

CITY OF KRUM, TEXAS

FINANCIAL STATEMENTS
AND
ACCOUNTANTS' OPINION

SEPTEMBER 30, 2005

CITY OF KRUM, TEXAS

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CITY OF KRUM, TEXAS
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2005

| | |
|-----------------------|---------------------|
| Mayor | Larry Lamonica |
| Mayor Pro-Tem | Ed Smith |
| Council Members: | John Clere |
| | David Dwinell |
| | Brad Andrus |
| | Christine Rodriguez |
| City Secretary | Karen Blakey |
| Police Chief | Shawn Landers |
| City Attorney | Lance Vanzant |
| Municipal Court Judge | Robin A. Ramsay |

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Krum, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Krum, Texas ("City") as of and for the year ended September 30, 2005, which collectively comprises the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 government activities, the business-type activities, each major fund and the remaining fund information of the City as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 7 through 13 is not a required part of the basic financial statements but is supplementary information required by the GASB. 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.

In accordance with *Government Auditing Standards*, we have issued a report dated January 25, 2006, on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Krum's basic financial statements. The combining and individual fund statements and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual fund statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Hankins, Eastup, Deaton, Tonn & Seay
Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 25, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

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CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

As management of the City of Krum, we offer readers of the City of Krum's financial statements this narrative overview and analysis of the financial activities of the City of Krum for the year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements.

Financial Highlights

- The assets of the City of Krum exceeded its liabilities at September 30, 2005 by \$2,835,401. The Unrestricted Net Assets amount of \$2,715,788 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$32,545. The majority of this decrease is attributable to an increase in capital outlay expenditures.
- As of September 30, 2005, the City of Krum's governmental funds reported combined ending fund balances of \$2,722,240, a decrease of \$1,235,171 in comparison with the beginning of the period. Approximately 13 percent of this total amount, \$358,789, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current period, unreserved fund balance for the general fund was \$358,789, or 21.13 percent of total general fund expenditures.

Overview of the Financial Statements

The management discussion and analysis are intended to serve as an introduction to the City of Krum's basic financial statements. The City of Krum's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Also included as a discretely presented component unit is the Krum Economic Development Corporation, which was created in fiscal year 2005 as the result of a successful 4B sales tax election.

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

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

The statement of activities presents information showing how the City's net assets changed during the most recent period. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided between two kinds of activities:

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

- **Governmental activities.** All of the City's basic services are reported here, including the police, public works, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
- **Business-type activities.** The City charges a fee to customers to help it cover all or most of the cost of water and sewer services it provides.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds. All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at period-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

Proprietary Funds. The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The City of Krum maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered to be major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Krum's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Krum does not currently have any fiduciary funds.

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the general fund.

Government-wide Financial Analysis

The City's combined net assets were \$2,835,401 as of September 30, 2005. This analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental activities.

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

**Table I
NET ASSETS**

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|-------------|--------------------------|-------------|-------------|-------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Current and other assets | \$4,196,650 | \$3,053,460 | \$1,177,484 | \$2,326,482 | \$5,374,134 | \$5,379,942 |
| Capital assets | 1,208,773 | 2,504,428 | 2,213,481 | 3,081,675 | 3,422,254 | 5,586,103 |
| Total assets | 5,405,423 | 5,557,888 | 3,390,965 | 5,408,157 | 8,796,388 | 10,966,045 |
| Long-term liabilities outstanding | 4,297,764 | 6,357,005 | 1,482,630 | 1,471,072 | 5,780,394 | 7,828,077 |
| Other liabilities | 63,668 | 111,460 | 84,380 | 191,107 | 148,048 | 302,567 |
| Total liabilities | 4,361,432 | 6,468,465 | 1,567,010 | 1,662,179 | 5,928,442 | 8,130,644 |
| Net Assets: | | | | | | |
| Invested in capital assets net of related debt | (3,088,991) | (3,835,935) | 734,381 | 1,614,054 | (2,354,610) | (2,221,881) |
| Restricted | 3,820,504 | 2,341,494 | - | - | 3,820,504 | 2,341,494 |
| Unrestricted | 312,478 | 583,864 | 1,089,574 | 2,131,924 | 1,402,052 | 2,715,788 |
| Total net assets | \$1,043,991 | \$(910,577) | \$1,823,955 | \$3,745,978 | \$2,867,946 | \$2,835,401 |

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

Governmental Activities. The City's general revenues for governmental activities for the year ended September 30, 2005 are detailed below (Table 2).

Table 2
General Revenues

| | 2004 | 2005 |
|----------------------|------------------|------------------|
| Property taxes | \$255,477 | \$470,177 |
| Sales taxes | 173,922 | 144,955 |
| Franchise taxes | 96,093 | 104,226 |
| Penalty and Interest | 2,982 | 2,886 |
| Investment earnings | 7,559 | 76,693 |
| Miscellaneous | 13,309 | 28,835 |
| | <u>\$549,342</u> | <u>\$827,772</u> |

The following table provides a summary of the City's operations for the years ended September 30, 2004 and 2005. The City first implemented GASB Statement No. 34, Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments, for fiscal year 2004; therefore comparative data is presented. Governmental activities decreased the City's net assets by \$1,954,568.

**Table 3
CHANGES IN NET ASSETS**

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|----------------------------|---------------------|-----------------------------|--------------------|--------------------|--------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 579,797 | \$ 638,681 | \$1,014,755 | \$1,011,867 | \$1,594,552 | \$1,650,548 |
| Operating grants and contrib. | 24,848 | 57,527 | - | - | 24,848 | 57,527 |
| General Revenues: | | | | | | |
| Property taxes | 255,477 | 470,177 | - | - | 255,477 | 470,177 |
| Sales taxes | 173,922 | 144,955 | - | - | 173,922 | 144,955 |
| Franchise taxes | 96,093 | 104,226 | - | - | 96,093 | 104,226 |
| Penalties and interest | 2,982 | 2,886 | - | - | 2,982 | 2,886 |
| Miscellaneous | 13,309 | 28,835 | 17,889 | 24,144 | 31,198 | 52,979 |
| Investment earnings | 7,559 | 76,693 | 3,696 | 19,870 | 11,255 | 96,563 |
| Transfers in (out) | (40,000) | (1,806,525) | 40,000 | 1,806,525 | - | - |
| Total Revenue | <u>1,113,987</u> | <u>(282,545)</u> | <u>1,076,340</u> | <u>2,862,406</u> | <u>2,190,327</u> | <u>2,579,861</u> |
| Expenses: | | | | | | |
| Administration | 237,541 | 275,569 | - | - | 237,541 | 275,569 |
| Building services | 68,382 | 50,951 | - | - | 68,382 | 50,951 |
| Library | 64,500 | 72,040 | - | - | 64,500 | 72,040 |
| Municipal court | 20,049 | 38,348 | - | - | 20,049 | 38,348 |
| Park department | - | 13,205 | - | - | - | 13,205 |
| Public safety | 575,582 | 880,457 | - | - | 575,582 | 880,457 |
| Street department | 78,366 | 90,926 | - | - | 78,366 | 90,926 |
| Debt service - interest | 10,031 | 250,527 | - | - | 10,031 | 250,527 |
| Water & sewer expenses | - | - | 923,450 | 940,383 | 923,450 | 940,383 |
| Total Expenses | <u>1,054,451</u> | <u>1,672,023</u> | <u>923,450</u> | <u>940,383</u> | <u>1,977,901</u> | <u>2,612,406</u> |
| Increase (decrease) in net assets | 59,536 | (1,954,568) | 152,890 | 1,922,023 | 212,426 | (32,545) |
| Net Assets – October 1 (beginning) | 984,455 | 1,043,991 | 1,671,065 | 1,823,955 | 2,655,520 | 2,867,946 |
| Net Assets – September 30 (ending) | <u>\$1,043,991</u> | <u>\$ (910,577)</u> | <u>\$1,823,955</u> | <u>\$3,745,978</u> | <u>\$2,867,946</u> | <u>\$2,835,401</u> |

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

Financial Analysis of the Government's Funds

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the period.

As of the end of the current period, the City's governmental funds reported combined ending fund balances of \$2,722,240, a decrease of \$1,235,171 in comparison with the beginning of the period. Approximately 13 percent of this total amount (\$358,789) constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to be used for debt service (\$1,648), 2) to pay for library improvements (\$21,957), 3) to pay for park development (\$53,585), 4) to pay for police projects (\$3,033), 5) to pay for fire department projects (\$6,716), and 6) to pay for capital projects (\$2,276,512).

The general fund is the chief operating fund of the City. At the end of the current period, unreserved fund balance of the general fund totaled \$358,789, while total fund balance was \$444,080. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21.13 percent of total general fund expenditures, while total fund balance represents 26.16 percent of that same amount.

The fund balance of the City's general fund increased by \$122,554 during the current period. Key factors in this growth are as follows:

- Property tax revenue, franchise tax revenue and investment earnings increased from the previous year.
- Controlling the City's expenditures during the period.

General Fund Budgetary Highlights

During the current year, the City Council of the City of Krum amended the budget for the General Fund on several occasions. The majority of the appropriation relates to actions taken to fund unbudgeted items during the period.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of September 30, 2005, amount to \$2,504,428 (net of accumulated depreciation). This amount represents a net increase of \$1,295,655, or 107 percent, above the beginning of the period. The investment in capital assets includes land, buildings, equipment, vehicles and streets.

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

Major capital asset additions during the current period included the following:

| <u>Description</u> | <u>Amount</u> |
|----------------------------|--------------------|
| Street construction | \$1,114,352 |
| Police vehicle | 101,534 |
| Parking lot | 13,749 |
| Siren system | 20,492 |
| Fire vehicle | 15,000 |
| Park improvements & lights | 146,376 |
| Total | <u>\$1,411,503</u> |

Table 4
Capital Assets at Year-end
(Net of Depreciation)

| | <u>Governmental Activities</u> |
|---------------------------|------------------------------------|
| Land | \$ 2,294 |
| Parks Land & Improvements | 638,189 |
| Buildings & Improvements | 162,759 |
| Road & Street Equipment | 22,718 |
| Police Equipment | 118,153 |
| Fire Equipment | 309,131 |
| Construction in Progress | 266,211 |
| Streets | 984,973 |
| Totals | <u>\$2,504,428</u> |

Additional information on the City's capital assets can be found in note 6 of this report.

