

CITY OF KRUM
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2009

**City of Krum
Annual Financial Report
September 30, 2009**

Table of Contents

FINANCIAL SECTION	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets.....	13
Statement of Activities.....	14

Fund Financial Statements:

Balance Sheet - Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Net Assets - Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds.....	23
Statement of Cash Flows - Proprietary Funds.....	24

Notes to Financial Statements.....	25
------------------------------------	----

Required Supplementary Information:

Schedules of Revenues, Expenditures and Changes in Fund

Balances - Budget and Actual: General Fund.....	41
--	----

OTHER SUPPLEMENTARY 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 <i>Government Auditing Standards</i>	42
---	----

FINANCIAL SECTION



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

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

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Krum, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2009, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof 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 June 7, 2010 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 should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10, and the budgetary comparison information on page 41, 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.

Fort Worth, Texas
June 7, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The City of Krum's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$4,753,256 at September 30, 2009 of which \$1,000,840 was unrestricted.
- During the year, the City's expenses were \$459,891 less than the \$4,099,909 generated in taxes and other revenues for all City activities.
- The general fund reported a fund balance at September 30, 2009 of \$411,034 of which \$401,738 is subject to use at the City's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting 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*.
- The financial statements also include *notes to the financial statements* explaining some of the information in the financial statements and provide more detailed data.
- The report also contains other supplementary information in addition to the basic financial statements themselves.

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

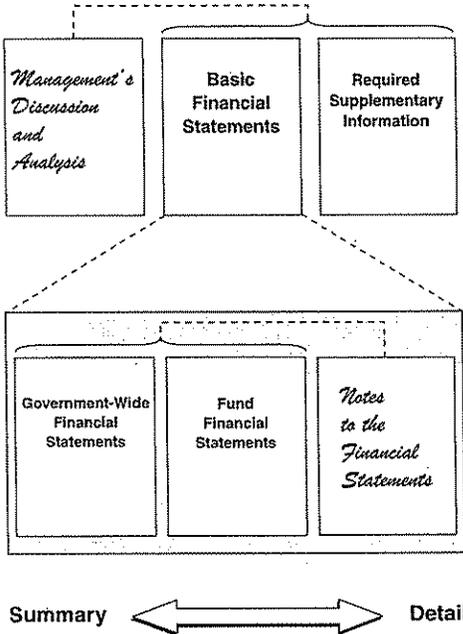


Figure A-1 shows how the required parts of this annual report are arranged and related to one another. Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this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

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

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

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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, municipal court, public safety, public works, culture and recreation, economic development, interest on long-term debt, and depreciation.

Property taxes, sales taxes, fees for service and grants represent the primary sources that finance most of these activities.

Fund Financial Statements

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

- 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 revenue sources.

The City has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's *combined* net assets were \$4,753,256 at September 30, 2009 (see Table A-1).

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	\$ 1,737,521	\$ 959,554	\$ 808,407	\$ 1,401,944	\$ 2,545,928	\$ 2,361,498
Capital and non-current assets	3,599,582	3,391,570	6,070,457	6,056,690	9,670,039	9,448,260
Total assets	<u>5,337,103</u>	<u>4,351,124</u>	<u>6,878,864</u>	<u>7,458,634</u>	<u>12,215,967</u>	<u>11,809,758</u>
Liabilities						
Current liabilities	287,732	544,482	570,607	219,610	858,339	764,092
Long-term liabilities	1,723,829	5,213,218	4,880,543	1,533,436	6,604,372	6,746,654
Total liabilities	<u>2,011,561</u>	<u>5,757,700</u>	<u>5,451,150</u>	<u>1,753,046</u>	<u>7,462,711</u>	<u>7,510,746</u>
Net Assets						
Invested in capital assets, net of related debt	1,763,018	(2,021,572)	811,200	4,462,424	2,574,218	2,440,852
Restricted for:						
Debt service	45,237	37,544	-	200,078	45,237	237,622
Economic development	254,195	220,733	-	-	254,195	220,733
Other	878,766	94,685	-	-	878,766	94,685
Unrestricted	384,326	262,033	616,514	1,043,086	1,000,840	1,305,119
Total net assets	<u>\$ 3,325,542</u>	<u>\$ (1,406,577)</u>	<u>\$ 1,427,714</u>	<u>\$ 5,705,588</u>	<u>\$ 4,753,256</u>	<u>\$ 4,299,011</u>

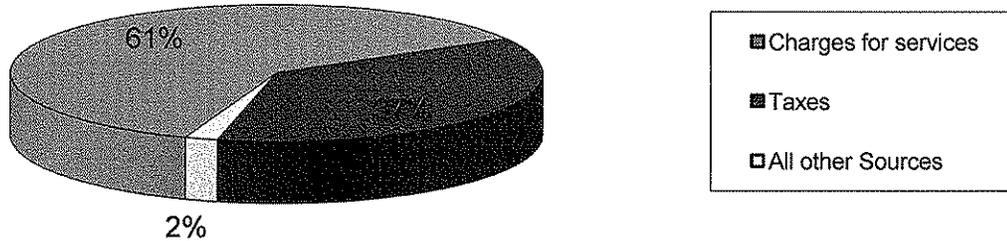
Changes in net assets. The City's total revenues were \$4,099,909 (see Table A-2).

