

City of Krum, Texas



ANNUAL FINANCIAL REPORT FINANCIAL STATEMENTS

FOR THE YEAR ENDED
SEPTEMBER 30, 2015

PBH
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

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CITY OF KRUM, TEXAS

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 4 – 10 and 46 – 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Krum, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2016, on our consideration of the City of Krum, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Krum, Texas' internal control over financial reporting and compliance.

Patillo, Brown & Hill, L. L. P.

Hillsboro, Texas
February 19, 2016

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Krum's discussion and analysis offers readers of the City's financial statements a narrative overview and analysis of the City's financial activities for the year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources for the City of Krum exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,670,491. Of this amount, \$4,939,802 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Krum's net position increased by \$464,661. This increase is due to an increase in capital grants and contributions and property taxes as well as decreased general government expenses. These changes were offset by decreased charges for services and increased public safety, public works and water and sewer expenses. The increase is less than the prior year increase of \$563,245.
- As of the close of the current fiscal year, the City of Krum's governmental funds reported combined ending fund balances of \$5,480,216, an increase of \$62,965 in comparison with the prior year. Approximately, 7.34% of this amount, \$402,471 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$402,471 or 14.50% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Krum, Texas' basic financial statements. 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.

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 position presents information on all of the City of Krum's assets, liabilities and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements 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 position and the statement of activities are prepared utilizing the full accrual basis of accounting.

In the Statement of Net Position and the Statement of Activities, the primary government is divided into two kinds of activities:

- **Governmental activities** – Most of the City’s basic services are reported here, including administrative, police, fire, municipal court, community development, streets, parks and library. Property taxes, sales taxes, franchise fees, license and permit fees finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City’s water and sewer system are reported here.

The government-wide financial statements include not only the City of Krum itself (known as the primary government), but also two legally separate component units, the Krum Economic Development Corporation and the 4A Sales and Use Tax Fund. Financial information for these component units is included in the financial statements for the City as blended component units.

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. City of Krum, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Krum can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Krum maintains 8 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, Capital Projects Fund, Krum Economic Development Fund and 4A Sales and Use Tax Fund, which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Krum adopts an annual appropriated budget for its General Fund and Debt Service Fund. Budgetary comparison statements have been provided for the General Fund and the Debt Service Fund to demonstrate compliance with the budget.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. There is one type of proprietary fund: Enterprise Fund. The City's Enterprise Fund is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Krum maintains one individual Enterprise Fund to account for its water and sewer. This fund is considered to be a major fund of the City.

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 fund financial statements. The notes to the financial statements can be found in the financial section.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of a government's financial position. In the case of the City of Krum, assets and deferred outflows exceeded liabilities and deferred inflows by \$10,670,491 at the close of the most recent fiscal year. One of the larger portions of the City's net position (\$4,511,386 or 42.28%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) 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.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 5,763,612	\$ 5,451,698	\$ 2,660,989	\$ 2,864,265	\$ 8,424,601	\$ 8,315,963
Capital and non-current assets	5,873,696	5,674,799	5,761,899	6,079,212	11,635,595	11,754,011
Total assets	11,637,308	11,126,497	8,422,888	8,943,477	20,060,196	20,069,974
Total deferred outflows of resources	64,872	-	55,337	-	120,209	-
Liabilities						
Current liabilities	580,381	750,083	578,970	505,392	1,159,351	1,255,475
Long-term liabilities	5,075,862	5,371,225	3,259,593	3,616,992	8,335,455	8,988,217
Total liabilities	5,656,243	6,121,308	3,838,563	4,122,384	9,494,806	10,243,692
Total deferred inflows of resources	13,437	89,277	1,671	19,926	15,108	109,203
Net position						
Net investment in fixed assets	2,390,036	22,349	2,121,350	2,120,908	4,511,386	2,143,257
Restricted	1,219,303	1,144,368	-	-	1,219,303	1,144,368
Unrestricted	2,423,161	3,749,195	2,516,641	2,680,259	4,939,802	6,429,454
Total net position	\$ 6,032,500	\$ 4,915,912	\$ 4,637,991	\$ 4,801,167	\$ 10,670,491	\$ 9,717,079

An additional portion of the City of Krum's net position (\$1,219,303 or 11.43%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$4,939,802 or 46.29%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year, the City's net position increased by \$464,661. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This increase follows a prior year increase of \$563,245 due to increases in capital grants and contribution and property taxes and decreased general government expenses offset by increased public safety, public works and water and wastewater expenses as well as decreased charges for services.

Changes in the City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 731,600	\$ 1,016,499	\$ 1,778,159	\$ 2,012,021	\$ 2,509,759	\$ 3,028,520
Capital grants & donations	242,794	245,688	-	-	242,794	245,688
Operating grants & donations	392,492	34,758	-	-	392,492	34,758
General revenues:						
Property taxes	1,631,799	1,438,075	-	-	1,631,799	1,438,075
Sales taxes	387,801	359,850	-	-	387,801	359,850
Franchise fees	222,816	197,050	-	-	222,816	197,050
Investment earnings	26,941	24,607	404	446	27,345	25,053
Loss on sale of assets	-	23,770	-	-	-	23,770
Miscellaneous	73,023	160,948	32,160	870	105,183	161,818
Total revenues	<u>3,709,266</u>	<u>3,501,245</u>	<u>1,810,723</u>	<u>2,013,337</u>	<u>5,519,989</u>	<u>5,514,582</u>
Expenses:						
General government	457,271	650,910	-	-	457,271	650,910
Public safety	1,929,882	1,678,792	-	-	1,929,882	1,678,792
Public works	443,225	345,977	-	-	443,225	345,977
Culture and recreation	205,493	262,430	-	-	205,493	262,430
Economic development	21,478	29,402	-	-	21,478	29,402
Waster and sewer	-	-	1,660,062	1,554,571	1,660,062	1,554,571
Interest and other fees	215,762	171,802	122,155	257,453	337,917	429,255
Total expenses	<u>3,273,111</u>	<u>3,139,313</u>	<u>1,782,217</u>	<u>1,812,024</u>	<u>5,055,328</u>	<u>4,951,337</u>
Excess before transfers	436,155	361,932	28,506	201,313	464,661	563,245
Transfers	208,893	194,448	(208,893)	(194,448)	-	-
Change in net position	645,048	556,380	(180,387)	6,865	464,661	563,245
Net position - beginning of year	4,915,912	4,359,532	4,801,167	4,794,302	9,717,079	9,153,834
Prior period adjustment	471,540	-	17,211	-	488,751	-
Net position - end of year	<u>\$ 6,032,500</u>	<u>\$ 4,915,912</u>	<u>\$ 4,637,991</u>	<u>\$ 4,801,167</u>	<u>\$ 10,670,491</u>	<u>\$ 9,717,079</u>

City Revenues

A significant portion, 45.47% of the City's total revenues comes from charges for services and 40.62% comes from property, sales and franchise taxes. The remaining 13.91% is comprised of interest income, other charges, donations, and grant revenues (see Figure A-3).