Long-term Debt. At the end of the current period, the City had bonded indebtedness of \$3,968,926, certificates of obligation of \$1,535,000, notes payable of \$659,144, capital leases outstanding of \$101,909, accreted interest of \$75,384, and accrued compensated absences of \$16,642.

The City's total governmental debt increased by \$2,059,241 during the current period. The key factor in this increase was due to the certificates of obligation issuance of \$1,535,000 and tax note issuance of \$545,945.

Economic Factors and Next Year's Budgets and Rates

- The fiscal year 2005-2006 budget incorporates an increase in the property tax rate. The overall tax rate increased from \$.40966 per \$100 of valuation to \$.49158 per \$100 of valuation.
- The FY 2006 maintenance and operations budget increased by 7.9%. Several factors contributed to the needed increase. An increase in an extra police officer, modest salary increase in all departments, the need to build reserve funds and higher insurance premiums were among the reasons.

CITY OF KRUM, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005

- The City's financial policies require the City to maintain fund balance equivalent to four (4) months of General Fund expenditures or \$498,032. The ending unreserved fund balance for FY 2004 was \$903,144.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Krum, P.O. Box 217, Krum, Texas 76249.

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BASIC FINANCIAL STATEMENTS

CITY OF KRUM, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

| | Primary Government | |
|---|----------------------------|--------------------------------|
| | Governmental Activities | Business Type Activities |
| ASSETS | | |
| Cash and Cash Equivalents | | |
| Ad Valorem Tax Receivable | \$ 2,624,055 | \$ 624,237 |
| Receivables | 12,763 | - |
| Prepaid Costs | 39,645 | 84,044 |
| Interfund Receivables | - | 20,000 |
| Debt Issuance Costs | 65,028 | (65,028) |
| Discounts on Bond Issuance | 184,039 | 54,202 |
| Investments - Noncurrent | 22,958 | - |
| Restricted Assets: | - | 63,383 |
| Temporarily Restricted: | | |
| Cash | 104,972 | 1,545,644 |
| Capital Assets: | | |
| Land | 2,294 | - |
| Parks Land & Improvements, net | 638,189 | - |
| Buildings, net | 162,759 | - |
| Road & Street Equipment, net | 22,718 | - |
| Streets, net | 984,973 | - |
| Police Equipment, net | 118,153 | - |
| Fire Equipment, net | 309,131 | - |
| Construction in Progress | 266,211 | - |
| Water & Sewer Systems, net | - | 3,081,675 |
| Total Assets | <u>5,557,888</u> | <u>5,408,157</u> |
| LIABILITIES | | |
| Accounts Payable and other current liabilities | 81,192 | 140,577 |
| Accrued Expenses | 18,613 | - |
| Customer Deposits | 11,655 | 39,550 |
| Accrued Interest Payable | - | 10,980 |
| Noncurrent Liabilities | | |
| Due Within One Year | 242,177 | 47,621 |
| Due in More Than One Year | 6,114,828 | 1,423,451 |
| Total Liabilities | <u>6,468,465</u> | <u>1,662,179</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | (3,835,935) | 1,614,054 |
| Restricted for Capital Improvements | 2,276,512 | - |
| Restricted for Debt Service | 1,648 | - |
| Restricted for Park Development | 53,585 | - |
| Restricted for Police Department | 3,033 | - |
| Restricted for Fire Department | 6,716 | - |
| Restricted for Economic Development | - | - |
| Unrestricted Net Assets | 583,864 | 2,131,924 |
| Total Net Assets | <u>\$ (910,577)</u> | <u>\$ 3,745,978</u> |

The accompanying notes are an integral part of this statement.

| <u>Total</u> | <u>Component Unit Economic Development Corporation</u> |
|---------------------|--|
| \$ 3,248,292 | \$ 21,990 |
| 12,763 | - |
| 123,689 | 4,747 |
| 20,000 | - |
| - | - |
| 238,241 | - |
| 22,958 | - |
| 63,383 | - |
| 1,650,616 | - |
| 2,294 | - |
| 638,189 | - |
| 162,759 | - |
| 22,718 | - |
| 984,973 | - |
| 118,153 | - |
| 309,131 | - |
| 266,211 | - |
| <u>3,081,675</u> | - |
| <u>10,966,045</u> | <u>26,737</u> |
| 221,769 | - |
| 18,613 | - |
| 51,205 | - |
| 10,980 | - |
| 289,798 | - |
| <u>7,538,279</u> | - |
| <u>8,130,644</u> | - |
| (2,221,881) | - |
| 2,276,512 | - |
| 1,648 | - |
| 53,585 | - |
| 3,033 | - |
| 6,716 | - |
| - | 26,737 |
| <u>2,715,788</u> | - |
| <u>\$ 2,835,401</u> | <u>\$ 26,737</u> |

CITY OF KRUM, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | Expenses | Program Revenues | |
|--|---------------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| Primary Government: | | | |
| GOVERNMENTAL ACTIVITIES: | | | |
| Administration | \$ 275,569 | \$ 117,736 | \$ - |
| Building Services | 50,951 | 247,169 | - |
| Library | 72,040 | 14,466 | 5,608 |
| Municipal Court | 38,348 | 62,126 | - |
| Park Department | 13,205 | - | 17,764 |
| Public Safety | 880,457 | 197,184 | 34,155 |
| Street Department | 90,926 | - | - |
| Debt Service-Interest | 250,527 | - | - |
| Total Governmental Activities: | <u>1,672,023</u> | <u>638,681</u> | <u>57,527</u> |
| BUSINESS-TYPE ACTIVITIES: | | | |
| Enterprise Funds | 940,383 | 1,011,867 | - |
| Total Business-Type Activities: | <u>940,383</u> | <u>1,011,867</u> | <u>-</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 2,612,406</u> | <u>\$ 1,650,548</u> | <u>\$ 57,527</u> |

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales Taxes
- Franchise Taxes
- Penalty and Interest
- Miscellaneous Revenue
- Investment Earnings
- Transfers In (Out)
- Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

| Primary Government | | | Component Unit |
|----------------------------|-----------------------------|---------------------|-------------------------------------|
| Governmental Activities | Business-type Activities | Total | Economic Development Corporation |
| \$ (157,833) | \$ - | \$ (157,833) | \$ - |
| 196,218 | - | 196,218 | - |
| (51,966) | - | (51,966) | - |
| 23,778 | - | 23,778 | - |
| 4,559 | - | 4,559 | - |
| (649,118) | - | (649,118) | - |
| (90,926) | - | (90,926) | - |
| (250,527) | - | (250,527) | - |
| <u>(975,815)</u> | <u>-</u> | <u>(975,815)</u> | <u>-</u> |
| - | 71,484 | 71,484 | - |
| - | 71,484 | 71,484 | - |
| <u>(975,815)</u> | <u>71,484</u> | <u>(904,331)</u> | <u>-</u> |
| 310,276 | - | 310,276 | - |
| 159,901 | - | 159,901 | - |
| 144,955 | - | 144,955 | 26,737 |
| 104,226 | - | 104,226 | - |
| 2,886 | - | 2,886 | - |
| 28,835 | 24,144 | 52,979 | - |
| 76,693 | 19,870 | 96,563 | - |
| (1,806,525) | 1,806,525 | - | - |
| <u>(978,753)</u> | <u>1,850,539</u> | <u>871,786</u> | <u>26,737</u> |
| (1,954,568) | 1,922,023 | (32,545) | 26,737 |
| <u>1,043,991</u> | <u>1,823,955</u> | <u>2,867,946</u> | <u>-</u> |
| <u>\$ (910,577)</u> | <u>\$ 3,745,978</u> | <u>\$ 2,835,401</u> | <u>\$ 26,737</u> |

CITY OF KRUM, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

| | General Fund | Debt Service Fund | Capital Projects Fund | Total Governmental Funds |
|--|-------------------|-------------------------|-----------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 326,178 | \$ 1,648 | \$ 2,296,229 | \$ 2,624,055 |
| Ad Valorem Tax Receivable | 9,725 | 3,038 | - | 12,763 |
| Accounts Receivable | 39,405 | - | - | 39,405 |
| Due from Other Funds | 65,028 | - | - | 65,028 |
| Other Receivables | 240 | - | - | 240 |
| Restricted Assets: | | | | |
| Cash | 104,972 | - | - | 104,972 |
| Total Assets | <u>\$ 545,548</u> | <u>\$ 4,686</u> | <u>\$ 2,296,229</u> | <u>\$ 2,846,463</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 61,475 | \$ - | \$ 19,717 | \$ 81,192 |
| Accrued Expenses | 18,613 | - | - | 18,613 |
| Customer Deposits | 11,655 | - | - | 11,655 |
| Deferred Revenue | 9,725 | 3,038 | - | 12,763 |
| Total Liabilities | <u>101,468</u> | <u>3,038</u> | <u>19,717</u> | <u>124,223</u> |
| Fund Balances: | | | | |
| Reserved For: | | | | |
| Debt Service | - | 1,648 | - | 1,648 |
| Library Building | 21,957 | - | - | 21,957 |
| Police Department | 3,033 | - | - | 3,033 |
| Fire Department | 6,716 | - | - | 6,716 |
| Park Development | 53,585 | - | - | 53,585 |
| Capital Projects | - | - | 2,276,512 | 2,276,512 |
| Unreserved and Undesignated: | | | | |
| Reported in the General Fund | 358,789 | - | - | 358,789 |
| Total Liabilities and Fund Balances | <u>444,080</u> | <u>1,648</u> | <u>2,276,512</u> | <u>2,722,240</u> |
| Total Liabilities and Fund Balances | <u>\$ 545,548</u> | <u>\$ 4,686</u> | <u>\$ 2,296,229</u> | <u>\$ 2,846,463</u> |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2005