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
<u>Program revenues</u>						
Charges for services	\$ 972,686	\$ 1,106,254	\$ 1,520,209	\$ 1,316,975	2,492,895	\$ 2,423,229
Operating grants	44,722	51,667	-	-	44,722	51,667
Capital grants	-	237,095	-	-	-	237,095
<u>General revenues</u>						
Property taxes	1,151,939	1,033,405	-	-	1,151,939	1,033,405
Sales tax	237,068	273,481	-	-	237,068	273,481
Franchise taxes	145,691	133,001	-	-	145,691	133,001
Interest income	20,146	22,306	4,894	37,059	25,040	59,365
Gain on sale of assets	-	22,249	-	-	-	22,249
Transfers	(146,105)	(22,288)	146,105	22,288	-	-
Other	-	-	2,554	-	2,554	-
Total revenues	2,426,147	2,857,170	1,673,762	1,376,322	4,099,909	4,233,492
Expenses						
General government	386,266	519,970	-	-	386,266	519,970
Public safety	444,694	1,014,668	-	-	444,694	1,014,668
Fire and rescue	629,957	-	-	-	629,957	-
Municipal court	31,186	-	-	-	31,186	-
Public works	157,994	74,607	-	-	157,994	74,607
Culture and recreation	114,440	162,501	-	-	114,440	162,501
Economic development	27,578	-	-	-	27,578	-
Solid waste	141,552	-	-	-	141,552	-
Interest on long-term debt	70,085	260,207	269,351	101,133	339,436	361,340
Depreciation	208,582	195,363	254,473	254,200	463,055	449,563
Water and sewer	-	-	903,860	1,042,546	903,860	1,042,546
Total expenses	2,212,334	2,227,316	1,427,684	1,397,879	3,640,018	3,625,195
Change in net assets	213,813	629,854	246,078	(21,557)	459,891	608,297
Net assets - beginning of year	(1,406,577)	(2,036,431)	5,705,588	5,727,145	4,299,011	3,690,714
Reclassifications	4,526,148	-	(4,526,148)	-	-	-
Prior-period adjustments	(7,842)	-	2,196	-	(5,646)	-
Net assets - end of year	\$ 3,325,542	\$ (1,406,577)	\$ 1,427,714	\$ 5,705,588	\$ 4,753,256	\$ 4,299,011

A significant portion, 61%, of the City's total revenues comes from charges for services and 37% comes from property, sales and franchise taxes. The remaining 2% is comprised of interest income, other charges and grant revenues (see Figure A-3).

Figure A-3
Revenue Sources



Governmental Activities

- The recent growth of the City is reflected in the increase in tax revenues and charges for services received in the 2009 fiscal year. The City had a \$69,666 increase in charges for services and \$118,534 in additional tax revenues during 2009.

Business-type Activities

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

- The cost of all *business-type* activities in fiscal 2009 was \$1,427,684.
- The charges for these services that our taxpayers paid in fiscal 2009 was \$1,520,209.

Table A-3
Net Cost of Business-type Activities

	Total Cost of Services			Net Cost (Profit) of Services		
	2009	2008	% Change	2009	2008	% Change
Water and sewer	\$1,427,684	\$1,397,879	2.13%	\$ (92,525)	\$ 80,904	-114.36%
Total	<u>\$1,427,684</u>	<u>\$1,397,879</u>		<u>\$ (92,525)</u>	<u>\$ 80,904</u>	

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 \$88,161 over budgeted revenues and expenses were \$8,088 under budgeted expenses. The net budget excess for the general fund was \$30,112 for the year, which includes the net budget variances of other financing sources and uses and transfers.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2009, the City had invested \$9,461,096 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 58,833	\$ 58,833	\$ 166,910	\$ 166,910	\$ 225,743	\$ 225,743
Construction in progress	16,948	-	149,299	-	166,247	-
Park improvements	1,184,277	1,184,277	-	-	1,184,277	1,184,277
Infrastructure	1,759,370	1,522,051	7,238,788	7,224,658	8,998,158	8,746,709
Buildings and improvements	247,765	242,575	78,742	78,742	326,507	321,317
Equipment and vehicles	1,388,498	1,388,498	216,206	205,456	1,604,704	1,593,954
Other	-	-	63,383	-	63,383	-
Totals at historical cost	4,655,691	4,396,234	7,913,328	7,675,766	12,569,019	12,072,000
Less accumulated depreciation	(1,213,246)	(1,004,664)	(1,894,677)	(1,619,076)	(3,107,923)	(2,623,740)
Net capital assets	\$ 3,442,445	\$3,391,570	\$6,018,651	\$6,056,690	\$9,461,096	\$9,448,260

Long-Term Debt

At year-end the City had \$7,056,379 in long-term debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long-Term Debt

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Bonds payable	\$ 1,551,358	\$ 5,225,089	\$ 5,196,493	\$ 1,605,000	\$ 6,747,851	\$ 6,830,089
Notes payable	49,783	62,274	2,000	8,500	51,783	70,774
Leases payable	225,223	328,471	31,522	26,521	256,745	354,992
Total	<u>\$ 1,826,364</u>	<u>\$ 5,615,834</u>	<u>\$ 5,230,015</u>	<u>\$ 1,640,021</u>	<u>\$ 7,056,379</u>	<u>\$ 7,255,855</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

An appraised ad-valorem taxable value used for the 2010 budget preparation was \$190 million dollars resulting in an estimated tax levy of \$1.14 million. The City's tax rate for 2010 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 2010. 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.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

This page is left intentionally blank.