Governmental activities. Governmental activities net position increased by \$645,048. The increase is more than the prior year increase of \$556,380 due primarily to an increase in capital grants and contributions, property taxes and decreases general government expenses. These changes were offset by decreased charges for services as well as increased public safety and public works expenses.

Business-type activities. Business-type activities net position decreased by \$180,387. Gross revenue of the Water and Sewer Fund was \$1,810,723 for the fiscal year, which is \$202,614 less than the 2013-2014 fiscal year gross revenue of \$2,013,337. This decrease is a result of a decrease in charges for services. Direct operating expenses, excluding depreciation, were \$1,379,776 for the fiscal year. Direct operating expenses are \$109,711 more than 2013-2014 fiscal year direct operating expenses of \$1,270,065, due to increased costs of contractual services.

FINANCIAL ANALYSIS OF THE CITY'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, unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,480,216. \$5,037,744 of this total is restricted to indicate constraints placed on the use of the resources either externally imposed by creditors, by laws or regulations of other governments imposed or imposed by law through constitutional provisions or enabling legislation. \$40,001 of this total is committed is for public safety. The remaining balance of \$402,471 constitutes unassigned fund balance.

Of the \$5,480,216 ending fund balance, \$66,007 is accounted for in non-major governmental funds. The General Fund balance is \$442,472 at year end – a decrease of \$105,588. This decrease was created primarily by a combination of increased property taxes offset by decreases in charges for services and other revenue. The decrease is more than the prior year decrease of \$18,836 due to a decrease in transfers in offset by a decrease in total expenditures.

The Debt Service Fund balance increased \$7,418 to \$637,661 at year end. This increase is primarily the result of increased property tax revenue. The Capital Projects Fund balance decreased \$15,109 to a year-end total of \$3,823,605. This decrease is caused by capital outlay expenditures related to projects including grant projects exceeding revenue. The Krum Economic Development Fund balance increased \$78,978 to a year-end total of \$324,000. This increase is primarily related to decreased capital outlay expenditures. The 4A Sales & Use Tax Fund balance increased \$96,950 to a year-end total of \$186,471 due to no expenditures recorded in the fiscal year.

Proprietary funds – The City of Krum's proprietary funds provide the same type of information found in government-wide financial statements, but in more detail.

Year-end net position in the water and sewer fund amounted to \$4,637,991. This includes a current year decrease of \$180,387. See the business-type activity discussion above for more information.

General Fund budgetary highlights – Over the course of the year, the City revised its budget several times. Including these adjustments, general fund revenues were \$57,875 under budgeted revenues and expenditures were \$48,268 under budgeted expenditures. The net budget decrease for the general fund was \$95,981 for the year, which includes other financing sources and uses and transfers. The actual decrease of \$105,588 was \$9,607 more than the budgeted decrease.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – The investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$11,635,595 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure, construction work in progress, and water and sewer systems. Approximately 50.48% of the capital assets are governmental and 49.52% are business type activities.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 869,245	\$ 326,916	\$ 166,910	\$ 166,910	\$ 1,036,155	\$ 493,826
Construction in progress	64,697	943,307	334,997	372,024	399,694	1,315,331
Park improvements	710,774	1,195,227	-	-	710,774	1,195,227
Infrastructure	3,200,914	1,851,232	8,313,647	8,313,647	11,514,561	10,164,879
Buildings and improvements	1,685,922	1,685,922	152,142	152,142	1,838,064	1,838,064
Machinery and equipment	1,812,980	1,812,980	277,774	277,774	2,090,754	2,090,754
Other	-	-	63,382	63,382	63,382	63,382
Total at historical cost	8,344,532	7,815,584	9,308,852	9,345,879	17,653,384	17,161,463
Less accumulated depreciation	(2,470,836)	(2,140,785)	(3,546,953)	(3,266,667)	(6,017,789)	(5,407,452)
Net capital assets	\$ 5,873,696	\$ 5,674,799	\$ 5,761,899	\$ 6,079,212	\$ 11,635,595	\$ 11,754,011

Long-Term Debt

At year-end, the City had \$8,961,699 in long-term debt outstanding as shown below. More detailed information about the City's debt is presented in the notes to the financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Notes payable	\$ 529,291	\$ 633,420	\$ -	\$ -	\$ 529,291	\$ 633,420
Capital leases	137,408	186,407	-	5,928	137,408	192,335
Bonds payable	4,673,381	4,832,623	3,621,619	3,952,377	8,295,000	8,785,000
Total	\$ 5,340,080	\$ 5,652,450	\$ 3,621,619	\$ 3,958,305	\$ 8,961,699	\$ 9,610,755

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

An appraised ad-valorem taxable value used for the 2015 budget preparation was \$270 million dollars resulting in an estimated tax levy of \$1.7 million. The City's tax rate for 2015 is \$0.647489 per \$100 valuation. The maintenance and operation and debt service rates are \$0.436554 and \$0.210935 per \$100 valuation, respectively. This information was taken into consideration when adopting the budget for 2015. Additionally, estimated revenue from the water and sewer billing is projected to be \$2.1 million.

