

# AUDIT REPORT

CITY OF KREBS, OKLAHOMA

JUNE 30, 2010



## KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

CITY OF KREBS, OKLAHOMA  
JUNE 30, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A    STATEMENT OF NET ASSETS	6
EXHIBIT B    STATEMENT OF ACTIVITIES	7
Fund Financial Statements:	
EXHIBIT C    BALANCE SHEET - GOVERNMENTAL FUNDS	8
EXHIBIT D    STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS	9-10
EXHIBIT E    STATEMENT OF NET ASSETS - PROPRIETARY FUND	11
EXHIBIT F    STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND	12
EXHIBIT G    STATEMENT OF CASH FLOWS - PROPRIETARY FUND	13
NOTES TO THE FINANCIAL STATEMENTS	14-30
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING     STANDARDS</i>	31-32
SCHEDULE OF FINDINGS	33
OTHER SUPPLEMENTARY INFORMATION:	
EXHIBIT H    COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS	34

CITY OF KREBS, OKLAHOMA  
JUNE 30, 2010

EXHIBIT I      COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
- NONMAJOR GOVERNMENTAL FUNDS

35

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Krebs, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Krebs, Oklahoma, as of and for the fiscal year ended June 30, 2010, which collectively comprise the City of Krebs, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Krebs, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

In my opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Krebs, Oklahoma, as of June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated November 14, 2011, on my consideration of the City of Krebs, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

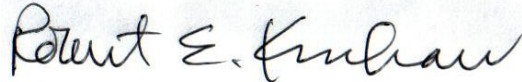
607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

The City of Krebs has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the City has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Krebs's basic financial statements. The other supplementary information section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw, CPA

November 14, 2011

CITY OF KREBS, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	2010 Total
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 349,924	\$ 212,660	\$ 562,584
Investments	525,800	-	525,800
Accounts Receivable, Net	-	115,728	115,728
Taxes Receivable	74,307	-	74,307
Accrued Interest Receivable	2,416	-	2,416
Internal Balances	2,589	(2,589)	-
Prepaid Insurance	-	21,165	21,165
Total Current Assets	<u>955,035</u>	<u>346,965</u>	<u>1,302,000</u>
<b><u>Other Assets:</u></b>			
Loan Issue Costs, net of Accum. Amortization	-	-	-
Cash and cash equivalents - Restricted	-	153,438	153,438
Total Other Assets	<u>-</u>	<u>153,438</u>	<u>153,438</u>
<b><u>Capital Assets:</u></b>			
Land and Construction in Progress	-	3,241,632	3,241,632
Capital Assets, net of Accum. Depreciation	112,897	1,147,990	1,260,888
Total Capital Assets	<u>112,897</u>	<u>4,389,622</u>	<u>4,502,520</u>
<b>TOTAL ASSETS</b>	<u>1,067,933</u>	<u>4,890,025</u>	<u>5,957,958</u>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts Payable & Other Accrued Liabilities	19,608	38,923	58,531
Customer Deposits	-	68,052	68,052
Current Portion of Long-Term Debt	-	44,724	44,724
Total Current Liabilities	<u>19,608</u>	<u>151,699</u>	<u>171,307</u>
<b><u>Long-Term Liabilities:</u></b>			
Notes or Leases Payable	-	873,218	873,218
Total Long-Term Liabilities	<u>-</u>	<u>873,218</u>	<u>873,218</u>
<b>TOTAL LIABILITIES</b>	<u>19,608</u>	<u>1,024,917</u>	<u>1,044,525</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	112,897	3,471,680	3,584,578
Restricted for:			
Debt Service	-	153,438	153,438
Other Purposes	346,872	-	346,872
Unrestricted	588,556	239,990	828,546
<b>TOTAL NET ASSETS</b>	<u>\$ 1,048,325</u>	<u>\$ 3,865,108</u>	<u>\$ 4,913,433</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF KREBS, OKLAHOMA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
Administration	\$ 366,734	\$ -	\$ -	\$ -	\$ (366,734)
Public Safety	556,291	490,570	-	-	(65,721)
Transportation	156,614	-	-	-	(156,614)
Community services	47,396	-	-	-	(47,396)
Health & Welfare	13,631	-	-	-	(13,631)
Debt Service	-	-	-	-	-
Capital Outlay	290,971	-	-	77,705	(213,266)
<b>Total Governmental Activities</b>	<b>1,431,637</b>	<b>490,570</b>	<b>-</b>	<b>77,705</b>	<b>(863,362)</b>
<b>Business-type activities:</b>					
Water	269,646	291,967	-	-	22,321
Sewer	260,498	195,945	-	-	(64,552)
Sanitation	178,262	181,140	-	-	2,877
Other Misc. Business-Type	-	27,877	-	-	27,877
<b>Total Business-type Activities</b>	<b>708,406</b>	<b>696,929</b>	<b>-</b>	<b>-</b>	<b>(11,477)</b>
<b>Total</b>	<b>\$ 2,140,043</b>	<b>\$ 1,187,499</b>	<b>\$ -</b>	<b>\$ 77,705</b>	<b>\$ (874,839)</b>

## Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (863,362)	\$ (11,477)	\$ (874,839)
<b>General revenues:</b>			
Sales & Use Taxes	689,815	-	689,815
Franchise Taxes	52,361	-	52,361
Cigar Tax	9,358	-	9,358
Ad Valorem Tax	-	-	-
Alcoholic Beverage Tax	11,896	-	11,896
Liquor Taxes	-	-	-
Auto Taxes	12,343	-	12,343
Gasoline Taxes	2,293	-	2,293
Motel Tax	13,766	-	13,766
Licenses & Permits	3,041	-	3,041
Interest Income	6,800	7,096	13,896
Miscellaneous	27,788	-	27,788
Transfers - Internal Activity	-	-	-
<b>Total general revenues &amp; transfers</b>	<b>829,461</b>	<b>7,096</b>	<b>836,556</b>
<b>Changes in net assets</b>	<b>(33,901)</b>	<b>(4,382)</b>	<b>(38,283)</b>
Net assets - beginning	1,082,226	3,869,489	4,951,715
Net assets - prior year adjustment	0	-	0
<b>Net assets - ending</b>	<b>\$ 1,048,325</b>	<b>\$ 3,865,108</b>	<b>\$ 4,913,433</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF KREBS, OKLAHOMA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 302,501	\$ -	\$ 47,423	\$ 349,924
Investments	457,607	-	68,193	525,800
Taxes Receivable	71,947	-	2,360	74,307
Accrued Interest Receivable	2,416	-	-	2,416
Due from Other Funds	25,116	-	18	25,134
<b>TOTAL ASSETS</b>	<b>\$ 859,586</b>	<b>\$ -</b>	<b>\$ 117,995</b>	<b>\$ 977,581</b>
<b>LIABILITIES &amp; FUND EQUITY</b>				
<b>LIABILITIES:</b>				
Accounts Payable and Accrued Liabilities	\$ 19,608	\$ -	\$ -	\$ 19,608
Due to Other Funds	7,429	-	15,116	22,545
<b>TOTAL LIABILITIES</b>	<b>27,037</b>	<b>-</b>	<b>15,116</b>	<b>42,153</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Capital Improvements	147,202	-	-	147,202
Streets	196,354	-	-	196,354
Debt Service	-	-	-	-
Unreserved	488,992	-	-	488,992
Unreserved, reported in nonmajor special revenue funds	-	-	102,879	102,879
<b>TOTAL FUND BALANCES</b>	<b>832,548</b>	<b>-</b>	<b>102,879</b>	<b>935,427</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 859,586</b>	<b>\$ -</b>	<b>\$ 117,995</b>	<b>\$ 977,581</b>

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of \$124,076, net of accumulated depreciation of \$11,179, are not financial resources and, therefore, are not reported in the funds.	112,897
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
<b>Net Assets of Governmental Activities</b>	<b>\$ 1,048,325</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



CITY OF KREBS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Sales & Use Taxes	\$ 689,815	\$ -	\$ -	\$ 689,815
Franchise Taxes	52,361	-	-	52,361
Cigar Tax	9,358	-	-	9,358
Ad Valorem Tax	-	-	-	-
Alcoholic Beverage Tax	11,896	-	-	11,896
Liquor Tax	-	-	-	-
Auto Taxes	-	-	12,343	12,343
Gasoline Taxes	-	-	2,293	2,293
Motel Tax	-	-	13,766	13,766
Fines & Forfeits	490,570	-	-	490,570
Licenses & Permits	3,041	-	-	3,041
Grant Revenue	77,705	-	-	77,705
Interest Income	6,706	-	94	6,800
Miscellaneous	21,922	-	5,866	27,788
<b>TOTAL REVENUES</b>	<b>1,363,373</b>	<b>-</b>	<b>34,362</b>	<b>1,397,735</b>
<b>EXPENDITURES:</b>				
Administration	366,734	-	-	366,734
Public safety	556,291	-	-	556,291
Transportation	156,614	-	-	156,614
Community services	20,481	-	26,915	47,396
Health & Welfare	13,631	-	-	13,631
Debt Service: Principal	-	-	-	-
Debt Service: Interest	-	-	-	-
Capital Outlay	290,971	-	-	290,971
<b>TOTAL EXPENDITURES</b>	<b>1,404,721</b>	<b>-</b>	<b>26,915</b>	<b>1,431,637</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(41,348)</b>	<b>-</b>	<b>7,447</b>	<b>(33,901)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	1,241	-	-	1,241
Operating Transfers Out	-	-	(1,241)	(1,241)
Capital Debt Proceeds	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,241</b>	<b>-</b>	<b>(1,241)</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(40,107)</b>	<b>-</b>	<b>6,206</b>	<b>(33,901)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>872,655</b>	<b>-</b>	<b>96,674</b>	<b>969,328</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>0</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 832,548</b>	<b>\$ -</b>	<b>\$ 102,879</b>	<b>935,427</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF KREBS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds \$ (33,901)