City of Krum
Statement of Net Assets
September 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 361,232	\$ 462,901	\$ 824,133
Receivables (net of allowances for uncollectible accounts)			
Accounts receivable - utility	15,602	173,217	188,819
Property taxes	23,435	-	23,435
Sales taxes	39,447	-	39,447
Emergency medical services	65,006	-	65,006
Other	32,636	832	33,468
Internal balances	(84,988)	84,988	-
Prepaid expenses	1,764	-	1,764
Restricted cash and cash equivalents	1,283,387	86,469	1,369,856
Total current assets	<u>1,737,521</u>	<u>808,407</u>	<u>2,545,928</u>
Bond issue costs, net	157,137	51,806	208,943
Capital assets:			
Land	58,833	166,910	225,743
Construction in progress	16,948	149,299	166,247
Park improvements	1,184,277	-	1,184,277
Infrastructure	1,759,370	7,238,788	8,998,158
Buildings and improvements	247,765	78,742	326,507
Equipment and vehicles	1,388,498	216,206	1,604,704
Other	-	63,383	63,383
Less accumulated depreciation	(1,213,246)	(1,894,677)	(3,107,923)
Total capital assets	<u>3,442,445</u>	<u>6,018,651</u>	<u>9,461,096</u>
Total assets	<u>5,337,103</u>	<u>6,878,864</u>	<u>12,215,967</u>
LIABILITIES			
Current liabilities:			
Accounts payable	58,771	83,947	142,718
Salaries payable	29,596	7,415	37,011
Accrued interest	10,200	29,242	39,442
Customer deposits	-	86,469	86,469
Deferred revenues	45,783	-	45,783
Current portion long-term debt obligations	143,382	363,534	506,916
Total current liabilities	<u>287,732</u>	<u>570,607</u>	<u>858,339</u>
Compensated absences	40,847	14,062	54,909
Long-term debt obligations, less current portion	1,682,982	4,866,481	6,549,463
Total liabilities	<u>2,011,561</u>	<u>5,451,150</u>	<u>7,462,711</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,763,018	811,200	2,574,218
Restricted for:			
Debt service	45,237	-	45,237
Economic development	254,195	-	254,195
Other	878,766	-	878,766
Unrestricted	384,326	616,514	1,000,840
Total net assets	<u>\$ 3,325,542</u>	<u>\$ 1,427,714</u>	<u>\$ 4,753,256</u>

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

City of Krum
Statement of Activities
Year Ended September 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues - Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary government			
Governmental activities:			
General government	\$ 386,266	\$ 193,389	\$ 800
Public safety	444,694	3,745	-
Fire and rescue	629,957	454,822	17,235
Municipal court	31,186	106,266	-
Public works	157,994	40,453	-
Culture and recreation	114,440	21,402	26,687
Economic development	27,578	-	-
Solid waste	141,552	152,609	-
Interest on long-term debt	70,085	-	-
Depreciation	208,582	-	-
Total governmental activities	<u>2,212,334</u>	<u>972,686</u>	<u>44,722</u>
Business-type activities:			
Water	502,590	699,974	-
Sewer	401,270	820,235	-
Depreciation	254,473	-	-
Interest and amortization	269,351	-	-
Total business-type activities	<u>1,427,684</u>	<u>1,520,209</u>	<u>-</u>
Total primary government	<u>\$ 3,640,018</u>	<u>\$ 2,492,895</u>	<u>\$ 44,722</u>

General revenues:

Taxes:
Property
Sales
Franchise
Interest income
Other
Transfers
Total general revenues and transfers
Changes in net assets
Net assets - beginning of year
Reclassifications
Prior-period adjustments
Net assets - end of year

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

Net (Expenses) Revenues and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (192,077)	\$ -	\$ (192,077)
(440,949)	-	(440,949)
(157,900)	-	(157,900)
75,080	-	75,080
(117,541)	-	(117,541)
(66,351)	-	(66,351)
(27,578)	-	(27,578)
11,057	-	11,057
(70,085)	-	(70,085)
(208,582)	-	(208,582)
<u>(1,194,926)</u>	<u>-</u>	<u>(1,194,926)</u>
-	197,384	197,384
-	418,965	418,965
-	(254,473)	(254,473)
-	(269,351)	(269,351)
-	92,525	92,525
<u>(1,194,926)</u>	<u>92,525</u>	<u>(1,102,401)</u>
1,151,939	-	1,151,939
237,068	-	237,068
145,691	-	145,691
20,146	4,894	25,040
-	2,554	2,554
(146,105)	146,105	-
<u>1,408,739</u>	<u>153,553</u>	<u>1,562,292</u>
213,813	246,078	459,891
(1,406,577)	5,705,588	4,299,011
4,526,148	(4,526,148)	-
(7,842)	2,196	(5,646)
<u>\$ 3,325,542</u>	<u>\$ 1,427,714</u>	<u>\$ 4,753,256</u>

**City of Krum
Balance Sheet
Governmental Funds
September 30, 2009**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
ASSETS			
Cash and cash equivalents	\$ 361,232	\$ -	\$ -
Receivables (net of allowances for uncollectible accounts)			
Accounts receivable - utilities	15,602	-	-
Property taxes	12,831	-	10,604
Sales taxes	23,080	-	-
Emergency medical services	65,006	-	-
Other	25,503	7,133	-
Due from other funds	249	3,455	-
Prepaid expenses	1,764	-	-
Restricted cash and cash equivalents	39,370	919,934	45,237
Total assets	<u>\$ 544,637</u>	<u>\$ 930,522</u>	<u>\$ 55,841</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 58,771	\$ -	\$ -
Salaries payable	29,596	-	-
Due to other funds	-	88,443	-
Deferred revenue	45,236	13,378	10,604
Total liabilities	<u>133,603</u>	<u>101,821</u>	<u>10,604</u>
Fund balances:			
Restricted for debt service	-	-	45,237
Restricted for other purposes	9,296	828,701	-
Unrestricted	401,738	-	-
Total fund balances	<u>411,034</u>	<u>828,701</u>	<u>45,237</u>
Total liabilities and fund balances	<u>\$ 544,637</u>	<u>\$ 930,522</u>	<u>\$ 55,841</u>

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

<u>Krum EDC</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 361,232
-	-	15,602
-	-	23,435
11,713	4,654	39,447
-	-	65,006
-	-	32,636
-	-	3,704
-	-	1,764
242,731	36,115	1,283,387
<u>\$ 254,444</u>	<u>\$ 40,769</u>	<u>\$ 1,826,213</u>
-	-	58,771
-	-	29,596
249	-	88,692
-	-	69,218
<u>249</u>	<u>-</u>	<u>246,277</u>
-	-	45,237
254,195	40,769	1,132,961
-	-	401,738
<u>254,195</u>	<u>40,769</u>	<u>1,579,936</u>
<u>\$ 254,444</u>	<u>\$ 40,769</u>	<u>\$ 1,826,213</u>

This page is left intentionally blank.

