Expenses			114.46
100-51-51217	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Electric and Gas Utilities F.D			41.25
100-51-51251	GENERAL FUND EXPENSES:FIRE DEPARTMENT · EMS Supplies- F.D			815.87
100-51-51269	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Motor Vehicle Fuel - F.D			4,578.32
100-51-51277	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Repairs/Maintenance			114.00
100-51-51279	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Radios - Fire Dept			80.00
100-51-51280	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Wearing Apparel-F.D			101.98
100-51-51282	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Contractual Services F.D			99.99
100-51-51307	GENERAL FUND EXPENSES:POLICE · Office Supplies Police			263.66
100-51-51317	GENERAL FUND EXPENSES:POLICE · Electric/Gas Utilities-Police			634.14
100-51-51349	GENERAL FUND EXPENSES:POLICE · Contractual Services -Police			195.00
100-51-51377	GENERAL FUND EXPENSES:POLICE · R & M Motor Vehicles -Police			449.55
100-51-51381	GENERAL FUND EXPENSES:POLICE · Communications Equip			454.47
100-51-51392	GENERAL FUND EXPENSES:POLICE · Lease Equipment - Police			858.26
100-51-51614	GENERAL FUND EXPENSES:LIBRARY · Collection Development			115.79
100-51-51649	GENERAL FUND EXPENSES:LIBRARY · Contractual Services - Lib			150.00
100-51-51776	GENERAL FUND EXPENSES:PARKS · Mowing			1,218.59

Client: 114580.0 - City of Krum  
Engagement: 114580.0 - City of Krum  
Period Ending: 9/30/2008  
Trial Balance: TB  
Workpaper: 1002.01 - Adjusting Journal Entries Report

ATTACHMENT II

Account	Description	W/P Ref	Debit	Credit
100-51-51832	GENERAL FUND EXPENSES:MUNICIPAL COURT - Judge Municipal Court			800.00
Total			<u>60,040.81</u>	<u>60,040.81</u>

Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.03 - GASB 34 Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>GASB 34 Entries JE # 30</b>		<b>3020.04</b>		
To record General fund fixed assets				
100-3003	Fund Balance Gen Fund		183,752.00	
800-12-12016	GF · GENERAL FUND FIXED ASSETS · Fire Dept. Equipment		183,752.00	
100-51-51289	GENERAL FUND EXPENSES:FIRE DEPARTMENT · GRANT EXPENDITURES-CAPITAL			183,752.00
800-12-3008	GF · GENERAL FUND FIXED ASSETS · Investment in GFA			183,752.00
<b>Total</b>			<b>367,504.00</b>	<b>367,504.00</b>
<b>GASB 34 Entries JE # 31</b>		<b>3020.04</b>		
To record General fund fixed assets				
100-3003	Fund Balance Gen Fund		31,602.00	
800-12-12016	GF · GENERAL FUND FIXED ASSETS · Fire Dept. Equipment		31,602.00	
100-51-51293	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Fire Fighting Equipment			31,602.00
800-12-3008	GF · GENERAL FUND FIXED ASSETS · Investment in GFA			31,602.00
<b>Total</b>			<b>63,204.00</b>	<b>63,204.00</b>
<b>GASB 34 Entries JE # 34</b>		<b>3020.02</b>		
To record the gain on the sale of fixed assets.				
100-41-41053	TOTAL GENERAL REVENUE:GENERAL REVENUE · Misc. Income- Gen Fund		27,666.00	
100-41-4105AG	Gain on sale of FA			27,666.00
<b>Total</b>			<b>27,666.00</b>	<b>27,666.00</b>
<b>GASB 34 Entries JE # 35</b>		<b>3020.02</b>		
To add General Fund fixed assets to GFAAG.				
800-12-12015	GF · GENERAL FUND FIXED ASSETS · Police Equipment		71,979.00	
800-12-12017	GF · GENERAL FUND FIXED ASSETS · Street Dept. Equipment		21,277.00	
800-12-3008	GF · GENERAL FUND FIXED ASSETS · Investment in GFA			21,277.00
800-12-3008	GF · GENERAL FUND FIXED ASSETS · Investment in GFA			71,979.00
<b>Total</b>			<b>93,256.00</b>	<b>93,256.00</b>
<b>GASB 34 Entries JE # 36</b>		<b>3020.02</b>		
To record depreciation for the current year.				
800-12-5001AG	Depreciation Exp. - General		4,076.00	
800-12-5002AG	Depreciation Exp. - Parks		22,311.00	
800-12-5003AG	Depreciation Exp. - Public Works		50,984.00	
800-12-5004AG	DEPR EXP - Police		34,294.00	
800-12-5005AG	DEPR EXP - Library		2,341.00	
800-12-5006AG	DEPR EXP - Fire Department		76,505.00	
800-12-5007AG	DEPR EXP - Buildings		4,852.00	
800-12-12008	GF · GENERAL FUND FIXED ASSETS · Accumulated Depreciation-G/F/A			195,363.00
<b>Total</b>			<b>195,363.00</b>	<b>195,363.00</b>
<b>GASB 34 Entries JE # 37</b>		<b>3020.02</b>		
To remove disposals				
800-12-12008	GF · GENERAL FUND FIXED ASSETS · Accumulated Depreciation-G/F/A		74,965.00	
800-12-4105AG	(Gain)/Loss on sale		5,417.00	
800-12-12015	GF · GENERAL FUND FIXED ASSETS · Police Equipment			25,000.00
800-12-12016	GF · GENERAL FUND FIXED ASSETS · Fire Dept. Equipment			40,000.00
800-12-12017	GF · GENERAL FUND FIXED ASSETS · Street Dept. Equipment			15,382.00
<b>Total</b>			<b>80,382.00</b>	<b>80,382.00</b>
<b>GASB 34 Entries JE # 39</b>		<b>4024.00</b>		
To adjust LTD for GW statement				
900-22-22002	GF · GENERAL FUND LONG TERM DEBTS · 2004 GO Bond Payable		164,088.00	
900-22-22004	GF · GENERAL FUND LONG TERM DEBTS · 2005 GO Bond Payable		55,000.00	
900-22-22017	GF · GENERAL FUND LONG TERM DEBTS · 2005 Tax Notes Payable		80,000.00	
500-51-54010	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES · 2004 Tax Note Payments			80,000.00
500-51-54020	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES · 2004 GO Bond Payments			164,088.00
500-51-54040	GENERAL FUND EXPENSES:DEBT SERVICES EXPENSES · 2005 CO Bond Payments			55,000.00
<b>Total</b>			<b>299,088.00</b>	<b>299,088.00</b>
<b>GASB 34 Entries JE # 40</b>		<b>4025.00</b>		
To adjust LTD for GW statement				
100-3003	Fund Balance Gen Fund		85,538.00	
900-22-22001	GF · GENERAL FUND LONG TERM DEBTS · Note Payable Fire Truck		16,463.00	
900-22-22008	GF · GENERAL FUND LONG TERM DEBTS · Note Payable Police Car		5,047.00	
900-22-22015	GF · GENERAL FUND LONG TERM DEBTS · Note Payable Ambulance		219,731.00	
900-22-22018	GF · GENERAL FUND LONG TERM DEBTS · N/P Police Cars		24,441.00	

ATTACHMENT III

Client: 114580.0 - City of Krum  
Engagement: 114580.0 - City of Krum  
Period Ending: 9/30/2008  
Trial Balance: TB  
Workpaper: 1002.03 - GASB 34 Entries Report