| | |
|--|---------------------|
| Total Fund Balances – Governmental Funds | \$ 2,722,240 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,626,070 and the accumulated depreciation was \$417,297. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets. | (3,088,991) |
| Current year capital outlays and long-term debt principal payments as expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2005 capital outlays and debt principal payments is to increase (decrease) net assets. | 1,469,005 |
| The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | (115,848) |
| Various other reclassifications and elimination's are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognition's is to increase (decrease) net assets. | (1,896,983) |
| Net Assets of Governmental Activities | <u>\$ (910,577)</u> |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | Debt Service Fund | Capital Projects Fund | Total Governmental Funds |
|---|-------------------|-------------------------|-----------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| General Sales and Use Taxes | \$ 144,955 | \$ - | \$ - | \$ 144,955 |
| Ad Valorem Taxes | 309,639 | 156,863 | - | 466,502 |
| Franchise Taxes | 104,226 | - | - | 104,226 |
| Permits & Fees | 247,169 | - | - | 247,169 |
| Library Services | 20,074 | - | - | 20,074 |
| Charge for Services | 117,736 | - | - | 117,736 |
| Municipal Court Fees | 62,126 | - | - | 62,126 |
| Fire Department | 231,339 | - | - | 231,339 |
| Donations | 17,764 | - | - | 17,764 |
| Interest Income | 11,845 | 6,451 | 58,397 | 76,693 |
| Miscellaneous & Other Revenue | 28,835 | - | - | 28,835 |
| Total Revenues | <u>1,295,708</u> | <u>163,314</u> | <u>58,397</u> | <u>1,517,419</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Administration | 254,756 | - | - | 254,756 |
| Building Services | 50,951 | - | - | 50,951 |
| Library | 72,467 | - | - | 72,467 |
| Municipal Court | 38,699 | - | - | 38,699 |
| Park Department | 13,205 | - | - | 13,205 |
| Public Safety | 804,780 | - | - | 804,780 |
| Street Department | 77,192 | - | - | 77,192 |
| Debt Service: | | | | |
| Principal | 57,502 | - | - | 57,502 |
| Interest & Fiscal Chg. | 16,213 | 181,040 | - | 197,253 |
| Capital Outlay: | | | | |
| Capital Outlay | 311,989 | - | 1,099,514 | 1,411,503 |
| Total Expenditures | <u>1,697,754</u> | <u>181,040</u> | <u>1,099,514</u> | <u>2,978,308</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(402,046)</u> | <u>(17,726)</u> | <u>(1,041,117)</u> | <u>(1,460,889)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Other Resources Note Proceeds | 545,945 | - | - | 545,945 |
| Other Resources Certificates of Oblig. Proceeds | - | - | 1,535,000 | 1,535,000 |
| Operating Transfers In (Out) | (6,345) | 6,345 | (1,806,525) | (1,806,525) |
| Other (Uses) Note Cost of Issuance | (15,000) | - | - | (15,000) |
| Other (Uses) Certificates of Oblig. Cost of Iss. | - | - | (33,702) | (33,702) |
| Total Other Financing Sources (Uses) | <u>524,600</u> | <u>6,345</u> | <u>(305,227)</u> | <u>225,718</u> |
| Net Change in Fund Balances | 122,554 | (11,381) | (1,346,344) | (1,235,171) |
| Fund Balance - October 1 (Beginning) | <u>321,526</u> | <u>13,029</u> | <u>3,622,856</u> | <u>3,957,411</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 444,080</u> | <u>\$ 1,648</u> | <u>\$ 2,276,512</u> | <u>\$ 2,722,240</u> |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | |
|---|-----------------------|
| Total Net Change in Fund Balances – Governmental Funds | \$ (1,235,171) |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2005 capital outlays and debt principal payments is to increase (decrease) net assets. | 1,469,005 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. | (115,848) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and eliminations is to increase (decrease) net assets. | (2,072,554) |
| Change in Net Assets of Governmental Activities | <u>\$ (1,954,568)</u> |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE FUND
SEPTEMBER 30, 2005

| | Business-Type Activities |
|--|-----------------------------|
| | Total Enterprise Fund |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 624,237 |
| Accounts Receivable | 84,044 |
| Prepaid Costs | 20,000 |
| Total Current Assets | 728,281 |
| Noncurrent Assets: | |
| Bond Issuance Costs, net | 54,202 |
| Equity in Upper Trinity System | 63,383 |
| Restricted Assets: | |
| Cash | 1,545,644 |
| Capital Assets | |
| Water & Sewer System, net | 3,081,675 |
| Total Noncurrent Assets | 4,744,904 |
| Total Assets | 5,473,185 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | \$ 140,577 |
| Accrued Interest | 10,980 |
| Due to Other Funds | 65,028 |
| Customer Deposits | 39,550 |
| Total Current Liabilities | 256,135 |
| NonCurrent Liabilities: | |
| Due within one year | 47,621 |
| Due in more than one year | 1,423,451 |
| Total Noncurrent Liabilities | 1,471,072 |
| Total Liabilities | 1,727,207 |
| NET ASSETS | |
| Investments in Capital Assets, Net of Debt | 1,614,054 |
| Unrestricted Net Assets | 2,131,924 |
| Total Net Assets | \$3,745,978 |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS
 ENTERPRISE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | Business-Type Activities |
|--|-----------------------------|
| | Total Enterprise Fund |
| OPERATING REVENUES: | |
| Water & Sewer Service Charges | \$ 730,247 |
| Tap Fees | 281,620 |
| Other Revenue | 24,144 |
| Total Operating Revenues | 1,036,011 |
| OPERATING EXPENSES: | |
| Personnel | 177,526 |
| Supplies and Repair | 184,800 |
| Contract Services | 379,435 |
| Depreciation | 108,988 |
| Total Operating Expenses | 850,749 |
| Operating Income | 185,262 |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest Income | 19,870 |
| Interest Expense | (89,634) |
| Total Nonoperating Revenue (Expenses) | (69,764) |
| Income Before Contributions | 115,498 |
| Capital Contributions | 1,806,525 |
| Change in Net Assets | 1,922,023 |
| Fund Balance - October 1 (Beginning) | 1,823,955 |
| Fund Balance - September 30 (Ending) | \$3,745,978 |

The accompanying notes are an integral part of this statement.

CITY OF KRUM, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | Business-Type Activities <hr/> Total Enterprise Fund |
|---|--|
| <hr/> | |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Customers | \$ 1,298,791 |
| Cash Paid for Operating Expenses | (567,190) |
| | <hr/> |
| Net Cash Provided by Operating Activities | 731,601 |
| | <hr/> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Payment of Principal | (11,558) |
| Interest Paid | (89,634) |
| Capital Contribution | 1,806,525 |
| | <hr/> |
| Net Cash Provided by (Used for) Capital & Related Financing Activities | 1,705,333 |
| | <hr/> |
| <u>Cash Flows from Investing Activities:</u> | |
| Investment in Capital Assets | (977,182) |
| Interest Income | 19,870 |
| | <hr/> |
| Net Cash Provided by Investing Activities | (957,312) |
| | <hr/> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,479,622 |
| | <hr/> |
| Cash and Cash Equivalents at Beginning of Year: | 690,259 |
| | <hr/> |
| Cash and Cash Equivalents at End of the Year: | <u>\$ 2,169,881</u> |
| | <hr/> |
| <u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u> | |
| Operating Income: | \$ 185,262 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 108,988 |
| Amortization | 2,816 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Decrease (increase) in Receivables | 262,780 |
| Increase (decrease) in Payables | 171,755 |
| | <hr/> |
| Net Cash Provided by Operating Activities | <u>\$ 731,601</u> |

The accompanying notes are an integral part of this statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Krum (the "City") are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board ("GASB").

In the fiscal year 2004, the City implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosures requirements for governmental entities, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where difference have arisen, or potentially could arise, in interpretation and practice of GASB Statement No. 34.

GASB Statements No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the use of account groups to the already required fund financial statements and notes. GASB Statement No. 37 provides additional guidance in reporting infrastructure, program revenues and major criteria.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that the government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Krum (City) is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The City had one discretely presented component unit at September 30, 2005, the Krum Economic Development Corporation, which was created in fiscal year 2005 as the result of a successful 4B sales tax election.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded for the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

Debt Service Fund - The Debt Service Fund accounts for the payment of principal and interest on general-long term liabilities, paid primarily by taxes levied by the City (General Fund).

Capital Projects Fund - The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities, which are not financed by the proprietary fund.

Enterprise Fund - The City utilizes an Enterprise Fund to account for the City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of these activities. The City uses this fund to account for its Water and Sewer Fund which is self-supporting and does not require subsidies from the General Fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

D. Cash and Investments

The City's cash and investments are considered to be cash on hand, demand deposits and short-term investments in State investment pools.

E. Receivable and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the period are referred to as "due to/from other funds" or "advances to/from other funds."

F. Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is sixty days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

G. Bad Debts

The City uses the direct write-off method of recording enterprise fund bad debts, which approximates the percentage method of recording bad debts. No allowance is provided for uncollectible real property taxes, since all real property taxes will ultimately be collected when title to the property is transferred, except in rare instances in which the taxes are discharged in bankruptcy.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of governmental activities is not included as part of the capitalized value of the assets constructed.

Depreciation expense is calculated on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

| <u>Category</u> | <u>Estimated Life</u> |
|-------------------------|---------------------------|
| Infrastructure | 15-40 years |
| Buildings | 50 years |
| Machinery and equipment | 7-15 years |
| Vehicles | 5-7 years |

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned vacation time. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay time is accrued when incurred in the government-wide financial statements.