City of Krum
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2009

Total fund balance - governmental funds	\$ 1,579,936
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund-level balance sheet.	3,442,445
Deferred charges for debt issuance costs are not current financial resources and, therefore, are not reported in the fund-level balance sheet.	157,137
Long-term debt obligations which are not due in the current period and therefore, are not reported in the fund-level balance sheet.	(1,826,364)
Current-year deferred property tax assessments are not available to pay current-year expenditures and, therefore, are deferred in the fund-level balance sheet.	23,435
Payables for compensated absences which are not due in the current period and, therefore, are not reported in the fund-level balance sheet.	(40,847)
Other liabilities related to long-term debt such as bond issuance costs and accrued interest are not reported in the fund-level balance sheet.	(10,200)
Net assets of governmental activities	\$ 3,325,542

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

City of Krum
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2009

	General Fund	Capital Projects Fund	Debt Service Fund	Krum EDC	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 663,263	\$ -	\$ 485,235	\$ -	\$ -	\$ 1,148,498
Sales taxes	136,429	-	-	67,831	32,808	237,068
Franchise taxes	145,691	-	-	-	-	145,691
Licenses and permits	170,918	-	-	-	-	170,918
Fines	103,406	-	-	-	4,312	107,718
Charges for services	670,287	-	-	-	-	670,287
Grants	44,376	346	-	-	-	44,722
Interest	5,478	11,419	2,199	1,051	-	20,147
Other	23,764	-	-	-	-	23,764
Total revenues	<u>1,963,612</u>	<u>11,765</u>	<u>487,434</u>	<u>68,882</u>	<u>37,120</u>	<u>2,568,813</u>
EXPENDITURES						
Current:						
Administration	371,503	-	-	-	-	371,503
Public safety	449,461	-	-	-	-	449,461
Fire and rescue	627,845	-	-	-	-	627,845
Municipal court	25,700	-	-	-	2,176	27,876
Streets	61,567	-	-	-	-	61,567
Development services	100,384	-	-	-	-	100,384
Library	76,711	-	-	-	-	76,711
Parks and recreation	37,329	-	-	-	-	37,329
Solid waste	141,555	-	-	-	-	141,555
Economic opportunity	-	-	-	27,578	-	27,578
Debt service:						
Principal	96,768	-	60,398	-	-	157,166
Interest and other	16,041	-	63,788	-	-	79,829
Total expenditures	<u>2,004,864</u>	<u>-</u>	<u>124,186</u>	<u>27,578</u>	<u>2,176</u>	<u>2,158,804</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,252)</u>	<u>11,765</u>	<u>363,248</u>	<u>41,304</u>	<u>34,944</u>	<u>410,009</u>
OTHER FINANCING SOURCES (USES)						
Capital outlays	(22,137)	(237,318)	-	-	-	(259,455)
Transfers in	85,000	300,000	-	-	-	385,000
Transfers out	-	(177,333)	(353,772)	-	-	(531,105)
Total other financing sources (uses)	<u>62,863</u>	<u>(114,651)</u>	<u>(353,772)</u>	<u>-</u>	<u>-</u>	<u>(405,560)</u>
Net change in fund balances	21,611	(102,886)	9,476	41,304	34,944	4,449
Fund balances - beginning of year	458,001	-	35,761	220,733	-	714,495
Reclassifications	(68,578)	931,587	-	-	5,825	868,834
Prior-period adjustment	-	-	-	(7,842)	-	(7,842)
Fund balances - end of year	<u>\$ 411,034</u>	<u>\$ 828,701</u>	<u>\$ 45,237</u>	<u>\$ 254,195</u>	<u>\$ 40,769</u>	<u>\$ 1,579,936</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
Year Ended September 30, 2009

Net change in fund balances - total governmental funds \$ 4,449

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 useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 257,149

Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported with expenditures in the governmental funds. (208,582)

Amortization of deferred charges for debt issuance costs is reported in the statement of activities, but does not require the use of current financial resources. Therefore, amortization is not reported with expenditures in the governmental funds. (12,465)

Current-year long-term debt principal payments on leases, notes, and other debt are reported as expenditures in the fund financial statements, but are shown as reductions in the long-term debt in the government-wide financial statements. 157,166

Current-year changes in liabilities for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 2,911

Current-year interest expense reported at government-wide financial statements includes accrued interest which is not included in fund financial statements. 9,744

Deferred revenues are recognized in the government-wide financial statements, but not in the fund financial statements. 3,441

Changes in net assets - governmental activities \$ 213,813

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

City of Krum
Statement of Net Assets
Proprietary Fund
September 30, 2009

	Enterprise Fund - Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 462,901
Receivables (net of allowances for uncollectible accounts)	
Accounts receivable	173,217
Other	832
Due from other funds	88,443
Restricted cash and cash equivalents	86,469
Total current assets	811,862
Bond issue costs, net	51,806
Capital assets:	
Land	166,910
Construction in progress	149,299
Infrastructure	7,238,788
Buildings and improvements	78,742
Equipment and vehicles	216,206
Other	63,383
Less accumulated depreciation	(1,894,677)
Total capital assets	6,018,651
Total assets	6,882,319
 LIABILITIES	
Current liabilities:	
Accounts payable	83,947
Salaries payable	7,415
Accrued interest	29,242
Customer deposits	86,469
Due to other funds	3,455
Current portion long-term debt obligations	363,534
Total current liabilities	574,062
Compensated absences	14,062
Long-term debt obligations, less current portion	4,866,481
Total liabilities	5,454,605
 NET ASSETS	
Invested in capital assets, net of related debt	811,200
Unrestricted	616,514
Total net assets	\$ 1,427,714