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

    Capital debt obligation principal payments -

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:

    Capital Debt Proceeds -

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

    Capital asset purchases capitalized -

    Depreciation expense -

Change in Net Assets of Governmental Activities \$ (33,901)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF KREBS, OKLAHOMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2010**

	<u>Krebs Utilities Authority Enterprise Fund June 30, 2010</u>
<b><u>ASSETS:</u></b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 212,660
Accounts Receivable, net	115,728
Due from Other Funds	7,429
Prepaid Insurance	<u>21,165</u>
Total Current Assets	<u>356,983</u>
<b>Noncurrent Assets:</b>	
Restricted cash and cash equivalents	153,438
Land and Construction in Progress	3,241,632
Other capital assets, net of accumulated depreciation	<u>1,147,990</u>
Total Noncurrent Assets	<u>4,543,060</u>
<b>TOTAL ASSETS</b>	<u><u>4,900,043</u></u>
<b><u>LIABILITIES:</u></b>	
<b>Current Liabilities:</b>	
Accounts Payable and Accrued Liabilities	38,923
Due to Other Funds	10,018
Customer Deposits	68,052
Interest Payable	-
Notes Payable	<u>44,724</u>
Total Current Liabilities	<u>161,717</u>
<b>Noncurrent Liabilities:</b>	
Notes Payable	<u>873,218</u>
Total Noncurrent Liabilities	<u>873,218</u>
<b>TOTAL LIABILITIES</b>	<u><u>1,034,935</u></u>
<b><u>NET ASSETS:</u></b>	
Invested in capital assets, net of related debt	3,471,680
Restricted for debt service	153,438
Unrestricted	<u>239,990</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 3,865,108</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF KREBS, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<b>Krebs Utilities  Authority  Enterprise Fund  June 30, 2010</b>
<b><u>OPERATING REVENUES:</u></b>	
Water	\$ 291,967
Sewer	195,945
Sanitation	181,140
Surcharges	10,379
Penalties	16,361
Other	1,138
<b>TOTAL OPERATING REVENUES</b>	<b>696,929</b>
<b><u>OPERATING EXPENSES:</u></b>	
Water	243,815
Sewer	194,659
Sanitation	178,262
Depreciation - Water	25,831
Depreciation - Sewer	25,831
<b>TOTAL OPERATING EXPENSES</b>	<b>668,398</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>28,531</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	7,096
Interest Expense	(40,008)
Grant Income	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(32,912)</b>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	<b>(4,382)</b>
Transfers in	-
Transfers out	-
<b>CHANGE IN NET ASSETS</b>	<b>(4,382)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>3,869,489</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 3,865,108</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF KREBS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>June 30, 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 676,766
Other Cash Receipts	-
Payments to Employees & Laborers	(161,216)
Payments to Suppliers	(457,761)
Net Cash Provided (Used) by Operating Activities	<u>57,788</u>
<b><u>Net Cash Flows from Non-Capital Financing Activities:</u></b>	
Change in Due from other funds	17,915
Transfers to other funds	-
Transfers from other funds	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>17,915</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Construction in progress	-
Rural Development Grant	-
Loan Proceeds	-
Interest paid on capital debt	(40,008)
Principal paid on capital debt	(42,864)
Restricted Certificate of Deposit	-
Change in restricted cash for construction	(5,077)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(87,948)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>	
Interest Income	7,096
Net Cash Provided (Used) by Investing Activities	<u>7,096</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,149)
Cash & Cash Equivalents, Beginning of Year	217,810
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u>\$ 212,660</u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ 28,531
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation & Amortization Expense	51,662
(Increase)Decrease in Accounts Receivables, net	(20,163)
(Increase)Decrease in Other assets	(7,624)
Increase(Decrease) in Accounts Payable	235
Increase(Decrease) in Other Payables	5,148
Net Cash Provided (Used) by Operating Activities	<u>\$ 57,788</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Krebs, Oklahoma (City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations. However, the City has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the City's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

A. Financial Reporting Entity:

The City of Krebs, Oklahoma is a municipal corporation incorporated under the laws of Oklahoma. In evaluating how to define the City of Krebs, for the financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestations of the ability are financial interdependency. Other manifestations of the ability to exercise oversight responsibility

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. The Krebs Utilities Authority is considered a component unit of the City of Krebs and it has been included in the financial statements. The City provides water, sewer and sanitation services as authorized by its charter.