The tax rate of \$0.647489 together with the water and sewer revenue is expected to provide for adequate funding of expenditure in the general fund, water and sewer fund, and debt service fund to continue current operations and to appropriate funding for long-term debt and capital equipment.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF KRUM, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,339,622	\$ 1,866,133	\$ 7,205,755
Receivables, net	275,709	253,238	528,947
Net pension asset	117,746	14,642	132,388
Restricted cash and cash equivalents	40,001	517,510	557,511
Internal balances	(9,466)	9,466	-
Total current assets	<u>5,763,612</u>	<u>2,660,989</u>	<u>8,424,601</u>
Capital assets:			
Non-depreciable assets	933,942	501,907	1,435,849
Depreciable assets, net	<u>4,939,754</u>	<u>5,259,992</u>	<u>10,199,746</u>
Total capital assets	<u>5,873,696</u>	<u>5,761,899</u>	<u>11,635,595</u>
Total assets	<u>11,637,308</u>	<u>8,422,888</u>	<u>20,060,196</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	26,672	50,586	77,258
Deferred outflow related to TMRS	<u>38,200</u>	<u>4,751</u>	<u>42,951</u>
Total deferred outflows of resources	<u>64,872</u>	<u>55,337</u>	<u>120,209</u>
LIABILITIES			
Current liabilities:			
Accounts payable	73,043	77,336	150,379
Accrued liabilities	59,722	7,420	67,142
Accrued interest	22,058	11,925	33,983
Customer deposits	-	91,510	91,510
Compensated absences	19,132	2,456	21,588
Current portion long-term debt	<u>406,426</u>	<u>388,323</u>	<u>794,749</u>
Total current liabilities	<u>580,381</u>	<u>578,970</u>	<u>1,159,351</u>
Compensated absences	57,395	7,367	64,762
Long-term debt, less current portion	<u>5,018,467</u>	<u>3,252,226</u>	<u>8,270,693</u>
Total long-term liabilities	<u>5,075,862</u>	<u>3,259,593</u>	<u>8,335,455</u>
Total liabilities	<u>5,656,243</u>	<u>3,838,563</u>	<u>9,494,806</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to TMRS	<u>13,437</u>	<u>1,671</u>	<u>15,108</u>
Total deferred inflows of resources	<u>13,437</u>	<u>1,671</u>	<u>15,108</u>
NET POSITION			
Net investment in capital assets	2,390,036	2,121,350	4,511,386
Restricted	1,219,303	-	1,219,303
Unrestricted	<u>2,423,161</u>	<u>2,516,641</u>	<u>4,939,802</u>
Total net position	<u>\$ 6,032,500</u>	<u>\$ 4,637,991</u>	<u>\$ 10,670,491</u>

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

CITY OF KRUM, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General governmental	\$ 457,271	\$ 244,059	\$ -	\$ -
Public safety	1,929,882	454,978	195,380	-
Public works	443,225	30,679	29,946	392,492
Culture and recreation	205,493	1,884	17,468	-
Economic development	21,478	-	-	-
Interest and other fees	215,762	-	-	-
Total governmental activities	<u>3,273,111</u>	<u>731,600</u>	<u>242,794</u>	<u>392,492</u>
Business-type activities:				
Water and sewer	1,660,062	1,778,159	-	-
Interest and other fees	122,155	-	-	-
Total business-type activities	<u>1,782,217</u>	<u>1,778,159</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,055,328</u>	<u>\$ 2,509,759</u>	<u>\$ 242,794</u>	<u>392,492</u>

General revenues:

Taxes

 Property taxes, levied for general purposes

 Property taxes, levied for specific purposes

 Sales taxes

 Other taxes

Franchise fees

Investment earnings

Gain on disposal of assets

Miscellaneous

Transfers

 Total general revenues and transfers

 Changes in net position

Net position - beginning

 Prior period adjustment

Net position - ending

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$(213,212)	\$ -	\$(213,212)
(1,279,524)	-	(1,279,524)
9,892	-	9,892
(186,141)	-	(186,141)
(21,478)	-	(21,478)
(215,762)	-	(215,762)
<u>(1,906,225)</u>	<u>-</u>	<u>(1,906,225)</u>
-	118,097	118,097
-	(122,155)	(122,155)
-	(4,058)	(4,058)
<u>(1,906,225)</u>	<u>(4,058)</u>	<u>(1,910,283)</u>
1,184,206	-	1,184,206
447,593	-	447,593
387,801	-	387,801
2,021	-	2,021
222,816	-	222,816
26,941	404	27,345
-	-	-
71,002	32,160	103,162
208,893	(208,893)	-
<u>2,551,273</u>	<u>(176,329)</u>	<u>2,374,944</u>
645,048	(180,387)	464,661
4,915,912	4,801,167	9,717,079
471,540	17,211	488,751
<u>\$ 6,032,500</u>	<u>\$ 4,637,991</u>	<u>\$ 10,670,491</u>

CITY OF KRUM, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
ASSETS			
Cash and cash equivalents	\$ 434,946	\$ 636,877	\$ 3,725,348
Receivables (net of allowances for uncollectible):			
Taxes	51,528	5,948	-
Accounts receivable	69,175	-	-
Due from other funds	3,308	-	-
Due from other governments	-	-	115,031
Restricted cash and cash equivalents	40,001	-	-
Total assets	<u>\$ 598,958</u>	<u>\$ 642,825</u>	<u>\$ 3,840,379</u>
LIABILITIES			
Accounts payable	\$ 69,043	\$ -	\$ 4,000
Accrued liabilities	59,722	-	-
Due to other funds	-	-	12,774
Total liabilities	<u>128,765</u>	<u>-</u>	<u>16,774</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	15,421	5,164	-
Unavailable revenue - EMS	12,300	-	-
Total deferred inflows of resources	<u>27,721</u>	<u>5,164</u>	<u>-</u>
FUND BALANCES			
Restricted	-	637,661	3,823,605
Committed	40,001	-	-
Unassigned	402,471	-	-
Total funds balances	<u>442,472</u>	<u>637,661</u>	<u>3,823,605</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 598,958</u>	 <u>\$ 642,825</u>	 <u>\$ 3,840,379</u>

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

Krum Economic Development	4A Sales & Use Tax Fund	Other Governmental Funds	Total Governmental Funds
\$ 306,986	\$ 169,458	\$ 66,007	\$ 5,339,622
17,014	17,013	-	91,503
-	-	-	69,175
-	-	-	3,308
-	-	-	115,031
-	-	-	40,001
<u>\$ 324,000</u>	<u>\$ 186,471</u>	<u>\$ 66,007</u>	<u>\$ 5,658,640</u>
\$ -	\$ -	\$ -	\$ 73,043
-	-	-	59,722
-	-	-	12,774
-	-	-	145,539
-	-	-	20,585
-	-	-	12,300
-	-	-	32,885
324,000	186,471	66,007	5,037,744
-	-	-	40,001
-	-	-	402,471
<u>324,000</u>	<u>186,471</u>	<u>66,007</u>	<u>5,480,216</u>
<u>\$ 324,000</u>	<u>\$ 186,471</u>	<u>\$ 66,007</u>	<u>\$ 5,658,640</u>

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CITY OF KRUM, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCES SHEET
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2015

Total fund balance - governmental funds	\$	5,480,216
Amounts reported for governmental activities in the statement of net position are difference due to the following:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		5,873,696
Certain charges related to the issuance of debt and insurance were expended, but will be amortized over the life of the debt, and therefore are deferred in the government wide statements.	(15,449)
Long-term liabilities, including liabilities for compensated absences, bonds and notes payable, obligations under capital lease and net pension liability (asset) are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(5,316,790)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(22,058)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		<u>32,885</u>
Net position of governmental activities	\$	<u><u>6,032,500</u></u>