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
Year Ended September 30, 2009

	Enterprise Fund - Water and Sewer
OPERATING REVENUES	
Charges for services	\$ 1,520,209
Other	2,554
Total operating revenues	1,522,763
OPERATING EXPENSES	
Salaries and wages	222,111
Contractual services	410,208
Operations	165,652
Repairs and maintenance	64,547
Supplies and materials	41,342
Depreciation	254,473
Total operating expenses	1,158,333
Operating income	364,430
NON-OPERATING REVENUES (EXPENSES)	
Interest income	4,894
Interest and amortization	(269,351)
Total non-operating expenses	(264,457)
Net income before transfers	99,973
Transfers in	531,105
Transfers out	(385,000)
Change in net assets	246,078
Total net assets - beginning of year	5,705,588
Reclassifications	(4,526,148)
Prior-period adjustments	2,196
Total net assets - end of year	\$ 1,427,714

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

City of Krum
Statement of Cash Flows
Proprietary Funds
September 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	1,529,467
Cash payments to employees for services		(232,073)
Cash payments to other suppliers for goods and services		(634,425)
Net cash provided by operating activities		662,969

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Transfers from other funds		531,105
Transfers to other funds		(169,988)
Net cash provided by non-capital financing activities		361,117

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Net proceeds from issuance of long-term debt		307,133
Principal paid on long-term debt		(360,618)
Interest paid on long-term debt		(272,216)
Bond proceeds transferred to other fund for capital asset construction		(1,179,075)
Purchase of capital assets		(174,179)
Net cash used by capital and related financing activities		(1,678,955)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends received		4,894
Net cash provided by investing activities		4,894
Net decrease in cash and cash equivalents		(649,975)
Cash and cash equivalents - beginning of year		1,199,345
Cash and cash equivalents - end of year	\$	549,370

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

Operating income		\$ 364,430
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		254,473
Other		(21,289)
Effect of changes in current assets and liabilities:		
Receivables		(35,977)
Accounts payable		68,613
Salaries payable		(12,222)
Customer deposits		42,681
Compensated absences		2,260
Net cash provided by operating activities	\$	662,969

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

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

A. Summary of significant accounting policies

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

1. Reporting entity

The City of Krum was incorporated under the laws of the State of Texas in 1955 and operates under a Mayor-Council form of government. The City's financial statements include the accounts of all City operations. Generally accepted accounting principles require all funds that are controlled by or are independent on the City Council to be included in the City's financial statements. The reporting entity is the primary government, or the City, and those component units for which the primary government is financially accountable. Financial accountability is defined as the appointment of a voting majority of the potential component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based on these considerations, the City's financial statements include the Krum Economic Development Corporation (KEDC) as a blended component unit. Blended component units are reported within the City's primary government. 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.

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

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

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

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

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

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.

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

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

The City reports the following major proprietary funds:

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

b. Measurement focus/basis of accounting

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

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

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

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

3. General policies

a. Cash and cash equivalents

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

b. Restricted resources

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

c. Restriction of fund equity

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

d. Property tax revenues

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

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

e. Inventories and prepaid expenses

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

f. Capital assets

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

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

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>
Park improvements	20-30 years
Infrastructure	20-30 years
Buildings and improvements	10-50 years
Equipment and vehicles	3-20 years
Other	15 years

g. Inter-fund activity

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

h. Compensated absences

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

i. Pension costs

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

j. Use of estimates

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

k. Reclassifications

Certain beginning balance amounts have been reclassified to conform with the presentation in the current-year financial statements.

B. Deposits and investments

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

1. Cash Deposits

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$2,193,988. The bank balance was \$2,265,241. The City's cash deposits at September 30,

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

2009 and during the year ended September 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The water and sewer fund contains an amount designated as restricted cash and cash equivalents in the amount of \$86,469. Such amount is restricted for customer utility deposits.

2. 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 (the 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. No such amounts were outstanding at September 30, 2009.

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. In the opinion of management, the City was not exposed to a significant amount of credit risk at September 30, 2009.

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. In the opinion of management, the City was not exposed to custodial credit risk at September 30, 2009.

c. Concentration of credit risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In the opinion of management, the City was not exposed to concentration of credit risk at September 30, 2009.

d. Interest rate risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. In the opinion of management, the City was not exposed to interest rate risk at September 30, 2009.

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

e. Foreign currency risk

This is the risk that exchange rates will adversely affect the fair value of an investment. In the opinion of management, the City was not exposed to foreign currency risk at September 30, 2009.

4. 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.