J. Reserves and Designations

Reserves on fund balance in the fund financial statements indicate portions of fund equity legally segregated for a specific future use. At September 30, 2005, the City's fund balances were reserved for the following purposes:

- Reserve for Debt Service represents that portion of fund balance legally restricted for debt service.
- Reserve for Library Building represents that portion of fund balance legally restricted for the Library.
- Reserve for Police Department represents that portion of fund balance legally restricted for police use.
- Reserve for Fire Department represents that portion of fund balance legally reserved for fire department use.
- Reserve for Park Development represents that portion of fund balance legally restricted for parks.
- Reserve for Capital Projects represents that portion of fund balance legally restricted for capital projects.

Designations indicate portions of fund equity, which are designated by the City Council for a specific future use but are not legally restricted. At September 30, 2005, the City had no designated fund balance.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Budgets

The City prepares an annual budget for the General Fund, in order to provide appropriate budgetary control over revenues and expenditures through comparison of actual data to budgetary data. If a change in the approved budget is required due to unforeseen circumstances, the Council may approve amendments to the budget. All annual appropriations lapse at fiscal year-end.

N. Cash Equivalents

For purposes of the statement of cash flows, the City considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

2. DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

The City's funds are required to be deposited and invested under the terms of a depository agreement. 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 agreement. 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, 2005, the carrying amount of the City's deposits in checking accounts and interest-bearing savings accounts was \$4,898,908 and the bank balance was \$4,957,140. The City's cash deposits at September 30, 2005 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (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 acceptance, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2005, the City's cash balances totaled \$4,898,908. This entire amount was either collateralized with securities held by the City's financial institution's agent in the City's name or covered by FDIC insurance. Thus, the City's deposits are not exposed to custodial credit risk.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2005, the City was not exposed to custodial credit risk.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The City was not exposed to credit risk at September 30, 2005.
- d. **Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City was not exposed to the interest rate risk at September 30, 2005.
- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2005, the City was not exposed to foreign currency risk.

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
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- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. At September 30, 2005, the City was not exposed to concentration of credit risk.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The details of this \$1,469,005 adjustments are as follows:

| | |
|-----------------------------|--------------------|
| Current year capital outlay | \$1,411,503 |
| Note principal payments | 41,397 |
| Lease principal payments | 16,105 |
| Net adjustment | <u>\$1,469,005</u> |

Another element of that reconciliation states that: "Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest." The details of this \$(1,896,983) adjustment are as follows:

| | |
|--|----------------------|
| Deferred tax revenue recognized as revenue | \$ 12,763 |
| Amortization of bond issuance costs | (14,447) |
| Certificates of Obligation proceeds | (1,535,000) |
| Decrease in accrued compensated absences | 6,402 |
| Capitalization of bond issuance costs | 221,444 |
| Current year loan proceeds | (545,945) |
| Change in accreted interest on bonds | (42,200) |
| Net adjustment | <u>\$(1,896,983)</u> |

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities: One element of that reconciliation explains that "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting.

CITY OF KRUM, TEXAS
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These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest." The details of this \$(2,072,554) adjustment are as follows:

| | |
|---|-----------------------------|
| Current year deferred tax revenue recognized as revenue | \$ 6,561 |
| Capitalization of bond issuance costs | 48,702 |
| Certificates of Obligation proceeds | (1,535,000) |
| Decrease in accrued compensated absences | 6,402 |
| Amortization of bond issuance costs | (11,074) |
| Current year loan proceeds | (545,945) |
| Change in accreted interest on bonds | <u>(42,200)</u> |
| Net adjustment | <u><u>\$(2,072,554)</u></u> |

4. RECEIVABLES

Governmental receivables as of September 30, 2005 are as follows:

| | General Fund |
|-------------------|-------------------------|
| Receivables: | |
| Property taxes | \$ 12,763 |
| Sales taxes | 11,869 |
| Franchise taxes | 6,469 |
| Refuse service | 12,338 |
| Other | 8,969 |
| Total Receivables | <u><u>\$ 52,408</u></u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal period, the deferred revenue reported in the governmental funds relates to delinquent property taxes.

5. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of amounts due from and due to other funds:

| | Due From | Due To |
|------------------|------------------------|------------------------|
| General Fund: | | |
| Enterprise Fund | \$65,028 | \$ - |
| Enterprise Fund: | | |
| General Fund | <u>-</u> | <u>65,028</u> |
| Total | <u><u>\$65,028</u></u> | <u><u>\$65,028</u></u> |

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

These balances resulted from the time lag between the date that payments between funds are made.

The following is a summary of transfers:

| Transfer Out | Capital Contributions | |
|-----------------------|-----------------------|--------------------|
| | Enterprise Fund | Total |
| Capital Projects fund | <u>\$1,806,525</u> | <u>\$1,806,525</u> |

Transfers from the Capital Projects fund to the Enterprise fund represents the Debt Proceeds used for construction activities of the Enterprise fund.

6. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2005 was as follows:

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|--------------------|--------------------|
| Governmental activities: | | | | |
| Land | \$ 2,294 | \$ - | \$ - | \$ 2,294 |
| Parks Land & Improvements | 530,172 | 146,376 | - | 676,548 |
| Road and Street Equipment | 89,886 | - | - | 89,886 |
| Street Construction in Progress | 142,597 | 266,211 | 142,597 | 266,211 |
| Streets | - | 990,738 | - | 990,738 |
| Buildings & Improvements | 204,998 | 34,241 | - | 239,239 |
| Fire Equipment | 496,802 | 15,000 | - | 511,802 |
| Police Equipment | <u>159,321</u> | <u>101,534</u> | - | <u>260,855</u> |
| Totals at historic cost | <u>1,626,070</u> | <u>1,554,100</u> | <u>142,597</u> | <u>3,037,573</u> |
| Less accumulated depreciation for: | | | | |
| Park Improvements | 21,513 | 16,846 | - | 38,359 |
| Road & Street Equipment | 58,807 | 8,361 | - | 67,168 |
| Streets | - | 5,765 | - | 5,765 |
| Buildings & Improvements | 72,094 | 4,386 | - | 76,480 |
| Fire Equipment | 155,390 | 47,281 | - | 202,671 |
| Police Equipment | <u>109,493</u> | <u>33,209</u> | - | <u>142,702</u> |
| Total accumulated depreciation | <u>417,297</u> | <u>115,848</u> | - | <u>533,145</u> |
| Governmental activities capital assets, net | <u>\$1,208,773</u> | <u>\$1,438,252</u> | <u>\$ -142,597</u> | <u>\$2,504,428</u> |

CITY OF KRUM, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|------------------|
| Governmental Activities: | |
| Administrative | \$ 21,132 |
| Public Safety | 80,490 |
| Street Department | <u>14,226</u> |
| Total depreciation expense – Governmental activities | <u>\$115,848</u> |

Capital asset activity for the Proprietary business-type activities for the year ended September 30, 2005 was as follows:

| | <u>Balance October 1</u> | <u>Additions Completions</u> | <u>Retirement Adjustments</u> | <u>Balance September 30</u> |
|---|------------------------------|----------------------------------|-----------------------------------|---------------------------------|
| Enterprise Activities: | | | | |
| Land | \$ 128,827 | \$ - | \$ - | \$ 128,827 |
| Buildings | 78,742 | - | - | 78,742 |
| Vehicles | 81,154 | - | - | 81,154 |
| Office Equipment | 33,141 | - | - | 33,141 |
| Water System | 716,623 | 550,290 | - | 1,266,913 |
| Sewer System | <u>2,054,934</u> | <u>426,892</u> | - | <u>2,481,826</u> |
| | <u>3,093,421</u> | <u>977,182</u> | - | <u>4,070,603</u> |
| Less Accumulated Depreciation | <u>879,940</u> | <u>108,988</u> | - | <u>988,928</u> |
| Enterprise Activities Capital Assets Net | <u>\$2,213,481</u> | <u>\$ 868,194</u> | <u>\$ -</u> | <u>\$3,081,675</u> |

7. LONG TERM DEBT

The following is a summary of changes in the City's governmental long-term debt for the fiscal year ended September 30, 2005.

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Outstanding October 1 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>Outstanding September 30 2005</u> | <u>Due Within Year</u> |
|----------------------------|--------------------------------------|---|--------------------|--------------------|--|--------------------------------|
| Bonded Indebtedness: | | | | | | |
| Series 2004 | | | | | | |
| Refunding & Improvement | 2.55-4.90% | \$3,968,926 | \$ - | \$ - | \$3,968,926 | \$ 70,993 |
| Total Bonded Indebtedness | | <u>3,968,926</u> | - | - | <u>3,968,926</u> | <u>70,993</u> |
| Other Obligations: | | | | | | |
| Certificates of Obligation | | | | | | |
| Series 2005 | 4.05-5.625% | - | 1,535,000 | - | 1,535,000 | 35,000 |
| Notes Payable | 4.55-8.50% | 154,596 | 545,945 | 41,397 | 659,144 | 121,406 |
| Capital Leases | 4.75-5.41% | 118,014 | - | 16,105 | 101,909 | 14,778 |
| Accreted Interest | | 33,184 | 42,200 | - | 75,384 | - |
| Compensated Absences | | <u>23,044</u> | - | <u>6,402</u> | <u>16,642</u> | - |
| Total Other Obligations | | <u>328,838</u> | <u>2,123,145</u> | <u>63,904</u> | <u>2,388,079</u> | <u>171,184</u> |
| Total Obligations | | <u>\$4,297,764</u> | <u>\$2,123,145</u> | <u>\$ 63,904</u> | <u>\$6,357,005</u> | <u>\$242,177</u> |

The Series 2004 Bonds were issued from the Construction fund. Repayment of the annual debt will come from Ad Valorem tax revenues.