The financial statements of the City of Krebs have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting policies of the City conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

B. Basis of Presentation - Fund Accounting:

The accounts of the City of Krebs are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The individual funds account for the government resources with laws, regulations, or other restrictions. The following funds and group of accounts are used by the City:

Government Fund Types:

General Fund:

The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in a separate fund, are accounted for in the General Fund.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

Special Revenue Funds:

These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Street and Alley:

The street and alley fund was created under O.S. 11, Section 17-212 which requires each municipality to deposit all monies received under the motor fuel tax and motor vehicle license and registration tax into said fund. Expenditures from this account shall be made as earmarked and provided by law.

Capital Projects Fund:

These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Proprietary Fund Types:

This type of fund accounts for operations that are organized to be self-supporting through user charges. The fund included in this category is the Enterprise Fund.

Enterprise Fund - Krebs Utilities Authority:

The enterprise fund is used to account for operations that are operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Licenses and permits, fines and forfeits, royalties, charges for services and miscellaneous revenues are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations which are recognized when paid. The City of Krebs does not have any expendable trust funds or agency funds.



CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

All Proprietary Funds, Nonexpendable Trust Funds, and Pension Trust Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Interest on revenue bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpended bond proceeds. The City of Krebs does not currently have any revenue bonds; however, the City does have a loan in which interest was capitalized during the construction period.

The accounting policies of the City conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Proprietary fund applies Financial Account Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

D. Budgetary Data:

The City adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the city charter at the legal level of classification (fund, department, & object category) and that the budget be filed with County Clerk and the State Auditor and Inspector. The City may transfer budgeted amounts within and among departments. The budget is prepared on a cash basis.

E. Encumbrances:

Encumbrances represent commitments related to unperformed contracts for goods or services. Municipalities are prohibited by state statute from approving encumbrances which would exceed the current fund balance of any fund. All unencumbered budget appropriations lapse at the end of

F. Inventory of Supplies:

Inventory of supplies is not reported on the financial statements of the city. The amount of inventory on hand is not material to the financial statements.

G. Cash:

The City of Krebs maintains separate bank accounts for each fund. Each fund type's cash is displayed on the combined balance sheet as "Cash and

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

Cash Equivalents” under each fund’s caption. The City conducts all of its banking and investment transactions with a depository bank.

H. Receivables:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be un-collectible.

I. Investments:

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers’ acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless and investment is expressly prohibited by law. The fair value of the certificates is the same as cost value.

The City of Krebs investments consist of eight certificates of deposit.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

J. Due to and Due from Other Funds:

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period which transactions are executed.

K. Interest Receivable:

Interest on investments is recorded as revenue in the year the interest is earned.

L. Restricted Cash and Investments:

Restricted cash of the City of Krebs consists of customer deposits and the required loan accounts held in the trust department of the First National Bank in McAlester.

M. Property, Plant and Equipment:

Fixed assets used in governmental fund type operations are accounted for in the Government Wide Financial Statements. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, street

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

and sidewalks, drainage systems and lighting systems, and similar assets, are not capitalized. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the Government Wide Financial Statements.

Property, plant and equipment acquired for proprietary funds are capitalized in the respective fund to which it applies. Property, plant and equipment are stated at cost.

Where cost can be determined from the available records, estimated historical cost is used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheet. Depreciation has provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Buildings	40 years
Equipment	10 years
Water and Sewer System	40 years
Furniture and Fixtures	10 years
Vehicles	5 years

The disposal of fixed assets is recorded by removing the cost and accumulated depreciation from the accounts and charging the related gain or loss to income.

N. Fund Equity:

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distribution. Reserved retained earnings for proprietary funds represent the net assets that have legally identified for specific purposes.

O. Vacation, Sick Leave, and Other Compensated Absences:

The City of Krebs has a vacation policy offering five days after the first year of the fourth (4<sup>th</sup>) year, through nine (9) years of service, employees thereafter accrue vacation leave at the rate of two weeks per

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

year. After completion of the ninth (9) year of service will thereafter accrue vacation leave at the rate of 10 hours per month or three (3) weeks per year. Employees shall be allowed to carry over one (1) week of unused vacation leave earned in the current year.

The City of Krebs has a sick leave policy of nine days after the first year of employment for all city employees. In addition, up to three (3) days of sick leave may be granted for illness of children of the employee no longer residing with the immediate family, the employee's father, mother, mother-in-law and father-in-law. Unused accrued sick leave will be carried over until the point of termination or resignation and paid at the rate of one to one. Unused accrued sick leave maybe claimed for pay at the end of each year at rate of three (3) days of sick leave for one (1) day of pay.