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

CITY OF KRUM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
REVENUES			
Property taxes	\$ 1,182,958	\$ 447,987	\$ -
Sales taxes	195,922	-	-
Franchise fees	222,816	-	-
Licenses and permits	31,393	-	-
Fines and forfeitures	130,605	-	-
Intergovernmental	241,995	-	392,492
Charges for services	551,006	-	-
Donations	5,021	-	-
Investment earnings	7,968	3,203	15,264
Other	<u>61,332</u>	<u>5,448</u>	<u>-</u>
Total revenues	<u>2,631,016</u>	<u>456,638</u>	<u>407,756</u>
EXPENDITURES			
Current:			
General government	405,928	-	-
Public safety	1,665,533	-	-
Public works	380,241	-	-
Culture and recreation	175,366	-	-
Economic development	-	-	-
Debt service:			
Principal	62,372	296,583	-
Interest and fiscal charges	8,088	231,613	-
Capital outlay	<u>79,076</u>	<u>-</u>	<u>530,028</u>
Total expenditures	<u>2,776,604</u>	<u>528,196</u>	<u>530,028</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(145,588)</u>	<u>(71,558)</u>	<u>(122,272)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	61,730	158,488
Transfers out	-	-	(51,325)
Issuance of from long-term debt	-	1,279,208	-
Payment to escrow agent	<u>-</u>	<u>(1,261,962)</u>	<u>-</u>
Total other financing sources (uses)	<u>40,000</u>	<u>78,976</u>	<u>107,163</u>
Net change in fund balances	(105,588)	7,418	(15,109)
Fund balances - beginning	591,514	630,243	3,372,845
Prior period adjustment	<u>(43,454)</u>	<u>-</u>	<u>465,869</u>
Fund balances - ending	<u>\$ 442,472</u>	<u>\$ 637,661</u>	<u>\$ 3,823,605</u>

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

Krum Economic Development	4A Sales & Use Tax Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,630,945
96,950	96,950	-	-389,822
-	-	-	222,816
-	-	-	31,393
-	-	6,296	136,901
-	-	-	634,487
-	-	-	551,006
-	-	-	5,021
506	-	-	26,941
-	-	-	66,780
<u>97,456</u>	<u>96,950</u>	<u>6,296</u>	<u>3,696,112</u>
-	-	-	405,928
-	-	2,980	1,668,513
-	-	-	380,241
-	-	-	175,366
21,478	-	-	21,478
-	-	-	358,955
-	-	-	239,701
-	-	-	609,104
<u>21,478</u>	<u>-</u>	<u>2,980</u>	<u>3,859,286</u>
<u>75,978</u>	<u>96,950</u>	<u>3,316</u>	<u>(163,174)</u>
-	-	-	260,218
-	-	-	(51,325)
-	-	-	1,279,208
-	-	-	(1,261,962)
<u>-</u>	<u>-</u>	<u>-</u>	<u>226,139</u>
75,978	96,950	3,316	62,965
248,022	89,521	62,691	4,994,836
-	-	-	422,415
<u>\$ 324,000</u>	<u>\$ 186,471</u>	<u>\$ 66,007</u>	<u>\$ 5,480,216</u>

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CITY OF KRUM, TEXAS

**RECONILICATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2015

Net change in fund balances - total governmental funds	\$	62,965
Amounts reported for governmental activities in the statement of activities are different due to the		
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
		198,897
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principle of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
		343,506
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
		22,419
Certain pension expenditures are not expended in the government-wide financials statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource inflows/outflows related to the pension liability/asset were amortized.		
		4,107
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		<u>13,154</u>
Changes in net position - governmental activities	\$	<u>645,048</u>

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

CITY OF KRUM, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2015

	Enterprise Fund - Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,866,133
Receivables (net of allowances for uncollectible):	
Accounts receivable	253,238
Due from other funds	9,466
Restricted cash and cash equivalents	517,510
Total current assets	2,646,347
Non-current assets:	
Net pension asset	14,642
Capital assets:	
Non-depreciable assets	501,907
Depreciable assets, net	5,259,992
Total non-current assets	5,776,541
Total assets	8,422,888
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	50,586
Deferred outflows related to TMRS	4,751
Total deferred outflows of resources	55,337
LIABILITIES	
Current liabilities:	
Accounts payable	77,336
Accrued liabilities	7,420
Accrued interest payable	11,925
Customer deposits	91,510
Compensated absences	2,456
Current portion long-term debt obligations	388,323
Total current liabilities	578,970
Compensated absences	7,367
Long-term debt obligations, less current portion	3,252,226
Total long-term liabilities	3,259,593
Total liabilities	3,838,563
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to TMRS	1,671
Total deferred inflows of resources	1,671
NET POSITION	
Net investment in capital assets	2,121,350
Unrestricted	2,516,641
Total net position	\$ 4,637,991

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

CITY OF KRUM, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund - Water and Sewer
OPERATING REVENUES	
Charges for services	\$ 1,778,159
Other	7,922
Total operating revenues	1,786,081
OPERATING EXPENSES	
Personnel services	273,422
Contractual services	807,525
Operations	167,996
Repairs and maintenance	84,437
Supplies and materials	46,396
Depreciation	280,286
Total operating expenses	1,660,062
Total operating income	126,019
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	404
Interest expense	(122,155)
Total non-operating expenses	(121,751)
Net income before transfers	4,268
OTHER FINANCING SOURCES	
Transfers in	51,325
Transfers out	(260,218)
Insurance recoveries	24,238
Total other financing sources	(184,655)
Change in net position	(180,387)
Total net position - beginning of year	4,801,167
Prior period adjustment	17,211
Total net position - end of year	\$ 4,637,991