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

The debt service requirements for the bonded indebtedness is as follows:

Refunding and Improvement Bonds
 Series 2004

| <u>Year Ended September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|-------------------------------------|--------------------|--------------------|-------------------------------|
| 2006 | \$ 70,993 | \$ 139,645 | \$ 210,638 |
| 2007 | 158,756 | 151,881 | 310,637 |
| 2008 | 164,088 | 161,550 | 325,638 |
| 2009 | 163,238 | 172,399 | 335,637 |
| 2010 | 154,684 | 180,953 | 335,637 |
| 2011 | 145,998 | 189,639 | 335,637 |
| 2012 | 111,314 | 224,323 | 335,637 |
| 2013 | 164,855 | 170,782 | 335,637 |
| 2014 | 205,000 | 131,262 | 336,262 |
| 2015 | 215,000 | 122,294 | 337,294 |
| 2016 | 225,000 | 112,887 | 337,887 |
| 2017 | 230,000 | 102,988 | 332,988 |
| 2018 | 245,000 | 92,753 | 337,753 |
| 2019 | 255,000 | 81,605 | 336,605 |
| 2020 | 265,000 | 69,875 | 334,875 |
| 2021 | 280,000 | 57,553 | 337,553 |
| 2022 | 290,000 | 44,393 | 334,393 |
| 2023 | 305,000 | 30,473 | 335,473 |
| 2024 | <u>320,000</u> | <u>15,680</u> | <u>335,680</u> |
| | <u>\$3,968,926</u> | <u>\$2,252,935</u> | <u>\$6,221,861</u> |

The debt service requirements for the Certificates of Obligation Series 2005 are listed below:

| <u>Year Ended September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|-------------------------------------|--------------------|------------------|-------------------------------|
| 2006 | \$ 35,000 | \$ 83,091 | \$ 118,091 |
| 2007 | 50,000 | 66,955 | 116,955 |
| 2008 | 55,000 | 64,143 | 119,143 |
| 2009 | 55,000 | 61,049 | 116,049 |
| 2010 | 60,000 | 57,955 | 117,955 |
| 2011-2015 | 335,000 | 237,829 | 572,829 |
| 2016-2020 | 420,000 | 158,757 | 578,757 |
| 2021-2025 | <u>525,000</u> | <u>66,938</u> | <u>591,938</u> |
| | <u>\$1,535,000</u> | <u>\$796,717</u> | <u>\$2,231,717</u> |

CITY OF KRUM, TEXAS
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A summary of changes in notes payable by the General Fund for the year ended September 30, 2005 is as follows:

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Outstanding</u> | | | <u>Outstanding September 30 2005</u> | <u>Due Within One Year</u> |
|--------------------------|------------------------------|-----------------------|------------------|--------------------|--------------------------------------|----------------------------|
| | | <u>October 1 2004</u> | <u>Additions</u> | <u>Retirements</u> | | |
| Police Car | 4.55% | \$ 16,206 | \$ - | \$16,206 | \$ - | \$ - |
| Building Renovations | 7.25% | 23,882 | - | 11,473 | 12,409 | 12,409 |
| Ambulance | 5.39% | 87,031 | - | 7,671 | 79,360 | 8,096 |
| Police Car | 8.50% | 27,477 | - | 6,047 | 21,430 | 6,561 |
| Police Cars | 4.85% | - | 60,945 | - | 60,945 | 19,340 |
| Storage Tank & Waterline | 3.44% | - | 485,000 | - | 485,000 | 75,000 |
| | | <u>\$154,596</u> | <u>\$545,945</u> | <u>\$41,397</u> | <u>\$659,144</u> | <u>\$121,406</u> |

The debt service requirements for the notes payable is as follows:

| <u>Year Ended September 30,</u> | <u>Note Payable</u> | | <u>Total Requirements</u> |
|---------------------------------|---------------------|-----------------|---------------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2006 | \$121,406 | \$25,888 | \$147,294 |
| 2007 | 110,963 | 21,332 | 132,295 |
| 2008 | 171,775 | 16,375 | 188,150 |
| 2009 | 80,000 | 8,772 | 88,772 |
| 2010 | 85,000 | 6,020 | 91,020 |
| 2011 | 90,000 | 3,096 | 93,096 |
| | <u>\$659,144</u> | <u>\$81,483</u> | <u>\$740,627</u> |

The following is a summary of changes in the City's Water and Sewer Fund long-term debt for the fiscal year ended September 30, 2005:

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Outstanding</u> | | | <u>Outstanding September 30 2005</u> | <u>Due Within Year</u> |
|--|------------------------------|-----------------------|------------------|--------------------------|--------------------------------------|------------------------|
| | | <u>October 1 2004</u> | <u>Additions</u> | <u>Refunded/ Retired</u> | | |
| Certificates of Obligation Series 2000 | 5.55-6.25% | \$1,460,000 | \$ - | \$ - | \$1,460,000 | \$40,000 |
| Capital Leases | 4.06-4.75% | 19,100 | - | 11,479 | 7,621 | 7,621 |
| Compensated Absences | | 3,530 | - | 79 | 3,451 | - |
| Total Obligations | | <u>\$1,482,630</u> | <u>\$ -</u> | <u>\$11,558</u> | <u>\$1,471,072</u> | <u>\$47,621</u> |

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

The debt service requirements for the Certificates of Obligation Series 2000 are listed below:

| Fiscal Year Ending: | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|---------------------|--------------------|--------------------|---------------------------|
| 2006 | \$ 40,000 | \$ 87,843 | \$ 127,843 |
| 2007 | 45,000 | 85,443 | 130,443 |
| 2008 | 45,000 | 82,743 | 127,743 |
| 2009 | 50,000 | 80,245 | 130,245 |
| 2010 | 50,000 | 77,470 | 127,470 |
| 2011-2015 | 295,000 | 341,193 | 636,193 |
| 2016-2020 | 400,000 | 242,783 | 642,783 |
| 2021-2025 | <u>535,000</u> | <u>103,237</u> | <u>638,237</u> |
| | <u>\$1,460,000</u> | <u>\$1,100,957</u> | <u>\$2,560,957</u> |

8. DEBT ISSUANCE

On June 16, 2005 the City issued \$1,535,000 (par value) combination tax and revenue Certificates of Obligations to provide funds for construction. After paying issuance costs of \$29,260 the net proceeds were \$1,505,740.

9. CAPITAL LEASES

The following is a summary of leased property under capital leases at September 30, 2005:

Vehicles and Equipment \$167,000

A summary of changes in capital leases payable by the General Fund for the year ended September 30, 2005 is as follows:

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Outstanding October 1 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>Outstanding September 30 2005</u> | <u>Due Within One Year</u> |
|--------------------|------------------------------|-----------------------------------|------------------|--------------------|--------------------------------------|----------------------------|
| Fire Truck | 5.44% | \$115,911 | \$ - | \$14,002 | \$101,909 | \$14,778 |
| Dump Truck | 4.75% | 2,103 | - | 2,103 | - | - |
| | | <u>\$118,014</u> | <u>\$ -</u> | <u>\$16,105</u> | <u>\$101,909</u> | <u>\$14,778</u> |

The debt service requirements for the capital leases is as follows:

| Year Ended September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|--------------------------|------------------|-----------------|---------------------------|
| 2006 | \$ 14,778 | \$ 5,652 | \$ 20,430 |
| 2007 | 15,598 | 4,832 | 20,430 |
| 2008 | 16,463 | 3,967 | 20,430 |
| 2009 | 17,376 | 3,054 | 20,430 |
| 2010 | 18,339 | 2,091 | 20,430 |
| 2011 | <u>19,355</u> | <u>1,074</u> | <u>20,429</u> |
| | <u>\$101,909</u> | <u>\$20,670</u> | <u>\$122,579</u> |

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
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A summary of changes in capital leases payable by the Water & Sewer Fund for the year ended September 30, 2005 is as follows:

| <u>Description</u> | <u>Interest Rate Payable</u> | <u>Outstanding October 1 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>Outstanding September 30 2005</u> | <u>Due Within One Year</u> |
|--------------------|--------------------------------------|---|------------------|--------------------|--|------------------------------------|
| Dump Truck | 4.75% | \$ 4,206 | \$ - | \$ 4,206 | \$ - | \$ - |
| Pump | 4.06% | <u>14,894</u> | <u>-</u> | <u>7,273</u> | <u>7,621</u> | <u>7,621</u> |
| | | <u>\$19,100</u> | <u>\$ -</u> | <u>\$11,479</u> | <u>\$ 7,621</u> | <u>\$ 7,621</u> |

The following is a schedule of future minimum Water and Sewer Fund lease payments to maturity:

| <u>Year Ended September 30, 2006</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|--|------------------|-----------------|-------------------------------|
| | <u>\$ 7,621</u> | <u>\$ 446</u> | <u>\$ 8,067</u> |

10. EMPLOYEE RETIREMENT PLAN

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 801 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

CITY OF KRUM, TEXAS
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Plan provisions for the City were as follows (as of 4/1/05):

Deposit Rate: 5%

Matching Ration (City to Employee): 1-1

A member is vested after 5 yrs.

Members can retire at certain ages, based on the year of service with the City.

The Service Retirement Eligibility for the City is: "5 yrs/age 60, 20 yrs/any age"

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated as the level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined the percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2004 valuation is effective for rates beginning January 2006.

Schedule of Actuarial Liabilities and Funding Progress

| | |
|--|---------------|
| Actuarial Valuation Date | 12/31/2004 |
| Actuarial Value of Assets | \$313,278 |
| Actuarial Accrued Liability | \$358,384 |
| Percentage Funded | 87.4% |
| Unfunded (Over-funded) Actuarial Accrued Liability | \$45,106 |
| Annual Covered Payroll | \$471,708 |
| UAAL as a Percentage of Covered Payroll | 11.0% |
| Net Pension Obligation (NPO) at the beginning of Period | \$ -0- |
| Annual Pension Cost: | |
| Annual Required Contribution (ARC) | 19,166 |
| Contributions Made | <u>19,166</u> |
| NPO at the end of the period | <u>\$ -0-</u> |

CITY OF KRUM, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

Actual Assumptions

| | |
|-------------------------------|--|
| Actual cost method | Unit Credit |
| Amortization method | Level Percent of Payroll |
| Remaining amortization period | 25 Years – Open Period |
| Asset valuation method | Amortized Cost |
| | (to accurately reflect the requirements of GASB statement, No. 25, paragraphs 36e and 138) |
| Investment rate of return | 7% |
| Projected salary increases | None |
| Includes inflation at | 3.5% |
| Cost-of-living adjustments | None |

All assumptions for the 12/31/04 valuations can be found in the TMRS Comprehensive Annual Financial Report, a copy of which can be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

11. LITIGATION AND CONTINGENCIES

The City Attorney (general legal counsel) expresses the opinion that there does not now exist any pending or threatened litigation, claim or assessment, or an unasserted claim and/or assessment which individually or collectively represent a potential loss exposure to the City of Krum, Texas.