P. Total Columns on combined Financial Statements:

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Q. Property Tax Revenues:

The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1. The City of Krebs currently is not levying any property taxes.

R. Estimates:

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

NOTE 2 - CASH AND INVESTMENTS

The City of Krebs maintains ten separate bank accounts for the City and the Utilities Authority. The city conducts all its banking and investment transactions with a depository bank. The governmental funds consisting of the general, street and alley, and capital projects funds are maintained in

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

separate accounts. The Krebs Utility Authority maintains separate bank accounts for its savings and checking accounts. An analysis of the cash balances for each fund by bank account follows:

Bank Account	General Fund	S&A Fund	Sr. Citizens Fund	Utilities Authority	Totals
City of Krebs	\$ 302,501	\$ 44,158	\$ 3,265	\$ -	\$ 349,924
Cert. of Dep	457,607	68,193	-	-	525,800
Krebs U.A.	-	-	-	29,657	29,657
Cash Surcharge	-	-	-	24,713	24,713
Water Tower	-	-	-	172	172
Cert. of Dep	-	-	-	158,118	158,118
Total Cash & Equiv	<u>\$ 760,108</u>	<u>\$ 112,351</u>	<u>\$ 3,265</u>	<u>\$ 212,660</u>	<u>\$ 1,088,384</u>
Meter Deposit	-	-	-	70,566	70,566
Restricted Cert. of Dep	-	-	-	82,872	82,872
Total Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,438</u>	<u>153,438</u>
Totals	<u>\$ 760,108</u>	<u>\$ 112,351</u>	<u>\$ 3,265</u>	<u>\$ 366,098</u>	<u>\$ 1,241,822</u>

#### Custodial Credit Risk

At June 30, 2010, the City held deposits of approximately \$1,241,822 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

#### Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - RESTRICTED CASH

The Krebs Utilities Authority has restricted cash consisting of customer meter deposits and loan accounts held in the trust service at the Bank of Oklahoma in Tulsa. The accounts and account balances at June 30, 2010 at Bank of Oklahoma and meter deposit are as follows:

Meter Deposit	\$ 70,566
Rural Development	-0-
Certificate of Deposit	<u>82,872</u>
Total Restricted	\$153,438

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

	Balance at July 1, 2009	Additions	Retirements	Balance at June 30, 2010
<b>PRIMARY GOVERNMENT:</b>				
<i>Governmental Activities:</i>				
Other capital assets:				
Buildings	\$ 33,794	\$ -	\$ -	\$ 33,794
Other Improvements	2,200	-	-	2,200
Machinery & Equipment	88,082	-	-	88,082
Total Other Capital Assets at Historical Cost	<u>124,076</u>	<u>-</u>	<u>-</u>	<u>124,076</u>
Less: Accum. Depreciation for:				
Buildings	845	-	-	845
Other Improvements	147	-	-	147
Machinery & Equipment	10,187	-	-	10,187
Total Accumulated Depreciation	<u>11,179</u>	<u>-</u>	<u>-</u>	<u>11,179</u>
Governmental Activities Capital Assets, net	<u>\$ 112,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,897</u>
	Balance at July 1, 2009	Additions	Retirements	Balance at June 30, 2010
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ 3,241,632	\$ -	\$ -	\$ 3,241,632
Total Capital Assets not being Depreciated	<u>3,241,632</u>	<u>-</u>	<u>-</u>	<u>3,241,632</u>
Other capital assets:				
Buildings	-	-	-	-
Other Improvements	2,529,978	-	-	2,529,978
Machinery & Equipment	-	-	-	-
Total Other Capital Assets at Historical Cost	<u>2,529,978</u>	<u>-</u>	<u>-</u>	<u>2,529,978</u>
Less: Accum. Depreciation for:				
Buildings	-	-	-	-
Other Improvements	1,330,326	51,662	-	1,381,988
Machinery & Equipment	-	-	-	-
Total Accumulated Depreciation	<u>1,330,326</u>	<u>51,662</u>	<u>-</u>	<u>1,381,988</u>
Other Capital Assets, Net	<u>1,199,652</u>	<u>(51,662)</u>	<u>-</u>	<u>1,147,990</u>
Business-Type Activities Capital Assets, net	<u>\$ 4,441,284</u>	<u>\$ (51,662)</u>	<u>\$ -</u>	<u>\$ 4,389,622</u>

NOTE 5 - RETIREMENT/PENSION PLANS:

The City of Krebs & Krebs Utility Authority Plan (the "Plan") is a single-employer defined benefit pension plan administered by Oklahoma Municipal Retirement Fund. It provides retirement, disability, and death benefits to plan members and beneficiaries. The plan has not elected the automatic post-retirement cost-of-living adjustments. The municipality City council assigns the authority to establish and amend benefit provisions to the "plan". The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to 100 North Broadway, Oklahoma City, OK 73102 or by calling 1-888-394-6673.