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

CITY OF KRUM, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund - Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,740,416
Cash payments to employees for services	(253,384)
Cash payments to other suppliers for goods and services	(1,055,162)
Net cash provided by operating activities	431,870
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers from other funds	51,325
Transfers to other funds	(260,218)
Net cash provided by non-capital financing activities	(208,893)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(419,173)
Interest paid on long-term debt	(119,202)
Acquisition and construction of capital assets	(81,461)
Proceeds from sale of capital assets	128,084
Net cash used in capital and related financing activities	(491,752)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	404
Net cash provided by investing activities	404
Net decrease in cash and cash equivalents	(268,371)
Cash and cash equivalents - beginning of year	2,652,014
Cash and cash equivalents - end of year	2,383,643
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	126,019
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	280,286
Decrease (increase) in accounts receivable	(40,987)
Decrease (increase) in due from other funds	28,886
Decrease (increase) in deferred outflows related to TMRS	(4,751)
Increase (decrease) in accounts payable	22,306
Increase (decrease) in accrued liabilities	6,799
Increase (decrease) in deferred inflows related to TMRS	1,671
Increase (decrease) in NPA	17,211
Increase (decrease) in customer deposits	(4,678)
Increase (decrease) in compensated absences	(892)
Net cash provided by operating activities	\$ 431,870
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Refunding debt issued	\$ 2,430,792

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

**CITY OF KRUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of Krum was incorporated under the laws of the State of Texas in 1955 and operates under a Mayor-Council form of government. The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the City are such that inclusion would cause the City's financial statements to be misleading or incomplete. The reporting entity is the primary government, or the City, and those component units for which the primary government is financially accountable.

Financial accountability is defined as the appointment of a voting majority of the potential component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based on these considerations, the City's financial statements include the Krum Economic Development Corporation (KEDC) and the 4A Sales and Use Tax Fund (4A) as blended component units. KEDC and 4A were created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. It is funded through voter-authorized sales tax. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, the net position of the KEDC and 4A shall be converted to the City. The KEDC and 4A do not issue separate financial statements.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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. Major individual Governmental and Enterprise 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. Revenue is 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 revenue 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. 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 primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

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

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

Krum Economic Development Fund – established to account for sales tax revenues collected for the purposes set forth by the Krum Economic Development Fund.

4A Sales & Use Tax Fund – established to account for sales tax revenues collected for the purposes set forth by the 4A Sales and Use Tax Fund.

The City reports the following major proprietary fund:

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and unavailable revenue.

Inventories and Prepaid Items

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

Capital Assets

The City’s capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

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

Compensated Absences

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminated employees are reported.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the period of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension asset, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Net Position

Net Position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

In the government-wide financial statements, the City's restrictions on net position are for amounts that are not available for appropriation. The City's restricted net position is as follows:

Restricted for Debt Service	\$	642,825
Restricted for Economic Development		510,471
Restricted for Court Technology		5,505
Restricted for Court Security		5,323
Restricted for Public Works		55,179
Total	\$	<u>1,219,303</u>

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charge on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and EMS. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one type of item that qualifies for reporting in this category in the government-wide financial statements. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Prior Period Adjustments

During the current year, it was determined that the City had not shown unavailable revenue for ambulance receivables not received within 60 days of year-end as shown in the notes to the financial statements. Therefore, a prior period adjustment of \$43,454 was recorded in the General Fund to properly state the beginning unavailable revenue and current year ambulance revenue.

In the Capital Projects Fund, it was noted that a liability was established for bond premium and a receivable for bond issuance costs on the 2014 bonds. These items should have been other financing sources and expenses in the prior year. Therefore, a prior period adjustment of \$81,980 was required. Additionally, a prior period adjustment was required to properly state grant revenue to match prior year grant expense. The adjustment of \$383,889 was necessary to show a beginning receivable for current year receipts.

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted restatement of beginning net position for the elimination of the previously reported net pension obligation, the recording of the beginning net pension asset and the beginning deferred outflow for contributions made after the measurement date. Prospectively applying these changes results in the adjustments below along with other prior period adjustments mentioned above.

	Fund Level				
	Government-wide Statement of Activities		Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds	Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	
	Governmental Activities	Business-type Activities	Water and Wastewater Fund	General Fund	Capital Projects Fund
Net position at September 30, 2014, as previously reported	\$ 4,915,912	\$ 4,801,167	\$ 4,801,167	\$ 591,514	\$ 3,372,845
Deferral of ambulance receivable	(43,454)	-	-	(43,454)	-
Removal of premium and issue costs	(7,297)	-	-	-	81,980
Recording of prior grant receivable	383,889	-	-	-	383,889
Recording of net pension asset as of September 30, 2014	122,270	15,205	15,205	-	-
Deferral for pension contributions made after the measurement date	16,132	2,006	2,006	-	-
Net position at September 30, 2014, as restated	\$ 5,387,452	\$ 4,818,378	\$ 4,818,378	\$ 548,060	\$ 3,838,714

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Cash Deposits

At September 30, 2015, the total carrying amounts of the City's deposits (restricted and unrestricted cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were \$7,759,227 and the bank balances were \$7,829,516. The City's cash deposits at September 30, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

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

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

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

The City had no investments at September 30, 2015.

Analysis of Specific Deposit and Investment Risks

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year-end and, if so, the reporting of certain related disclosures:

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the City was not exposed to a significant amount of credit risk.

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year-end, the City was not exposed to custodial credit risk.

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

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

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

B. Receivables and Uncollectible Accounts

Sales Taxes

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

Property Taxes

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

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

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

Governmental Funds Receivables

At September 30, 2015, receivables were as follows:

	Governmental Funds					Total
	General	Debt Service	Capital Projects Fund	Krum Economic Development Fund	4A Sales & Use Tax Fund	
Receivables:						
Property tax	\$ 23,333	\$ 7,931	\$ -	\$ -	\$ -	\$ 31,264
Sales tax	34,028	-	-	17,014	17,013	68,055
Other taxes	-	-	-	-	-	-
Accounts	262,762	-	-	-	-	262,762
Due from other funds	3,308	-	-	-	-	3,308
Due from other governments	-	-	115,031	-	-	115,031
Gross receivables	323,431	7,931	115,031	17,014	17,013	480,420
Less: Allowance for uncollectibles	199,420	1,983	-	-	-	201,403
Net total receivables	\$ 124,011	\$ 5,948	\$ 115,031	\$ 17,014	\$ 17,013	\$ 279,017

Emergency Medical Services (EMS)

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

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

Utility Revenues

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

Restricted Assets

At September 30, 2015, the General Fund contained an amount designated as restricted cash and cash equivalents of \$40,001. This amount is committed for public safety.

The water and sewer fund contains an amount designated as restricted cash and cash equivalents of \$517,510. This amount is restricted for customer utility deposits and expenses related to the construction of the public works building.