12. RISK MANAGEMENT

Significant losses to which the City is exposed are covered by insurance obtained primarily through the Texas Municipal League. This includes property and liability, worker's compensation and employee health. The City retains no risk of loss except for small deductibles on some of the policies.

For insured programs, there have been no significant reduction in insurance coverage, and settlement amounts have not been exceeded insurance coverage for the current year or the three prior years.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF KRUM, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

| | <u>Budgeted Amounts</u> | | Actual Amounts (GAAP BASIS) | Variance With Final Budget |
|--|-------------------------|------------------|-----------------------------------|----------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes: | | | | |
| General Sales and Use Taxes | \$ 150,000 | \$ 150,000 | \$ 144,955 | \$ (5,045) |
| Ad Valorem Taxes | 308,212 | 308,212 | 309,639 | 1,427 |
| Franchise Tax | 106,100 | 106,100 | 104,226 | (1,874) |
| Permits & Fees | 352,800 | 352,800 | 247,169 | (105,631) |
| Library Services | 19,500 | 19,500 | 20,074 | 574 |
| Charges for Services | 105,000 | 105,000 | 117,736 | 12,736 |
| Municipal Court Fees | 102,400 | 102,400 | 62,126 | (40,274) |
| Fire Department | 272,996 | 272,996 | 231,339 | (41,657) |
| Donations | 69,000 | 69,000 | 17,764 | (51,236) |
| Interest Income | 665 | 665 | 11,845 | 11,180 |
| Miscellaneous & Other Revenue | 9,000 | 9,000 | 28,835 | 19,835 |
| Total Revenues | <u>1,495,673</u> | <u>1,495,673</u> | <u>1,295,708</u> | <u>(199,965)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Administration | 333,103 | 338,103 | 254,756 | 83,347 |
| Building Services | 65,250 | 65,250 | 50,951 | 14,299 |
| Library | 90,494 | 90,494 | 72,467 | 18,027 |
| Municipal Court | 58,630 | 58,630 | 38,699 | 19,931 |
| Park Department | 94,877 | 94,877 | 13,205 | 81,672 |
| Public Safety | 738,459 | 738,459 | 804,780 | (66,321) |
| Street Department | 94,983 | 94,983 | 77,192 | 17,791 |
| Debt Service: | | | | |
| Principal | 47,000 | 47,000 | 57,502 | (10,502) |
| Interest & Fiscal Chg. | - | - | 16,213 | (16,213) |
| Capital Outlay: | | | | |
| Capital Outlay | 231,000 | 291,945 | 311,989 | (20,044) |
| Total Expenditures | <u>1,753,796</u> | <u>1,819,741</u> | <u>1,697,754</u> | <u>121,987</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(258,123)</u> | <u>(324,068)</u> | <u>(402,046)</u> | <u>(77,978)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Other Resources Note Proceeds | - | 60,945 | 545,945 | 485,000 |
| Other Uses Operating Transfers (Out) | - | - | (6,345) | (6,345) |
| Other Uses Note Issuance Costs | - | - | (15,000) | (15,000) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>60,945</u> | <u>524,600</u> | <u>463,655</u> |
| Net Change in Fund Balances | (258,123) | (263,123) | 122,554 | 385,677 |
| Fund Balance - October 1 (Beginning) | <u>321,526</u> | <u>321,526</u> | <u>321,526</u> | <u>-</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 63,403</u> | <u>\$ 58,403</u> | <u>\$ 444,080</u> | <u>\$ 385,677</u> |

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OTHER SUPPLEMENTARY INFORMATION

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CITY OF KRUM, TEXAS
STATEMENT OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | |
|--------------------------------|---------------------|---------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| City Sales Tax | \$ 150,000 | \$ 144,955 | \$ (5,045) |
| Ad Valorem Taxes | 308,212 | 309,639 | 1,427 |
| Franchise Tax | 106,100 | 104,226 | (1,874) |
| Permits and Fees: | | | |
| Building | 250,000 | 159,931 | (90,069) |
| Signs | 500 | 900 | 400 |
| Sprinkler | 3,000 | 3,052 | 52 |
| Fence | 4,500 | 4,000 | (500) |
| Contractor | 1,500 | 2,400 | 900 |
| Plan Review | 25,000 | 23,185 | (1,815) |
| Truck Permits | 50,000 | - | (50,000) |
| Drilling Permits | 8,000 | 4,000 | (4,000) |
| Plat Fees | 4,000 | 43,737 | 39,737 |
| Health Inspections | 4,000 | 3,450 | (550) |
| Other Fees | 2,300 | 2,514 | 214 |
| Library Services: | | | |
| Denton County | 13,400 | 13,400 | - |
| Donations | 3,500 | 3,994 | 494 |
| Fines & Customer Service | 1,100 | 1,066 | (34) |
| Grants | 1,500 | 1,614 | 114 |
| Refuse Collection Fees | 105,000 | 117,736 | 12,736 |
| Municipal Court: | | | |
| Court Fines | 76,700 | 42,286 | (34,414) |
| Court Fees | 25,700 | 19,840 | (5,860) |
| Fire Department: | | | |
| Denton County Support | 45,000 | 21,043 | (23,957) |
| Denton County Fire & EMS Calls | 165,396 | 125,757 | (39,639) |
| EMS & Fire Billing | 58,600 | 50,384 | (8,216) |
| Donations | 4,000 | 10,157 | 6,157 |
| Grants | - | 23,998 | 23,998 |
| Park Donations & Other | 69,000 | 17,764 | (51,236) |
| Interest Income | 665 | 11,845 | 11,180 |
| Miscellaneous & Other Revenue | 9,000 | 28,835 | 19,835 |
| Total | \$ 1,495,673 | \$ 1,295,708 | \$ (199,965) |

CITY OF KRUM, TEXAS
 STATEMENT OF EXPENDITURES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | |
|------------------------------|-------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| ADMINISTRATIVE: | | | |
| Personnel: | | | |
| Salaries | \$ 30,633 | \$ 31,403 | \$ (770) |
| Retirement | 999 | 742 | 257 |
| Payroll Taxes | 12,682 | 831 | 11,851 |
| Total Personnel | <u>44,314</u> | <u>32,976</u> | <u>11,338</u> |
| Supplies and Repairs: | | | |
| Postage & Printing | 2,500 | 2,907 | (407) |
| Other Supplies | 3,000 | 3,260 | (260) |
| Building Maintenance | 2,000 | 970 | 1,030 |
| Equipment Maintenance | 2,000 | 4,140 | (2,140) |
| Miscellaneous | 625 | 1,046 | (421) |
| Furniture & Equipment | 1,500 | 483 | 1,017 |
| Total Supplies and Repairs | <u>11,625</u> | <u>12,806</u> | <u>(1,181)</u> |
| Contract Services: | | | |
| Utilities | 6,500 | 5,039 | 1,461 |
| Municipal Lighting | 15,000 | 16,456 | (1,456) |
| Engineering | 10,000 | 11,947 | (1,947) |
| Mileage | 500 | 380 | 120 |
| Insurance | 29,252 | 27,583 | 1,669 |
| Legal and Professional | 9,500 | 19,308 | (9,808) |
| Legal Notices | 1,000 | 3,726 | (2,726) |
| Dues and Training | 2,000 | 1,681 | 319 |
| Tax Collection/Appraisal | 3,500 | 5,151 | (1,651) |
| Election Costs | 2,000 | 1,799 | 201 |
| Refuse Collections & Refunds | 92,000 | 102,737 | (10,737) |
| Health Inspections | 2,000 | 2,775 | (775) |
| Equipment Rental | 1,000 | 1,797 | (797) |
| Contract Labor | 25,000 | 6,627 | 18,373 |
| Bank Charges | 1,000 | 1,968 | (968) |
| 4B Sales Tax Project | 81,912 | - | 81,912 |
| Total Contract Services | <u>282,164</u> | <u>208,974</u> | <u>73,190</u> |
| TOTAL ADMINISTRATIVE | <u>\$ 338,103</u> | <u>\$ 254,756</u> | <u>\$ 83,347</u> |

CITY OF KRUM, TEXAS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | Variance Favorable (Unfavorable) |
|--------------------------------|------------------|------------------|--|
| | Budget | Actual | |
| BUILDING SERVICES: | | | |
| Supplies: | | | |
| Office Supplies | \$ 250 | \$ 182 | \$ 68 |
| Total Supplies | <u>250</u> | <u>182</u> | <u>68</u> |
| Contract Services: | | | |
| Building Inspector | 65,000 | 50,769 | 14,231 |
| Total Contract Services | <u>65,000</u> | <u>50,769</u> | <u>14,231</u> |
| TOTAL BUILDING SERVICES | <u>\$ 65,250</u> | <u>\$ 50,951</u> | <u>\$ 14,299</u> |
| LIBRARY: | | | |
| Personnel: | | | |
| Salaries | \$ 40,498 | \$ 42,104 | \$ (1,606) |
| Retirement | 1,430 | 1,366 | 64 |
| Payroll Taxes | 3,706 | 924 | 2,782 |
| Total Personnel | <u>45,634</u> | <u>44,394</u> | <u>1,240</u> |
| Supplies and Repairs: | | | |
| Office Supplies & Postage | 2,000 | 2,002 | (2) |
| Repairs | 13,200 | 1,494 | 11,706 |
| Grants Expense | 1,500 | 1,611 | (111) |
| Equipment Lease | 1,620 | 1,499 | 121 |
| Other Expenses | 5,500 | 3,230 | 2,270 |
| Total Supplies and Repairs | <u>23,820</u> | <u>9,836</u> | <u>13,984</u> |
| Contract Services: | | | |
| Utilities | 3,500 | 3,477 | 23 |
| Insurance | 15,740 | 13,210 | 2,530 |
| Contract Labor | 600 | 344 | 256 |
| Training | 1,200 | 1,206 | (6) |
| Total Contract Services | <u>21,040</u> | <u>18,237</u> | <u>2,803</u> |
| TOTAL LIBRARY | <u>\$ 90,494</u> | <u>\$ 72,467</u> | <u>\$ 18,027</u> |