CITY OF KREBS, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010

The requirements for employee contribution rate as a percent of pay is 3.00% and the municipality-required contribution rate as a percent of participant payroll is 6.36%. The required contribution rate changes each year, reflecting the investments earning of OMRF and the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the municipality-required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate.

The required contribution rate is actuarially measured each plan year as the amount necessary to fund the plan on a long term basis using the actuarial cost methods and assumptions adopted for the plan:

Cost Method	Entry age normal
Interest rate	7.5% per annum
Pay Increases	5% per annum on average
Mortality	1994 Group Annuity Mortality
Retirement Age	Rates by Age
Turnover	Rates by Age
Asset Value	Actuarial Method

Summary of Plan Provisions:

Eligibility - All regular, full time employees except police, firefighters and other employees who are covered under an approved system.

Service

Credited Service            The last period of continuous employment with the employer excluding any periods before the effective date of the plan specified in the adoption agreement.

Vesting                      Credited service plus transferred service from other OMRF employers.

Employee Contributions    3% of pay

Normal Retirement Age      Age 65 with 10 or more years of vesting

Early Retirement

Eligibility                      Age 55 with 10 or more years of vesting service  
 Benefit                            The accrued benefit payable starting at age 65, or an actuarially reduced benefit starting at early retirement age.

Late Retirement              The accrued benefit based on pay and service to actual retirement.



CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

Termination of Service

Vesting	100% vested after 10 or more years of vesting service
Before Vesting	Return of member contributions with interest
After Vesting	The accrued benefit starting at early retirement age.

Disability Retirement

Eligibility	Total and permanent disability after 10 or more years of service.
Benefit	The accrued benefit is payable upon disablement without reduction for early payment.

In-service Death

Before vesting	Return of member contributions with interest
Married, Vested	50% of the accrued benefit is payable to the spouse until death or remarriage
Single, Vested	50% of the accrued benefit is payable for 60 months certain

Payment Options

The normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain.

Other annuity forms available on an actuarial equivalent basis are:

- Joint and 50% survivor annuity
- Joint and 66-2/3rds last survivor annuity
- Joint and 100% survivor annuity

Cost of Living

This plan has not elected the automatic post-retirement cost-of-living adjustments

An actuarial technique is used to reduce the effect of fluctuations in market value on plan funding requirements. The actuarial value of assets is equal to the prior year's value adjusted for cash flows and interest at the valuation rate. This amount is adjusted by a percentage of the difference between it and market. The method for determining the actuarial asset value was changed from prior years by incorporating a 20% corridor. If the actuarial asset value would otherwise be outside this corridor, it is instead equal to the relevant corridor limit.

Summary of the Actuarial Cost Method

Pension funding requirements are allocated to periods of time using the entry age normal cost-method. Under the entry age normal cost method, the normal cost is computed as the level percent of pay which, if paid from the time an

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

employee became a participant until his assumed retirement, would accumulate to a fund sufficient to pay all plan benefits.

The actuarial liability of the plan is the hypothetical accumulation with interest of prior normal costs less payments, from the employee's date of participation to present. The actuarial liability for non-active participants is the present value of future benefits anticipated to be paid to current retirees, beneficiaries and deferred vested participants, discounted for interest and mortality.

The unfunded actuarial liability (UAL) is the difference between the actuarial liability and the actuarial value of plan assets. This amount (redetermined each year) is amortized over 30 years from the valuation date.

Experience gains (decreases in cost due to favorable experience), or experience losses (increase in cost due to adverse experience), attributable to deviations between the assumed and actual experience of the Plan, are amortized as part of the UAL.

The City of Krebs and Krebs Utility Authority has 11 active participants and 2 retirees or beneficiaries currently receiving benefits.

NOTE 6 - INSURANCE

The City's facilities and equipment are insured with appropriate insurance policy.

NOTE 7 - DUE TO/FROM OTHER FUNDS:

As of June 30, 2010, interfund receivables and payables that resulted from various transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Street & Alley	-	-
Senior Citizens	15,116	-
Krebs Utility Authority	10,000	7,429
Krebs Utility Authority:		
General Fund	7,429	10,000
Street & Alley	-	18
Senior Citizens:		
General Fund	-	15,116
Street & Alley:		
General Fund	-	-
Utility Authority	18	-
Total All Funds	<u>32,563</u>	<u>32,563</u>

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 8 - CHANGES IN LONG-TERM DEBT:

GOVERNMENTAL FUND TYPES:

The Lease Obligation was paid off during fiscal year ending June 30, 2009.