Account	Description	W/P Ref	Debit	Credit
100-51-51291	GENERAL FUND EXPENSES:FIRE DEPARTMENT · Fire Truck Principal			56,050.00
100-51-51384	GENERAL FUND EXPENSES:POLICE DEPARTMENT · Police Lease Principal			29,488.00
900-22-22015AG	Cap Lease Ambulance			180,144.00
900-22-3009	GF · GENERAL FUND LONG TERM DEBTS · Amount to be Raised			85,538.00
<b>Total</b>			<b>351,220.00</b>	<b>351,220.00</b>
<b>GASB 34 Entries JE # 41</b>				
To accrued Vacation payable in the Current year.				
		4028.03		
900-22-5001AG	Accrued Vacation Expense		19,113.00	
900-22-210055	GF · GENERAL FUND LONG TERM DEBTS · Vacation Payable G/F			19,113.00
<b>Total</b>			<b>19,113.00</b>	<b>19,113.00</b>
<b>GASB 34 Entries JE # 42</b>				
To adjust deferred property taxes for government wide purposes at year end.				
		3012.05		
100-210351	Deferred Taxes		8,513.00	
500-210351	Deferred Taxes		11,481.00	
100-41-41001	TOTAL GENERAL REVENUE:GENERAL REVENUE · Property Tax			8,513.00
500-41-44001	DEBT SERVICE INCOME · Property Tax			11,481.00
<b>Total</b>			<b>19,994.00</b>	<b>19,994.00</b>
<b>GASB 34 Entries JE # 43</b>				
To adjust deferred property taxes for government wide purposes at year end.				
		3012.05		
100-41-41001	TOTAL GENERAL REVENUE:GENERAL REVENUE · Property Tax		10,788.00	
500-41-44001	DEBT SERVICE INCOME · Property Tax		9,699.00	
100-3003	Fund Balance Gen Fund			10,788.00
500-3200	Debt Service Fund balance			9,699.00
<b>Total</b>			<b>20,487.00</b>	<b>20,487.00</b>
<b>GASB 34 Entries JE # 46</b>				
To adjust invested in fixed assets to actual for the government wide statement				
		5037.00		
100-99-9999AG	Invested in Fixed Assets		112,864.00	
100-3003	Fund Balance Gen Fund			112,864.00
<b>Total</b>			<b>112,864.00</b>	<b>112,864.00</b>
<b>GASB 34 Entries JE # 48</b>				
To reverse new leases as other financing sources at the gov level				
		4025.02		
100-53-53199AG	Proceeds on Capital Leases		93,256.00	
100-51-51391AG	Capital Lease - Safety			71,979.00
100-51-51498AG	Capital lease - Works			21,277.00
<b>Total</b>			<b>93,256.00</b>	<b>93,256.00</b>
<b>GASB 34 Entries JE # 49</b>				
RECORD BOND COST AMORTIZATION at the Government Wide Level				
		3021.01		
900-22-5002AG	Amortization Expense		12,465.00	
900-22-110751	GF · GENERAL FUND LONG TERM DEBTS · Cost of Debt Issued G/F			12,465.00
<b>Total</b>			<b>12,465.00</b>	<b>12,465.00</b>
<b>GASB 34 Entries JE # 50</b>				
To adjust invested in fixed assets to actual for the government wide statement				
		5037.03		
200-3100	Retained Earnings W&S		4,462,424.00	
200-3102AG	Invested in Fixed Asset			4,462,424.00
<b>Total</b>			<b>4,462,424.00</b>	<b>4,462,424.00</b>
<b>GASB 34 Entries JE # 52</b>				
Adj debt service for GW level				
100-3003	Fund Balance Gen Fund		9,829.00	
500-3200	Debt Service Fund balance			9,829.00
<b>Total</b>			<b>9,829.00</b>	<b>9,829.00</b>
<b>GASB 34 Entries JE # 53</b>				
Adj EDC at GW level				
100-3003	Fund Balance Gen Fund		75,842.00	
700-703001	Fund Balance			75,842.00
<b>Total</b>			<b>75,842.00</b>	<b>75,842.00</b>
<b>GASB 34 Entries JE # 54</b>				

Client: 114580.0 - City of Krum  
 Engagement: 114580.0 - City of Krum  
 Period Ending: 9/30/2008  
 Trial Balance: TB  
 Workpaper: 1002.03 - GASB 34 Entries Report

ATTACHMENT III

Account	Description	W/P Ref	Debit	Credit
Adj inv in fixed assets for GW GF				
100-3003	Fund Balance Gen Fund		299,088.00	
100-99-9999AG	Invested In Fixed Assets			299,088.00
<b>Total</b>			<u>299,088.00</u>	<u>299,088.00</u>