CITY OF KRUM, TEXAS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | |
|------------------------------|------------------|------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| MUNICIPAL COURT: | | | |
| Personnel: | | | |
| Salaries | \$ 23,424 | \$ 24,541 | \$ (1,117) |
| Payroll Taxes | 1,960 | 468 | 1,492 |
| Retirement | 756 | 684 | 72 |
| Total Personnel | <u>26,140</u> | <u>25,693</u> | <u>447</u> |
| Supplies: | | | |
| Office Supplies | 800 | 358 | 442 |
| Court Software | 2,600 | 600 | 2,000 |
| Other Expenses | 760 | 60 | 700 |
| Total Supplies | <u>4,160</u> | <u>1,018</u> | <u>3,142</u> |
| Contract Services: | | | |
| Court Judge | 6,000 | 6,200 | (200) |
| Jury Fees | 600 | 102 | 498 |
| Jail Time | 500 | - | 500 |
| Insurance | 7,730 | 5,686 | 2,044 |
| Warrant Service | 9,000 | - | 9,000 |
| Court Technology | 2,500 | - | 2,500 |
| Court Security | 2,000 | - | 2,000 |
| Total Contract Services | <u>28,330</u> | <u>11,988</u> | <u>16,342</u> |
| TOTAL MUNICIPAL COURT | <u>\$ 58,630</u> | <u>\$ 38,699</u> | <u>\$ 19,931</u> |
| PARK DEPARTMENT: | | | |
| Supplies: | | | |
| Santa Shuffle | \$ 1,200 | \$ 807 | \$ 393 |
| Banners | 1,000 | 95 | 905 |
| Maintenance | 3,000 | 95 | 2,905 |
| Porta Potties | 860 | 961 | (101) |
| Total Supplies | <u>6,060</u> | <u>1,958</u> | <u>4,102</u> |
| Contract Services: | | | |
| Mowing | 12,050 | 9,234 | 2,816 |
| Donations | 71,967 | - | 71,967 |
| Utilities | 4,800 | 2,013 | 2,787 |
| Total Contract Services | <u>88,817</u> | <u>11,247</u> | <u>77,570</u> |
| TOTAL PARK DEPARTMENT | <u>\$ 94,877</u> | <u>\$ 13,205</u> | <u>\$ 81,672</u> |

CITY OF KRUM, TEXAS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | |
|------------------------------|----------------|----------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| PUBLIC SAFETY: | | | |
| Police: | | | |
| Personnel: | | | |
| Salaries | \$ 223,555 | \$ 254,551 | \$ (30,996) |
| Retirement | 7,362 | 8,512 | (1,150) |
| Payroll Taxes | 19,083 | 4,791 | 14,292 |
| Group Insurance | 39,215 | 32,970 | 6,245 |
| Total Personnel | <u>289,215</u> | <u>300,824</u> | <u>(11,609)</u> |
| Supplies and Repairs: | | | |
| Office Supplies | 9,000 | 7,278 | 1,722 |
| Utilities | 10,000 | 16,140 | (6,140) |
| Fuel | 11,000 | 16,011 | (5,011) |
| Uniforms | 11,000 | 10,588 | 412 |
| Equipment Maintenance | 3,000 | 952 | 2,048 |
| Vehicle Maintenance | 10,000 | 10,703 | (703) |
| Building Maintenance | 1,000 | 1,093 | (93) |
| Seized Property Expense | 250 | - | 250 |
| Equipment Lease | 2,500 | 1,595 | 905 |
| K-9 Expenses | 1,100 | 2,162 | (1,062) |
| Equipment | 56,500 | 23,099 | 33,401 |
| Total Supplies and Repairs | <u>115,350</u> | <u>89,621</u> | <u>25,729</u> |
| Contract Services: | | | |
| Training | 17,600 | 4,790 | 12,810 |
| Labor | 4,000 | 2,569 | 1,431 |
| Total Contract Services | <u>21,600</u> | <u>7,359</u> | <u>14,241</u> |
| Total Police | <u>426,165</u> | <u>397,804</u> | <u>28,361</u> |
| Animal Control: | | | |
| Personnel: | | | |
| Salaries | 4,400 | - | 4,400 |
| Payroll Taxes | - | - | - |
| Total Personnel | <u>4,400</u> | <u>-</u> | <u>4,400</u> |
| Contract Services: | | | |
| Animal Control | 2,000 | 5,400 | (3,400) |
| Other | 1,500 | 2,280 | (780) |
| Total Contract Services | <u>3,500</u> | <u>7,680</u> | <u>(4,180)</u> |
| Total Animal Control | <u>7,900</u> | <u>7,680</u> | <u>220</u> |

CITY OF KRUM, TEXAS
 STATEMENT OF EXPENDITURES
 BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | Variance Favorable (Unfavorable) |
|----------------------------|-------------------|-------------------|--|
| | Budget | Actual | |
| Fire: | | | |
| Personnel: | | | |
| Salaries | | | |
| Payroll Taxes | 218,800 | 219,678 | (878) |
| Retirement | 1,910 | 17,350 | (15,440) |
| Total Personnel | <u>720</u> | <u>652</u> | <u>68</u> |
| | <u>221,430</u> | <u>237,680</u> | <u>(16,250)</u> |
| Supplies and Repairs: | | | |
| Office Supplies & Postage | 1,600 | 3,695 | (2,095) |
| Firefighting Supplies | 15,000 | 23,108 | (8,108) |
| EMS Supplies | 15,000 | 21,878 | (6,878) |
| Fuel | 2,500 | 8,964 | (6,464) |
| Maintenance | 9,500 | 15,223 | (5,723) |
| Vehicle Maintenance | 3,000 | 16,116 | (13,116) |
| Support | 3,000 | 2,955 | 45 |
| Equipment | 5,000 | 23,486 | (18,486) |
| Total Supplies and Repairs | <u>54,600</u> | <u>115,425</u> | <u>(60,825)</u> |
| Contract Services: | | | |
| Utilities | 7,500 | 12,168 | (4,668) |
| Training | 6,000 | 16,128 | (10,128) |
| Insurance | 10,064 | 7,547 | 2,517 |
| Billing Clerk | 4,000 | 7,559 | (3,559) |
| Rehab | - | 1,728 | (1,728) |
| Volunteer Banquet | 800 | 1,045 | (245) |
| Licenses and Permits | - | 16 | (16) |
| Total Contract Services | <u>28,364</u> | <u>46,191</u> | <u>(17,827)</u> |
| Total Fire | <u>304,394</u> | <u>399,296</u> | <u>(94,902)</u> |
| TOTAL PUBLIC SAFETY | <u>\$ 738,459</u> | <u>\$ 804,780</u> | <u>\$ (66,321)</u> |

CITY OF KRUM, TEXAS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | General Fund | | |
|--------------------------------|-------------------------|-------------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| STREET DEPARTMENT: | | | |
| Personnel: | | | |
| Salaries | \$ 50,616 | \$ 48,467 | \$ 50,616 |
| Payroll Taxes | 4,570 | 1,466 | 3,104 |
| Retirement | 1,763 | 1,920 | (157) |
| Total Personnel | <u>56,949</u> | <u>51,853</u> | <u>5,096</u> |
| Supplies and Repairs: | | | |
| Street Repair | 15,000 | 7,578 | 7,422 |
| Equipment Maintenance | 5,000 | 2,179 | 2,821 |
| Fuel | 2,000 | 2,083 | (83) |
| Signs | 500 | 4,955 | (4,455) |
| Uniforms | 1,150 | 1,206 | (56) |
| Total Supplies and Repairs | <u>23,650</u> | <u>18,001</u> | <u>5,649</u> |
| Contract Services: | | | |
| Contract Labor | 500 | 575 | (75) |
| Equipment Rental | 2,000 | - | 2,000 |
| Insurance | 11,884 | 6,763 | 5,121 |
| Total Contract Services | <u>14,384</u> | <u>7,338</u> | <u>7,046</u> |
| TOTAL STREET DEPARTMENT | <u><u>\$ 94,983</u></u> | <u><u>\$ 77,192</u></u> | <u><u>\$ 17,791</u></u> |