Inter-Fund Balances and Activity

Balances due to and due from other funds at September 30, 2015 consisted of the following:

<u>Due to</u>	<u>Due From</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 3,308	Loan for CIP
Water and Sewer	Capital Projects Fund	<u>9,466</u>	Loan for CIP
		<u>\$ 12,774</u>	

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

Transfers to and from other funds at September 30, 2015 consisted of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
Capital projects fund	Water and sewer	\$ 51,325	CIP expenses
Water and sewer	General fund	40,000	Internal services
Water and sewer	Capital projects fund	158,488	CIP related
Water and sewer	Debt service fund	<u>61,730</u>	Payment of debt
		<u>\$ 311,543</u>	

Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Adjustments	Ending Balances
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 326,916	\$ -	\$ -	\$ 542,329	\$ 869,245
Construction in progress	943,307	471,072	-	(1,349,682)	64,697
Total capital assets not being depreciated	<u>1,270,223</u>	<u>471,072</u>	<u>-</u>	<u>(807,353)</u>	<u>933,942</u>
Capital assets being depreciated:					
Park improvements	1,195,227	57,876	-	(542,329)	710,774
Infrastructure	1,851,232	-	-	1,349,682	3,200,914
Buildings and improvements	1,685,922	-	-	-	1,685,922
Equipment and vehicles	1,812,980	-	-	-	1,812,980
Total capital assets being depreciated	<u>6,545,361</u>	<u>57,876</u>	<u>-</u>	<u>807,353</u>	<u>7,410,590</u>
Total accumulated depreciation	<u>(2,140,785)</u>	<u>(330,051)</u>	<u>-</u>	<u>-</u>	<u>(2,470,836)</u>
Total capital assets being depreciated	<u>4,404,576</u>	<u>(272,175)</u>	<u>-</u>	<u>807,353</u>	<u>4,939,754</u>
Governmental activities capital assets, net	<u>\$ 5,674,799</u>	<u>\$ 198,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,873,696</u>
Business-Type Activities					
Capital assets not being depreciated:					
Land	\$ 166,910	\$ -	\$ -	\$ -	\$ 166,910
Construction in progress	372,024	81,461	(118,488)	-	334,997
Total capital assets not being depreciated	<u>538,934</u>	<u>81,461</u>	<u>(118,488)</u>	<u>-</u>	<u>501,907</u>
Capital assets being depreciated:					
Infrastructure	8,313,647	-	-	-	8,313,647
Buildings and improvements	152,142	-	-	-	152,142
Equipment and vehicles	277,774	-	-	-	277,774
Other	63,382	-	-	-	63,382
Total capital assets being depreciated	<u>8,806,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,806,945</u>
Total accumulated depreciation	<u>(3,266,667)</u>	<u>(280,286)</u>	<u>-</u>	<u>-</u>	<u>(3,546,953)</u>
Total capital assets being depreciated	<u>5,540,278</u>	<u>(280,286)</u>	<u>-</u>	<u>-</u>	<u>5,259,992</u>
Business-type activities capital assets, net	<u>\$ 6,079,212</u>	<u>\$ (198,825)</u>	<u>\$ (118,488)</u>	<u>\$ -</u>	<u>\$ 5,761,899</u>

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

General government	\$ 51,891
Public safety	187,986
Public works	63,090
Culture and recreation	27,084
Total depreciation expense	<u>\$ 330,051</u>

Total depreciation expense for the City's business-type activities during the year-ended September 30, 2015 was \$280,286.

Long-Term Obligations

Changes in long-term obligations for the year ended September 30, 2015 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental activities					
General obligation bonds	\$ 4,832,623	\$ 1,279,208	\$ 1,438,450	\$ 4,673,381	\$ 256,677
Notes payable	633,418	-	104,129	529,289	98,841
Capital leases	186,409	-	48,999	137,410	50,908
Premium on bonds	89,277	-	4,464	84,813	-
Compensated absences	76,804	52,238	52,515	76,527	19,132
Total governmental activities	<u>\$ 5,818,531</u>	<u>\$ 1,331,446</u>	<u>\$ 1,648,557</u>	<u>\$ 5,501,420</u>	<u>\$ 425,558</u>
Business-type activities					
General obligation bonds	\$ 2,932,377	\$ 2,430,792	\$ 1,741,550	\$ 3,621,619	\$ 388,323
Certificates of obligation bonds	1,020,000	-	1,020,000	-	-
Capital leases	5,928	-	5,928	-	-
Premium on bonds	19,926	-	996	18,930	-
Compensated absences	10,715	6,201	7,093	9,823	2,456
Total governmental activities	<u>\$ 3,988,946</u>	<u>\$ 2,436,993</u>	<u>\$ 2,775,567</u>	<u>\$ 3,650,372</u>	<u>\$ 390,779</u>

Debt service requirements on general obligation bonds at September 30, 2015 are as follows:

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2016	\$ 256,677	\$ 160,779	\$ 417,456
2017	258,401	154,787	413,188
2018	270,934	148,058	418,992
2019	274,382	140,983	415,365
2020	276,106	133,834	409,940
2021-2025	1,424,291	543,843	1,968,134
2026-2030	1,036,965	332,793	1,369,758
2031-2035	875,625	87,512	963,137
	<u>\$ 4,673,381</u>	<u>\$ 1,702,589</u>	<u>\$ 6,375,970</u>
Years Ending September 30,	Business-Type Activities		
	Principle	Interest	Total
2016	\$ 388,323	\$ 95,396	\$ 483,719
2017	321,599	87,162	408,761
2018	334,066	79,858	413,924
2019	340,618	72,262	412,880
2020	348,894	64,100	412,994
2021-2025	1,655,709	178,966	1,834,675
2026-2030	118,035	38,970	157,005
2031-2035	114,375	11,675	126,050
	<u>\$ 3,621,619</u>	<u>\$ 628,389</u>	<u>\$ 4,250,008</u>

The effective interest rate on outstanding bonds ranged from 3% to 4.75% at September 30, 2015.

Advance Refunding

The City issued \$3,710,000 in general obligation refunding bonds with an interest rate of 2.14%. The proceeds were used to advance refund \$3,575,000 of outstanding 2004 General Obligation Bonds and 2005 Certificates of Obligation which had interest rates ranging from 3.7% to 5.625%. The net proceeds of \$3,659,984 (after payment of \$50,016 in underwriting fees and other issuance costs) included \$3,659,984 that was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the previously noted bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$84,984. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The government advance refunded the 2004 General Obligation Bonds and 2005 Certificates of Obligation to reduce its total debt service payments over 11 years by \$418,787 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$368,536. The remaining outstanding balance of defeased debt is \$0 at September 30, 2015.