C. Receivables, Uncollectible Accounts, and Deferred Revenue

1. Sales Taxes

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

2. Property Taxes and Deferred Revenue

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

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

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

3. Emergency Medical Services (EMS)

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

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

4. Utility Revenues

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

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

D. Capital assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 58,833	\$ -	\$ -	\$ 58,833
Construction in progress	-	16,948	-	16,948
Total capital assets not being depreciated	<u>58,833</u>	<u>16,948</u>	<u>-</u>	<u>75,781</u>
Capital assets being depreciated:				
Park improvements	1,184,277	-	-	1,184,277
Infrastructure	1,522,052	237,318	-	1,759,370
Buildings and improvements	242,575	5,190	-	247,765
Equipment and vehicles	1,388,498	-	-	1,388,498
Total capital assets being depreciated	<u>4,337,402</u>	<u>242,508</u>	<u>-</u>	<u>4,579,910</u>
Less accumulated depreciation for:				
Park improvements	(104,940)	(22,311)	-	(127,251)
Infrastructure	(147,070)	(54,939)	-	(202,009)
Buildings	(93,067)	(5,024)	-	(98,091)
Equipment and vehicles	(659,587)	(126,308)	-	(785,895)
Total accumulated depreciation	<u>(1,004,664)</u>	<u>(208,582)</u>	<u>-</u>	<u>(1,213,246)</u>
Total capital assets being depreciated, net	<u>3,332,738</u>	<u>33,926</u>	<u>-</u>	<u>3,366,664</u>
Governmental activities capital assets, net	<u>\$ 3,391,571</u>	<u>\$ 50,874</u>	<u>\$ -</u>	<u>\$ 3,442,445</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 166,910	\$ -	\$ -	\$ 166,910
Construction in progress	-	149,299	-	149,299
Total capital assets not being depreciated	<u>166,910</u>	<u>149,299</u>	<u>-</u>	<u>316,209</u>
Capital assets being depreciated:				
Infrastructure	7,224,659	14,129	-	7,238,788
Buildings and improvements	78,742	-	-	78,742
Equipment and vehicles	205,456	10,750	-	216,206
Other	-	63,383	-	63,383
Total capital assets being depreciated	<u>7,508,857</u>	<u>88,262</u>	<u>-</u>	<u>7,597,119</u>
Less accumulated depreciation for:				
Infrastructure	(1,427,819)	(235,774)	-	(1,663,593)
Buildings and improvements	(52,291)	(4,070)	-	(56,361)
Equipment and vehicles	(138,966)	(10,405)	-	(149,371)
Other	(21,128)	(4,224)	-	(25,352)
Total accumulated depreciation	<u>(1,640,204)</u>	<u>(254,473)</u>	<u>-</u>	<u>(1,894,677)</u>
Total capital assets being depreciated, net	<u>5,868,653</u>	<u>(166,211)</u>	<u>-</u>	<u>5,702,442</u>
Business-type activities capital assets, net	<u>\$ 6,035,563</u>	<u>\$ (16,912)</u>	<u>\$ -</u>	<u>\$ 6,018,651</u>

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

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

General government	\$ 5,024
Police	35,638
Fire and ambulance	82,123
Library	2,341
Streets	61,145
Parks	22,311
	<u>\$ 208,582</u>

Total depreciation expense for the City's business-type activities during the year ended September 30, 2009 was \$254,473.

E. Inter-fund balances and activity

Balances due to and due from other funds at September 30, 2009 consisted of the following:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>	<u>Purpose</u>
Water and sewer fund	Capital projects fund	\$ 88,443	Short-term loans
General fund	Krum EDC	249	Short-term loans
Capital projects fund	Water and sewer fund	3,455	Short-term loans
		<u>\$ 92,147</u>	

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

Transfers to and from other funds at September 30, 2009 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water and sewer fund	Capital projects fund	\$ 177,333	Supplement other sources
Water and sewer fund	Debt service fund	353,772	Supplement other sources
General fund	Water and sewer fund	85,000	Supplement other sources
Capital projects fund	Water and sewer fund	300,000	Supplement other sources
		<u>\$ 916,105</u>	

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

F. Long-term obligations

Changes in long-term obligations for the year ended September 30, 2009 are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,611,756	\$ -	\$ 60,398	\$ 1,551,358	\$ 57,233
Notes payable	62,274	-	12,491	49,783	-
Capital leases	307,194	-	81,971	225,223	86,149
Total governmental activities	<u>\$ 1,981,224</u>	<u>\$ -</u>	<u>\$ 154,860</u>	<u>\$ 1,826,364</u>	<u>\$ 143,382</u>
Business-type activities					
General obligation bonds	\$ 1,963,333	\$ -	\$ 102,838	\$ 1,860,495	\$ 97,451
Certificates of obligation bonds	2,725,000	-	105,000	2,620,000	110,000
Tax notes	530,000	316,000	130,000	716,000	137,000
Notes payable	8,500	-	6,500	2,000	2,000
Capital leases	47,798	-	16,278	31,520	17,083
Total business-type activities	<u>\$ 5,274,631</u>	<u>\$ 316,000</u>	<u>\$ 360,616</u>	<u>\$ 5,230,015</u>	<u>\$ 363,534</u>

Debt service requirements on long-term debt at September 30, 2009 are as follows:

Governmental Activities			
Years Ending September 30,	Principal	Interest	Total
2010	\$ 143,382	\$ 82,713	\$ 226,095
2011	194,342	80,292	274,634
2012	89,720	85,536	175,256
2013	70,842	73,327	144,169
2014	96,034	61,491	157,525
2015-2019	548,096	240,097	788,193
2020-2024	683,948	102,111	786,059
	<u>\$ 1,826,364</u>	<u>\$ 725,567</u>	<u>\$ 2,551,931</u>
Business-type Activities			
Years Ending September 30,	Principal	Interest	Total
2010	\$ 363,534	\$ 285,875	\$ 649,409
2011	357,341	274,699	632,040
2012	309,566	284,149	593,715
2013	343,652	227,780	571,432
2014	300,966	188,386	489,352
2015-2019	1,538,904	720,826	2,259,730
2020-2024	1,781,052	337,502	2,118,554
2025-2029	235,000	12,194	247,194
	<u>\$ 5,230,015</u>	<u>\$ 2,331,410</u>	<u>\$ 7,561,425</u>

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

Interest rates on the City's outstanding long-term debt at September 30, 2009 are as follows:

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General obligation bonds	4.21% - 4.38%	4.21% - 4.38%
Certificates of obligation bonds	N/A	5.63% - 5.80%
Tax notes	N/A	3.44% - 4.90%
Notes payable	N/A	4.95%
Capital leases	4.45% - 5.40%	4.45% - 5.00%

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 2009, 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. Retirement Plan

1. Plan description

The City's pension plan is administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide agent multiple-employer defined benefit pension plan that administers 833 non-traditional, joint contributory, hybrid defined benefit plans covering all eligible employees of member cities in Texas.