CITY OF KRUM, TEXAS
 STATEMENT OF REVENUES & EXPENSES - BUDGET (GAAP BASIS) & ACTUAL -
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

| | Water | | Variance Favorable (Unfavorable) |
|--|-------------------|-------------------|--|
| | Budget | Actual | |
| OPERATING REVENUES | | | |
| Usage and Other Charges | \$ 637,600 | \$ 530,303 | \$ (107,297) |
| OPERATING EXPENSES | | | |
| City Secretary | 12,618 | 13,114 | (496) |
| Other Labor | 27,432 | 27,238 | 194 |
| Office Personnel | 15,365 | 16,019 | (654) |
| Utility Director/Superintendent | 22,508 | 21,899 | 609 |
| Overtime | 5,000 | 5,690 | (690) |
| Retirement | 2,762 | 2,645 | 117 |
| Payroll Taxes | 7,158 | 2,026 | 5,132 |
| Contract Labor | 14,000 | 20,885 | (6,885) |
| Testing | 600 | 746 | (146) |
| Audit Services | 2,500 | 2,650 | (150) |
| Legal Services | 7,000 | 14,506 | (7,506) |
| Engineering Fees | 10,000 | 19,908 | (9,908) |
| Chemicals | 2,000 | 3,256 | (1,256) |
| Fuel | 2,000 | 2,094 | (94) |
| Office Supplies, Printing & Postage | 5,000 | 5,643 | (643) |
| Water | 90,000 | 40,948 | 49,052 |
| Repair & Maintenance | 79,000 | 72,345 | 6,655 |
| Equipment Lease | 5,000 | 1,792 | 3,208 |
| Utilities | 50,000 | 78,315 | (28,315) |
| Permits | 1,000 | 2,090 | (1,090) |
| Dues | 3,300 | 2,511 | 789 |
| Insurance | 32,596 | 32,550 | 46 |
| Training | 3,000 | 1,229 | 1,771 |
| Sewer Treatment Fees | - | - | - |
| Sewer Impact Fees | - | - | - |
| Miscellaneous | 1,650 | 604 | 1,046 |
| Capital Improvements | 103,500 | - | 103,500 |
| Depreciation | - | 30,383 | (30,383) |
| TOTAL OPERATING EXPENSES | <u>504,989</u> | <u>421,086</u> | <u>83,903</u> |
| OPERATING INCOME | <u>132,611</u> | <u>109,217</u> | <u>(23,394)</u> |
| NON-OPERATING INCOME (EXPENSES) | | | |
| Interest | 1,750 | 12,739 | 10,989 |
| Interest & Bond Agent Fiscal Charges | (2,155) | (81) | 2,074 |
| TOTAL NON OPERATING INCOME (EXPENSES) | <u>(405)</u> | <u>12,658</u> | <u>13,063</u> |
| NET INCOME BEFORE CAPITAL CONTRIBUTION | <u>\$ 132,206</u> | <u>\$ 121,875</u> | <u>\$ (10,331)</u> |

| Sewer | | | Total | | |
|-------------|------------|--|--------------|--------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 621,000 | \$ 505,708 | \$ (115,292) | \$ 1,258,600 | \$ 1,036,011 | \$ (222,589) |
| 12,618 | 13,090 | (472) | 25,236 | 26,204 | (968) |
| 27,432 | 27,492 | (60) | 54,864 | 54,730 | 134 |
| 15,365 | 16,018 | (653) | 30,730 | 32,037 | (1,307) |
| 22,508 | 21,931 | 577 | 45,016 | 43,830 | 1,186 |
| 6,000 | 5,693 | 307 | 11,000 | 11,383 | (383) |
| 2,762 | 2,645 | 117 | 5,524 | 5,290 | 234 |
| 7,158 | 2,026 | 5,132 | 14,316 | 4,052 | 10,264 |
| 8,000 | 8,635 | (635) | 22,000 | 29,520 | (7,520) |
| 6,000 | 3,360 | 2,640 | 6,600 | 4,106 | 2,494 |
| 2,500 | 2,650 | (150) | 5,000 | 5,300 | (300) |
| 7,000 | 16,080 | (9,080) | 14,000 | 30,586 | (16,586) |
| 8,000 | 12,517 | (4,517) | 18,000 | 32,425 | (14,425) |
| 4,000 | 5,844 | (1,844) | 6,000 | 9,100 | (3,100) |
| 1,500 | 2,083 | (583) | 3,500 | 4,177 | (677) |
| 5,000 | 5,268 | (268) | 10,000 | 10,911 | (911) |
| - | - | - | 90,000 | 40,948 | 49,052 |
| 24,000 | 47,319 | (23,319) | 103,000 | 119,664 | (16,664) |
| 5,000 | 1,792 | 3,208 | 10,000 | 3,584 | 6,416 |
| 40,000 | 22,539 | 17,461 | 90,000 | 100,854 | (10,854) |
| 2,000 | 1,502 | 498 | 3,000 | 3,592 | (592) |
| 300 | 217 | 83 | 3,600 | 2,728 | 872 |
| 32,596 | 32,550 | 46 | 65,192 | 65,100 | 92 |
| 3,000 | 829 | 2,171 | 6,000 | 2,058 | 3,942 |
| 80,162 | 57,217 | 22,945 | 80,162 | 57,217 | 22,945 |
| 123,300 | 37,191 | 86,109 | 123,300 | 37,191 | 86,109 |
| 1,650 | 4,570 | (2,920) | 3,300 | 5,174 | (1,874) |
| 73,500 | - | 73,500 | 177,000 | - | 177,000 |
| - | 78,605 | (78,605) | - | 108,988 | (108,988) |
| 521,351 | 429,663 | 91,688 | 1,026,340 | 850,749 | 175,591 |
| 99,649 | 76,045 | (23,604) | 232,260 | 185,262 | (46,998) |
| 1,400 | 7,131 | (5,731) | 3,150 | 19,870 | 16,720 |
| (135,948) | (89,553) | (46,395) | (138,103) | (89,634) | 48,469 |
| (134,548) | (82,422) | (52,126) | (134,953) | (69,764) | 65,189 |
| \$ (34,899) | \$ (6,377) | \$ 28,522 | \$ 97,307 | \$ 115,498 | \$ 18,191 |

CITY OF KRUM, TEXAS
SCHEDULE OF RESTRICTED ASSETS
GOVERNMENTAL & PROPRIETARY FUNDS
SEPTEMBER 30, 2005

GENERAL FUND:

| | |
|--|------------------------------|
| Library Building Fund | \$ 21,957 |
| Refuse Deposits | 19,681 |
| Police Equipment/Training | 2,732 |
| Fire Department Fund | 6,716 |
| Park Fund | 53,585 |
| Seizure & Forfeiture Fund | <u>301</u> |
| TOTAL RESTRICTED CASH - GENERAL FUND | <u><u>\$ 104,972</u></u> |

PROPRIETARY FUND:

| | |
|--|--------------------------------|
| 2005 Certificates of Obligation | \$ 1,415,426 |
| Water Deposit Account | 62,926 |
| Sewer Repair Replacement | 21,242 |
| Sewer Bond Reserve | <u>46,050</u> |
| TOTAL RESTRICTED CASH - PROPRIETARY FUND | <u><u>\$ 1,545,644</u></u> |

CITY OF KRUM, TEXAS
SCHEDULE OF RESERVED FUND EQUITY
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

| GENERAL FUND - RESERVED FUND BALANCE | |
|--------------------------------------|-------------------------|
| Library Funds | \$ 21,957 |
| Police Funds | 2,732 |
| Park Funds | 53,585 |
| Seizure Funds | 301 |
| Fire Department Funds | <u>6,716</u> |
| TOTAL RESERVED FUND BALANCE | <u><u>\$ 85,291</u></u> |

CITY OF KRUM, TEXAS
 SCHEDULE OF INSURANCE COVERAGE
 SEPTEMBER 30, 2005

| <u>Policy Information</u> | <u>Type of Coverage</u> | <u>Amount of Coverage</u> |
|---|------------------------------------|---------------------------|
| Texas Municipal League Joint Self-Ins. Fund Servicing Contractor | General Liability | |
| | Each Occurrence | \$1,000,000 |
| | Annual Aggregate | \$2,000,000 |
| | Deductible – Each Occurrence | \$ 500 |
| | Law Enforcement | |
| | Each Occurrence | \$ 500,000 |
| | Annual Aggregate | \$1,000,000 |
| | Deductible – Each Occurrence | \$ 1,000 |
| | Errors & Omissions | |
| | Each Wrongful Act | \$ 500,000 |
| | Annual Aggregate | \$1,000,000 |
| | Deductible – Each Claim | \$ 1,000 |
| | Automobile Liability | |
| | Each Occurrence | \$ 500,000 |
| | Each Person | |
| | Automobile Medical Pmt | \$ 25,000 |
| | Deductible | \$ 500 |
| | Auto Physical Damage | |
| | Per Schedule | ACV |
| | Deductible per Vehicle | \$ 500 |
| Occurrence Deductible | \$ 10,000 | |
| Limits of Liability | \$ 500,000 | |
| Auto Medical | \$ 25,000 | |
| Real and Personal Property | | |
| Limits of Liability | \$1,823,300 | |
| Deductible | \$ 250 | |
| Premium: \$12,715 10-01-04 to 10-01-05 | | |
| Texas Municipal League Workers' Compensation Joint Insurance Fund Contract No. A03423 Continuous Coverage | Workers' Compensation Insurance | Statutory |
| Premium: \$29,861 10-01-04 to 10-01-05 | | |

**HANKINS, EASTUP, DEATON,
TONN & SEAY**

A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TEXAS 76202-0977

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INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

and City Council

the financial statements of the City of Krum, Texas as of and for the twelve months
ended, 2005, and have issued our report thereon dated January 25, 2006.

audit in accordance with auditing standards generally accepted in the United
States and the standards applicable to financial audits contained in GOVERNMENT
AUDITING STANDARDS, issued by the Comptroller General of the United States.

reasonable assurance about whether the City of Krum's financial statements are
correctly stated, we performed tests of its compliance with certain provisions of laws,
regulations and grants, noncompliance with which could have a direct and material effect
on the financial statement amounts. However, providing an opinion on compliance
with these standards was not an objective of our audit and, accordingly, we do not express such an

opinion. We disclosed no instances of noncompliance that are required to be reported
under GOVERNMENT AUDITING STANDARDS.

Internal Financial Reporting

In performing our audit, we considered the City of Krum's internal control over
financial reporting in order to determine our auditing procedures for the purpose of expressing our
opinion on the financial statements and not to provide assurance on the internal control over

financial reporting. We noted that the internal control over financial reporting would not necessarily disclose all
material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal
controls does not reduce to a relatively low level the risk that misstatements in
the financial statements being audited may occur and that these misstatements will
remain undetected in a timely period by employees in the normal course of performing their
duties.

We noted no matters involving the internal control over financial reporting and
we do not consider them to be material weaknesses.

MEMBERS:
AMERICAN INSTITUTE OF
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INDEPENDENT AUDITORS' REPORT
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Krum, Texas

We have audited the financial statements of the City of Krum, Texas as of and for the twelve months ended September 30, 2005, and have issued our report thereon dated January 25, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Krum's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under GOVERNMENT AUDITING STANDARDS.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Krum's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