Debt service requirements on notes payable at September 30, 2015 are as follows:

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2016	\$ 98,841	\$ 16,622	\$ 115,463
2017	102,683	13,360	116,043
2018	105,590	9,987	115,577
2019	109,566	6,502	116,068
2020	112,609	2,906	115,515
	<u>\$ 529,289</u>	<u>\$ 49,377</u>	<u>\$ 578,666</u>

The effective interest rate on the outstanding notes ranged from 2.69% to 4.50% at September 30, 2015. The carrying value for collateralized assets as of September 30, 2015 was about \$274,000.

Debt service requirements on capital leases at September 30, 2015 are as follows:

Years Ending September 30,	Governmental Activities		
	Principle	Interest	Total
2016	\$ 50,908	\$ 5,606	\$ 56,514
2017	42,383	3,538	45,921
2018	44,119	1,802	45,921
	<u>\$ 137,410</u>	<u>\$ 10,946</u>	<u>\$ 148,356</u>

The effective interest rates on capital leases outstanding was 2.69% at September 20, 2015. The carrying value of collateralized assets as of September 30, 2015 was about \$149,000 for the governmental activities.

Operating Leases

Future minimum rentals on office equipment operating leases for the City at September 30, 2015 are as follows:

<u>Years Ending September 30,</u>	
2016	\$ 8,868
2017	8,868
2018	8,868
2019	<u>5,173</u>
	<u>\$ 31,777</u>

Rental expense of \$22,860 was charges to expense during the year ended September 30, 2015.

Commitments

In 2013, the City entered into an agreement with Greater Texoma Utility Authority (GTUA), whereby GTUA to meet its water and sewer facility needs. GTUA subsequently issued \$4,910,000 in contract revenue bonds for construction of water and sewer facilities and infrastructure within the City. The City is committed to pay facility charges as well as volume rate for treatment (transportation charges).

During the year ended September 30, 2015, the City paid \$273,481 to GTUA in accordance with a contract with the Authority. Future payments under this agreement averages approximately \$281,249 per year for the next 25 years.

III. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provide that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from this risk have not exceeded coverage in any of the past three fiscal years.

B. Defined Benefit Pension Policies

Plan Description

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating
Annuity increase to retirees	0% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>26</u>
	<u>57</u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.25% and 3.55% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$39,124, and were equal to the required contributions.

Net Pension Asset

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

Actuarial assumptions

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

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.0%</u>	

Discount Rate

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

Changes in the Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 950,225	\$ 1,087,700	\$(137,475)
Changes for the year:			
Service cost	98,877	-	98,877
Interest	68,383	-	68,383
Difference between expected and actual experience	(18,710)	-	(18,710)
Contributions - employer	-	25,423	(25,423)
Contributions - employee	-	56,498	(56,498)
Net investment income	-	62,245	(62,245)
Benefit payments, including refunds of employee contributions	(45,518)	(45,518)	-
Administrative expense	-	(650)	650
Other changes	-	(53)	53
Net changes	<u>103,032</u>	<u>97,945</u>	<u>5,087</u>
Balance at 12/31/2014	<u>\$ 1,053,257</u>	<u>\$ 1,185,645</u>	<u>\$(132,388)</u>

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension asset	\$ 26,216	\$(132,388)	\$(262,490)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$34,507. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 15,108
Difference between projected and actual investment earnings	11,115	-
Contributions subsequent to the measurement date	<u>31,836</u>	<u>-</u>
Total	<u>\$ 42,951</u>	<u>\$ 15,108</u>

\$31,836 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as an increase of the net pension asset for the year ending September 30, 2015. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending December 31,	
2015	\$(823)
2016	(823)
2017	(823)
2018	(824)
2019	(700)
Thereafter	-

Subsequent Event

Pursuant to TMRS policy of conducting experience studies every four years, the TMRS Board at their July 31, 2015 meeting determined that they would be changing certain actuarial assumptions including reducing the long term expected rate of return from the current 7% to 6.75% and changing the inflation assumption from 3% to 2.5%. Reduction of expected investment return and related discount rate will increase projected pension liabilities. Reducing the inflation assumption reduces liabilities as future annuity levels and future cost of living adjustments are not projected to be a large as originally projected. While the actual impact on the City's valuation for December 31, 2015 is not known the City does expect some downward pressure on its funded status and upward pressure on its 2017 actuarially determined contribution (ADC) due to this change. Accordingly, the city has included in its approved fiscal year 2016 budget to continue to fund pension contributions above the required ADC which will help smooth impacts of any increases in the required ADC for fiscal year 2017.

C. Other Post Employment Benefits (OPEB)

Plan Description

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

Plan Provisions

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2015, 2014, and 2013, were \$1,497, \$1,472, and \$1,456, respectively, which equaled the required contributions each year.

Health Care Coverage

During the year ending September 30, 2015, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$160,625 to the Plan. Employees, at their option, authorized payroll withholding to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.15-2, Texas Insurance Code and was documented by contractual agreement.

Commitments and Contingencies

Contingencies

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

Litigation

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF KRUM, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES I
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,178,809	\$ 1,178,809	\$ 1,182,958	\$ 4,149
Sales taxes	221,500	221,500	195,922	(25,578)
Franchise fees	233,000	233,000	222,816	(10,184)
Licenses and permits	121,200	121,200	31,393	(89,807)
Fines and forfeitures	97,500	97,500	130,605	33,105
Intergovernmental	185,700	210,364	241,995	31,631
Charges for services	550,450	565,450	551,006	(14,444)
Donations	-	4,961	5,021	60
Investment earnings	10,000	10,000	7,968	(2,032)
Other	24,000	46,107	61,332	15,225
Total revenues	<u>2,622,159</u>	<u>2,688,891</u>	<u>2,631,016</u>	<u>(57,875)</u>
EXPENDITURES				
General government	471,535	454,535	405,928	48,607
Public safety	1,599,257	1,660,322	1,665,533	(5,211)
Public works	341,346	351,177	380,241	(29,064)
Culture and recreation	176,759	193,058	175,366	17,692
Debt service:				
Principal	70,737	70,737	62,372	8,365
Interest and fiscal charges	2,525	2,525	8,088	(5,563)
Capital outlay	90,000	92,518	79,076	13,442
Total expenditures	<u>2,752,159</u>	<u>2,824,872</u>	<u>2,776,604</u>	<u>48,268</u>
Excess of expenditures over appropriations	<u>(130,000)</u>	<u>(135,981)</u>	<u>(145,588)</u>	<u>(9,607)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Total other financing sources	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Net change in fund balance	<u>(90,000)</u>	<u>(95,981)</u>	<u>(105,588)</u>	<u>(9,607)</u>
Fund balance - beginning balance	591,514	591,514	591,514	-
Prior period adjustment	-	-	(43,454)	(43,454)
Fund balance - end of year	<u>\$ 501,514</u>	<u>\$ 495,533</u>	<u>\$ 442,472</u>	<u>\$ (53,061)</u>