2. Benefits upon retirement

Benefits depend on the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the inception of each city's plan, the city granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since each plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, each city can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as Updated Service Credit. This monetary credit is determined by hypothetically re-computing the member's account balance by assuming that the current member deposit rate of the currently employing city (5%, 6%, or 7%) has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 4% each year, not the actual interest credited to member accounts in previous years, and increased by the city match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation. At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three lifetime survivor options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

annually repeating basis, effective January 1 of a calendar year. Cities may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits.

Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS.

Members may work for more than one TMRS city during their career. If an individual has become vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

3. Contributions

The contribution rate for employees are either 5%, 6%, or 7% of employee gross earnings (three cities have a 3% rate, which is no longer allowed for new cities under the Act), and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of each city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method (effective with the December 31, 2008 actuarial valuation). This rate consists of the normal cost contribution rate and the prior service cost contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to the city matching percentage, which are the obligation of the city as of the employee's retirement date, not at the time the employee's contributions are made. A member city's retirement contribution 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 portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as Updated Service Credit and Annuity Increases. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the city matching percentage. There is an optional higher maximum that may be applied in certain circumstances if elected by the city, or a city may elect to remove the maximum rate. For example, with a 6% employee contribution rate and a city matching percentage of 200%, the maximum employer contribution rate is 12.5% (13.5% if the higher maximum is elected). The maximum does not apply at all for cities beginning participation on or after December 31, 1999.

Contributions are made monthly by both the employees and the member cities. Since each member city must know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. Contributions totaling \$564.7 million and \$512.9 million were made in 2008 and 2007 by the member cities in accordance with the actuarially determined city contribution rates, based on the December 31, 2006 and 2005 actuarial valuations, respectively. Effective January 1, 2008, member cities are allowed to make additional contributions to the Pension Trust Fund; during 2008, seventeen member cities contributed a total of \$2.5 million in such additional contributions. The employees of the cities contributed \$298.0 million and \$276.0 million in 2008 and 2007 in accordance with the city-adopted employee contribution rate for each city.

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

Plan Provisions

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total number of participating entities	821	827	833
<u>City-specific data</u>			
Employee deposit rate	5%	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5	5	5
Service retirement eligibility (age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100%	100%	100%
annually repeating (Y/N)	Y	Y	Y
Annuity increase to retirees	0%	0%	0%
annually repeating (Y/N)	N	N	N
Supplemental death benefit:			
for active employees (Y/N)	Y	Y	Y
for active retirees (Y/N)	Y	Y	Y

4. Funding policy

Eligible City employees are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of an actuarial valuation. The 2009 rate was 1.63% of annual covered payroll. There is a time delay in the valuation and when the rate becomes effective – for example, the January 1, 2009 contribution rate is based on the valuation results as of December 31, 2008; if a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar year basis; the City discloses the annual pension costs (which equal the required contributions) based on the calculated rate for the City's fiscal year.

5. Annual pension cost

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

<u>Fiscal Year Ended</u>	<u>Pension Cost (APC)</u>	<u>Contribution Made</u>	<u>of APC Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 22,573	\$ 22,573	100%	\$ -
2008	\$ 23,305	\$ 23,305	100%	\$ -
2009	\$ 19,094	\$ 19,094	100%	\$ -

The required contribution was determined as part of the December 31, 2008 actuarial valuation using the Unit Credit actuarial funding method. The actuarial assumptions at December 31, 2008 included (a) a 7.5% annual investment rate of return, (b) annual salary increases which varies by age and service, and (c) an annual inflation factor of 3.0%.

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

Actuarial Information

	2006	2007	2008
Actuarial cost method	Unit credit	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Amortization period	25 years - open period	25 years - closed period	24 years - closed period
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Projected investment return	7.0%	7.0%	7.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Assumed inflation factor	3.0%	3.0%	3.0%
Assumed cost of living adjustments	None	None	None

6. Funding status and funding progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 102.2% funded. The actuarial accrued liability for plan benefits was \$540,474 and the actuarial value of plan assets was \$552,214. The covered payroll (annual payroll of active employees covered by the plan) was \$1,043,299, and the ration of the UAAL to the covered payroll was -1.1%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

I. Other Post Employment Benefits (OPEB)

1. Plan description

TMRS also administers a cost sharing multiple-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participation municipalities may elect, by ordinance, to provide group-term life insurance coverage ("supplemental death benefits") for their active members and/or retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adoption and ordinance before November 1 of any year to be effective the following January 1.

2. Benefits

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period proceeding the month of death). The death benefit for retirees is considered a postemployment benefit other than pension benefit (OPBE or other postemployment benefit) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the Pension Trust Fund.

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

3. Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating municipality. The contractually required contribution rate is determined annually for each municipality. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the municipality. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for the OPEB.

4. Funded status and funding progress

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule includes results for as many valuations as have been performed based on parameters established under GASB Statement No. 43, which was implemented by TMRS effective December 31, 2006.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Additional information as of the latest actuarial valuation follows: Assets of the SDBF are valued at "fund value" (or fund balance) as these assets are pooled with those of the Pension Trust Fund under the provisions of the TMRS Act. GASB statement No. 43 requires the investment return (discount rate) assumption to take into account the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Benefits are expected to be provided partially from accumulated plan assets (including accumulated investment earnings) and partially from direct employer contribution. While assets invested in the Supplemental Death Benefit Fund are expected to earn 5% interest annually, employer contribution will be made from working funds held in cash or short-term investments. Based on the expected blend of the source of these funds, the investment return assumption has been set at 4.25%.