The following is a summary of capital lease obligations for the year ended June 30, 2010:

	Balance 6/30/2009	Additions	Deductions	Balance 6/30/2010
Lease Obligation	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Lease Obligation		Total
	Principal	Interest	
2011	\$ -	\$ -	\$ -
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016-2020	-	-	-
Total	\$ -	\$ -	\$ -

PROPRIETARY FUND TYPES:

During the fiscal year ending June 30, 2005, the Authority entered into loan agreements with the United States Department of Agriculture Rural Development. The loans are in amounts of \$429,000 and \$650,000 with terms of 20 years for each loan. Principal payments will be deferred during the first year of the loan, during which time interest-only payments will be made. The loan will be amortized over the remaining 19 year period. The Interest only payments of \$3,851.40 for loan 92-04 and \$16,400.66 for loan 92-05 were due on June 28, 2006.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	Balance at June 30, 2009	Additions	Deductions	Balance at June 30, 2010
Rural Development Note #92-04	\$ 381,997.87	\$ -	\$ (17,045.49)	\$ 364,952.38
Rural Development Note #92-05	578,807.86	-	(25,818.07)	552,989.79
Total Long-Term Debt	\$ 960,805.73	\$ -	\$ (42,863.56)	\$ 917,942.17

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2010, are as follows:

Year Ended June 30,	91-04 Principal	91-05 Principal	Interest	Total
2011	\$ 17,785	\$ 26,939	\$ 38,148	\$ 82,872
2012	18,556	28,106	36,210	82,872
2013	19,360	29,324	34,188	82,872
2014	20,199	30,595	32,078	82,872
2015	21,075	31,921	29,876	82,872
2016-2020	119,892	181,595	112,873	414,360
2021-2025	148,085	224,510	41,631	414,226
Total	<u>\$ 364,952</u>	<u>\$ 552,990</u>	<u>\$ 325,004</u>	<u>\$ 1,242,946</u>

NOTE 9 - PROPRIETARY FUNDS WORKING CAPITAL:

The net working capital of the enterprise fund (current assets less current liabilities) was \$195,266 at June 30, 2010.

NOTE 10 - CONTRIBUTED CAPITAL:

Contributed Capital at June 30, 2010, consists of:

Waterlines:

REAP Grant	\$43,000
------------	----------

NOTE 11 - ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Krebs Utilities Authority has an allowance for doubtful accounts of \$2,617 at June 30, 2010.

NOTE 12 - LOAN AGREEMENT CONSTRUCTION IN PROGRESS

The Krebs Utilities Authority has met the conditions for a Rural Development loan and grant approval for a wastewater system improvement project. The loan disbursement is not to exceed \$650,000 and \$429,000. The loans will be for a period of twenty years at the approved market interest rate which is the lowest available during the period. For planning purpose a 4.25% interest rate and monthly amortization factor of 6.40 per \$1,000, which provides for a monthly payment of \$6,906.

The loan resolution requires a debt service reserve account be established and a deposit equal to 10% of the monthly payments be deposited to the account until accumulation of one annual installment is met. This reserve is required to establish an emergency fund for maintenance and repairs and debt repayment. Ten percent of the proposed loan installment would equal \$690.60 per month.

The grand disbursement cannot exceed \$1,800,000.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 13 - BUDGET

Budgetary Accounting

The City prepares its budget on the cash basis of accounting for all revenues. The modified accrual basis of accounting is used for the budgeting of expenditures with the exception of the net effect of certain year-end accruals.

Budget Law

The City prepares its annual operating budget under the provision of the Estimate of Needs, Title 68 Section 3002. The Estimate of Needs provides the original budgeting methodology and does not provide as much flexibility as the Municipal Budget Act. In accordance with those provisions the following process is used to adopt the annual budget:

- A. Legal Deadlines:
  - 1. Governing Body must begin preparing Estimate of Needs and report of revenues first Monday in August.
  - 2. Excise Board convenes July 1, to set schedule for public meetings.
  - 3. Prepare estimate of needs by September 1.
  - 4. Submit financials and needs estimate to county excise board.
  - 5. Publication affidavit filed at least 5 days after budget filing.
- B. Budget Content:
  - 1. Financial Statements/Estimate of Needs is a required form available from the State Auditor's Office.
  - 2. Sinking Fund Budget included on the form.
  - 3. Cash Fund Appropriation forms from State Auditor.
  - 4. Budget Amendment forms also from the State Auditor.
- C. Other Provisions:
  - 1. Estimated revenue of General Fund is limited to 90% of prior year recurring revenue plus unencumbered and unreserved fund balance carryover.
  - 2. Long form required budget to be departmentalized and in the following accounts
    - i. Personal services
    - ii. Maintenance and operations
    - iii. Capital Outlay
  - 3. Public utilities may be operated in a separate fund without appropriation.
  - 4. Budget amendments:
    - i. Department head and governing body approval required and excise board written notification.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

- ii. Supplemental Appropriations or Fund Decreases-department head and governing body approval, and approval by the county excise board.
- 5. Every municipality is required to adopt a budget, which shall contain estimates of expenditures and revenues, including probable income by source, for the budget year; provided, that all municipalities may use estimated fund balances if final certified fund balances are not available. The Budget shall be in a format similar to the estimate of needs or, at the municipality's discretion.