CITY OF KRUM, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES I
FUND BALANCE - BUDGET AND ACTUAL
KRUM ECONOMIC DEVELOPMENT**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 86,400	\$ 86,400	\$ 96,950	\$ 10,550
Investment earnings	350	350	506	156
Total revenues	<u>86,750</u>	<u>86,750</u>	<u>97,456</u>	<u>10,706</u>
EXPENDITURES				
Economic development	<u>163,413</u>	<u>163,413</u>	<u>21,478</u>	-
Total expenditures	<u>163,413</u>	<u>163,413</u>	<u>21,478</u>	-
Net change in fund balance	(76,663)	(76,663)	75,978	152,641
Fund balance - beginning balance	<u>248,022</u>	<u>248,022</u>	<u>248,022</u>	-
Fund balance - end of year	<u>\$ 171,359</u>	<u>\$ 171,359</u>	<u>\$ 324,000</u>	<u>\$ 152,641</u>

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Plan Year	<u>2014</u>
A. Total pension liability	
Service Cost	\$ 98,877
Interest (on the Total Pension Liability)	68,383
Change of benefit terms	-
Difference between expected and actual experience	(18,710)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(45,518)
Net change in total pension liability	103,032
Total pension liability - beginning	<u>950,225</u>
Total pension liability - ending (a)	<u>\$ 1,053,257</u>
B. Plan fiduciary net position	
Contributions - employer	\$ 25,423
Contributions - employee	56,498
Net investment income	62,245
Benefit payments, including refunds of employee contributions	(45,518)
Administrative expenses	(650)
Other	<u>(53)</u>
Net change in plan fiduciary net position	97,945
Plan fiduciary net position - beginning	<u>1,087,700</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,185,645</u>
C. Net pension asset - ending (a) - (b)	<u>\$(132,388)</u>
D. Plan fiduciary net position as a percentage of total pension liability	112.57%
E. Covered employee payroll	\$ 1,129,969
F. Net position asset as a percentage of covered employee payroll	-11.72%

CITY OF KRUM, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Fiscal Year	2015
Actuarial determined contribution	\$ 39,124
Contributions in relation to the actuarially determined contribution	39,124
Contribution deficiency (excess)	-
Covered employee payroll	1,129,969
Contributions as a percentage of covered employee payroll	3.46%

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

Other Information There were no benefit changes during the year.

CITY OF KRUM

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2015

A. GENREAL FUND BUDGETARY ANALYSIS

Budgetary Information

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

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the debt service fund, the general fund or in the KEDC fund. Revised budgets, if any, are used to budget versus actual comparisons. The 4A Sales and Use Tax fund was introduced during the 2015 fiscal year and had no legally adopted budget.

B. BUDGET VERSUS ACTUAL RESULTS

In the General Fund, the City's expenditures exceeded appropriations in public safety, public works and debt service – interest and fiscal charges. These excesses were covered by other expenditure functions and available fund balance. The City's expenditures did not exceed appropriations in the Debt Service Fund.

**OTHER SUPPLEMENTARY
INFORMATION**

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CITY OF KRUM, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES I
FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 442,993	\$ 442,933	\$ 447,987	\$ 5,054
Investment earnings	1,000	1,000	3,203	2,203
Other	-	-	5,448	5,448
Total revenues	<u>443,993</u>	<u>443,933</u>	<u>456,638</u>	<u>12,705</u>
EXPENDITURES				
Debt service:				
Principal	330,000	330,000	296,583	33,417
Interest and fiscal charges	<u>318,276</u>	<u>318,276</u>	<u>231,613</u>	<u>86,663</u>
Total expenditures	<u>648,276</u>	<u>648,276</u>	<u>528,196</u>	<u>120,080</u>
Excess of expenditures over appropriations	<u>(204,283)</u>	<u>(204,343)</u>	<u>(71,558)</u>	<u>132,785</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	61,730	61,730
Issuance of long-term debt	-	-	1,279,208	-
Payment to escrow agent	<u>-</u>	<u>-</u>	<u>(1,261,962)</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>78,976</u>	<u>61,730</u>
Net change in fund balance	<u>(204,283)</u>	<u>(204,343)</u>	<u>7,418</u>	<u>194,515</u>
Fund balance - beginning balance	<u>630,243</u>	<u>630,243</u>	<u>630,243</u>	<u>-</u>
Fund balance - end of year	<u>\$ 425,960</u>	<u>\$ 425,900</u>	<u>\$ 637,661</u>	<u>\$ 194,515</u>

CITY OF KRUM, TEXAS

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

SEPTEMBER 30, 2015

	<u>Street Sales Tax</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Other Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 55,179	\$ 5,505	\$ 5,323	\$ 66,007
Total assets	<u>\$ 55,179</u>	<u>\$ 5,505</u>	<u>\$ 5,323</u>	<u>\$ 66,007</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted	<u>55,179</u>	<u>5,505</u>	<u>5,323</u>	<u>66,007</u>
Total funds balances	<u>55,179</u>	<u>5,505</u>	<u>5,323</u>	<u>66,007</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 55,179</u>	 <u>\$ 5,505</u>	 <u>\$ 5,323</u>	 <u>\$ 66,007</u>

CITY OF KRUM, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Street Sales Tax</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Total Other Governmental Funds</u>
REVENUES				
Fines and forfeitures	\$ -	\$ 3,598	\$ 2,698	\$ 6,296
Total revenues	<u>-</u>	<u>3,598</u>	<u>2,698</u>	<u>6,296</u>
EXPENDITURES				
Current:				
Public safety	<u>-</u>	<u>1,500</u>	<u>1,480</u>	<u>2,980</u>
Total expenditures	<u>-</u>	<u>1,500</u>	<u>1,480</u>	<u>2,980</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>2,098</u>	<u>1,218</u>	<u>3,316</u>
Net change in fund balances	-	2,098	1,218	3,316
Fund balances - beginning of year	<u>55,179</u>	<u>3,407</u>	<u>4,105</u>	<u>62,691</u>
Fund balances - end of year	<u>\$ 55,179</u>	<u>\$ 5,505</u>	<u>\$ 5,323</u>	<u>\$ 66,007</u>

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Krum, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Krum, Texas' basic financial statements, and have issued our report thereon dated February 19, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Patillo, Burn & Hill, L.L.P.

Hillsboro, Texas
February 19, 2016

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