Plan Provisions

	2008
Total number of participating entities offering supplemental death to retirees	717
 <u>City-specific data</u>	
Krum offers supplemental death to:	
active employees (Y/N)	Y
retirees (Y/N)	Y

CITY OF KRUM
Notes to Financial Statements
September 30, 2009

J. Health care coverage

During the year ended September 30, 2009, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums ranging from \$317 - \$334 per month per employee depending on which plan the employee elects to participate in. 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.

K. Commitments and contingencies

1. Contingencies

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

2. Litigation

The City was involved with two related lawsuits at September 30, 2009. Each of these lawsuits involved disputes regarding the ownership of certain streets and alleys which were needed by the City in connection with the installation of new sewer lines.

Both lawsuits were settled in December 2009. The settlement agreements require the City to pay the plaintiffs \$310,000 in the aggregate, of which \$272,500 is to be paid in fiscal 2010 and the remainder is to be paid in quarterly installments through December 2011.

L. Prior-period adjustment

As of September 30, 2008, the City failed to properly accrue certain items, including unbilled utility revenues, depreciation expense, and water purchases. Accordingly, a net prior-period adjustment of \$5,646 is reflected in the City's fiscal 2009 financial statements to restate beginning fund balances.

M. Subsequent events

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

This page is left intentionally blank.

City of Krum
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis)
General Fund
Year Ended September 30, 2009

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 635,000	\$ 653,000	\$ 663,263	\$ 10,263
Sales taxes	144,000	137,000	136,429	(571)
Franchise taxes	137,800	147,800	145,691	(2,109)
Licenses and permits	102,900	159,550	170,918	11,368
Fines	69,600	87,600	103,406	15,806
Charges for services	644,111	658,301	670,287	11,986
Grants	8,203	4,200	44,376	40,176
Interest	8,000	8,000	5,478	(2,522)
Other	15,000	20,000	23,764	3,764
Total revenues	<u>1,764,614</u>	<u>1,875,451</u>	<u>1,963,612</u>	<u>88,161</u>
EXPENDITURES				
Administration	378,445	409,037	371,503	37,534
Public safety	484,043	449,773	449,461	312
Fire and rescue	669,438	622,985	627,845	(4,860)
Municipal court	16,800	21,900	25,700	(3,800)
Streets	46,190	60,715	61,567	(852)
Development services	39,000	98,000	100,384	(2,384)
Library	79,369	71,164	76,711	(5,547)
Parks and recreation	46,050	33,000	37,329	(4,329)
Solid waster	132,000	135,000	141,555	(6,555)
Debt service:				
Principal	111,378	111,378	96,768	14,610
Interest	-	-	16,041	(16,041)
Total expenditures	<u>2,002,713</u>	<u>2,012,952</u>	<u>2,004,864</u>	<u>8,088</u>
Deficiency of revenues under expenditures	<u>(238,099)</u>	<u>(137,501)</u>	<u>(41,252)</u>	<u>96,249</u>
OTHER FINANCING SOURCES				
Capital outlays	(11,000)	(11,000)	(22,137)	(11,137)
Transfers in	150,000	140,000	85,000	(55,000)
Total other financing sources	<u>139,000</u>	<u>129,000</u>	<u>62,863</u>	<u>(66,137)</u>
Net change in fund balance	(99,099)	(8,501)	21,611	30,112
Fund balance - beginning of year	458,001	458,001	458,001	-
Reclassifications	-	-	(68,578)	(68,578)
Prior-period adjustments	-	-	-	-
Fund balance - end of year	<u>\$ 358,902</u>	<u>\$ 449,500</u>	<u>411,034</u>	<u>\$ (38,466)</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)				
Invested in capital assets, net of related debt			1,759,556	
Revenue accruals			12,831	
Expenditure accruals			<u>(40,847)</u>	
FUND BALANCE - END OF YEAR (GAAP)			<u>\$ 2,142,574</u>	



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
Kenneth W. Sanders, CPA

**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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

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

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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Year-End Accruals

During the performance of our year-end accrual procedures at September 30, 2009, we discovered that certain revenues had not been identified and accrued in the City's fiscal 2009 general ledger. For example, certain EMS revenues due from the City's third-party collections agent and certain utility

billings were not recorded in the proper accounting period. In order to ensure that the City's financial statements are always presented on the accrual basis of accounting, we recommend that more effective procedures be established to properly capture and record all material receivables and payables at the end of the applicable reporting period. Such procedures should include a review by management of preliminary actual results to the corresponding budgeted amounts to identify significant variances to be investigated further.

Grant Revenues, Receivables and Expenditures

During our testing of grant revenues, receivables and related expenditures, we discovered that certain grant transactions were not properly accounted for or supported by adequate documentation. We recommend that the City design and implement appropriate policies and procedures in order to properly account for all federal/state grant activity in a timely manner throughout the fiscal year.

Management Oversight of Krum EDC

During the 2009 fiscal year, the City elected to allow the Krum Economic Development Board (KEDC) to maintain its own designated bank account. However, the management of KEDC failed to account for activity in the bank account during the year. All bank accounts that are legally owned and controlled by the City are required to be included in the City's general ledger. We recommend that the City Council take possession of KEDC's books and records going forward, and that the City's finance director and accounting staff be responsible for maintaining these records as part of their normal duties. Additionally, KEDC's operating results each month should be included in the City's monthly financial statements.

* * * * *

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 the following instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

* * * * *

This report is intended for the information and use of the City Council, management, others within the entity, 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 Guffin, P.C.

Fort Worth, Texas
June 7, 2010