NOTE 14 - SUBSEQUENT EVENTS

The City did not have any subsequent events through November 14, 2011, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2010.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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

To the City Council  
City of Krebs, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the City of Krebs, State of Oklahoma, as of June 30, 2010, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 14, 2011, which was qualified for the effect on the basic financial statements of the improper capital asset recordkeeping. The City of Krebs has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the City did not present the required MD&A or Budgetary Comparison Information. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

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

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 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

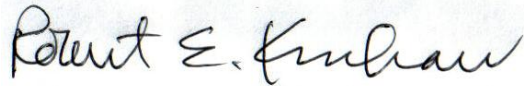
financial reporting. Those deficiencies are listed as Items 10-01 and 10-02. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Krebs's financial statements are free of material misstatement, I performed tests of 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 my audit, and accordingly I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City of Krebs' response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit City of Krebs' response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the City council and management of the City of Krebs, Oklahoma and the USDA Rural Development and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

November 14, 2011



CITY OF KREBS, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2010

Internal Control Findings:

Item 10-01: Segregation of Duties

Criteria: The segregation of duties is important to have adequate control over financial assets.

Condition: The City of Krebs has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the City's books. This is a repeat condition from the prior years.

Cause: The City of Krebs's small size limits the amount of staffing needed to properly segregate the clerk and treasurer functions.

Effect: The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation: The lack of segregation of duties is a common deficiency in City's the size of Krebs. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response: The Board will continue to be actively involved in the operations of the organization. The City's small size and limited funding restricts the amount of staff needed for proper segregation.

Item 10-02: Meter Deposits

Criteria: It is the responsibility of the City to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions during current and past years.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. The City maintains a Security Deposit List. However, that list does not reconcile to the Meter Deposit Liability included in the financial statements.

Response: The City hopes to have this issue corrected for future periods.

CITY OF KREBS, OKLAHOMA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	SPECIAL REVENUE FUNDS		Total
	Street & Alley Fund	Senior Citizens	Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 44,158	\$ 3,265	\$ 47,423
Investments	68,193	-	68,193
Due from Other Funds	18	-	18
Taxes Receivable	2,360	-	2,360
<b>TOTAL ASSETS</b>	<b>\$ 114,730</b>	<b>\$ 3,265</b>	<b>\$ 117,995</b>
<b>LIABILITIES &amp; FUND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to Other Funds	\$ -	\$ 15,116	\$ 15,116
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>15,116</b>	<b>15,116</b>
<b>FUND BALANCES:</b>			
Unreserved, reported in nonmajor special revenue funds	114,730	(11,851)	102,879
<b>TOTAL FUND BALANCES</b>	<b>114,730</b>	<b>(11,851)</b>	<b>102,879</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 114,730</b>	<b>\$ 3,265</b>	<b>\$ 117,995</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF KREBS, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>SPECIAL REVENUE FUNDS</u>		Total
	<u>Street &amp; Alley Fund</u>	<u>Senior Citizens</u>	<u>Nonmajor Governmental Funds</u>
<b><u>REVENUES:</u></b>			
Auto Tax	\$ 12,343	\$ -	\$ 12,343
Gasoline Tax	2,293	-	2,293
Motel Tax	-	13,766	13,766
Miscellaneous Income	-	5,866	5,866
Grant	-	-	-
Interest Income	94	-	94
<b>TOTAL REVENUES</b>	<b>14,730</b>	<b>19,632</b>	<b>34,362</b>
<b><u>EXPENDITURES:</u></b>			
Highway & Roads	-	-	-
Community Services	-	26,915	26,915
Capital Outlay	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>26,915</b>	<b>26,915</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>14,730</b>	<b>(7,283)</b>	<b>7,447</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Operating Transfers In	-	-	-
Operating Transfers Out	(1,241)	-	(1,241)
Capital Debt Proceeds	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,241)</b>	<b>-</b>	<b>(1,241)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>13,489</b>	<b>(7,283)</b>	<b>6,206</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>101,241</b>	<b>(4,568)</b>	<b>96,674</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 114,730</b>	<b>\$ (11,851)</b>	<b>\$ 102,879</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements