

CITY OF KREBS, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

Ralph Osborn
Certified Public Accountant
500 South Chestnut
P.O. Box 1015
Bristow, Oklahoma 74010-1015

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Trustees
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 year ended June 30, 2011, which collectively comprise the City of Krebs, Oklahoma's basic financial statements. These financial statements are the responsibility of City of Krebs, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

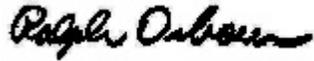
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Krebs, Oklahoma as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, in conformity with accounting principles generally accepted in the United States of America.

The City of Krebs, Oklahoma has not presented a Management's Discussion that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 2, 2012, on my consideration of 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 audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Bristow, Oklahoma's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
November 2, 2012

CITY OF KREBS, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Primary government</u>		<u>2011 Total</u>
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	
ASSETS			
Cash and cash equivalents	\$1,016,534	\$ 199,731	\$ 1,216,265
Interest receivable	2,416	-	2,416
Accounts receivable, net	131,221	78,604	209,825
Prepaid Insurance	-	21,206	21,206
Internal balances	(1,484)	1,484	-
Restricted and Committed Cash	-	158,390	158,390
Capital assets, net (Note 3.E.):			
Land and construction in progress	-	3,242,013	3,242,013
Other capital assets net of depreciation	<u>112,897</u>	<u>1,096,329</u>	<u>1,209,226</u>
Total assets	<u>1,261,584</u>	<u>4,797,757</u>	<u>6,059,341</u>
LIABILITIES			
Accounts payable and accrued liabilities	3,395	35,572	38,967
Deposit subject to refund	-	33,423	33,423
Long-term liabilities			
Due within one year	-	44,724	44,724
Due in more than one year	<u>-</u>	<u>829,785</u>	<u>829,785</u>
Total liabilities	<u>3,395</u>	<u>943,504</u>	<u>946,899</u>
NET ASSETS:			
Non-spendable	251,323	3,531,704	3,783,027
Restricted for debt service	-	82,872	82,872
Committed for meter deposits	-	75,518	75,518
Assigned	111,288	164,159	275,447
Unassigned	<u>895,578</u>	<u>-</u>	<u>895,578</u>
Total net assets	<u>\$1,258,189</u>	<u>\$3,854,253</u>	<u>\$ 5,112,442</u>

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

FUNCTION/PROGRAMS	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government				
	Expenses	Charges For Services	Governmental Activities	Business Type Activities	Total
Governmental activities					
Administration	\$ 426,088	\$ -	\$ (426,088)	\$ -	\$ (426,088)
Public safety	835,601	-	(835,601)	-	(835,601)
Transportation	109,199	-	(109,199)	-	(109,199)
Community service	46,428	-	(46,428)	-	(46,428)
Health and welfare	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-
Total governmental activities	1,417,316	-	(1,417,316)	-	(1,417,316)
Business-type activities					
Utilities	740,490	741,650	-	1,160	1,160
Grants	-	-	-	-	-
Total business-type activities	740,490	741,650	-	1,160	1,160
Total primary government	\$2,157,806	\$741,650	\$(1,417,316)	\$ 1,160	\$(1,416,156)

General revenues

Taxes:

Sales and use	799,337	-	799,337
Franchise	59,945	-	59,945
Cigarette	11,163	-	11,163
Liquor	13,549	-	13,549
Gas and commercial vehicle	14,539	-	14,539
Motel	9,049	-	9,049
Grants	9,832	-	9,832
Fines & court fees	585,549	-	585,549
Fire	9,995	-	9,995
Insurance proceeds	47,620	-	47,620
Sale of assets	7,396	-	7,396
Investment income	5,441	5,891	11,332
Transfers	-	-	-
Miscellaneous	43,884	-	43,884
Total general revenues	1,617,299	5,891	1,623,190

Change in net assets	199,983	7,051	207,034
Net assets - beginning	1,058,206	3,847,202	4,905,408
Net assets - ending	\$1,258,189	\$3,854,253	\$ 5,112,442

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

CITY OF KREBS, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 898,976	\$ 117,558	\$1,016,534
Receivables:			
Accrued Interest	2,416	-	2,416
Due from other governments	127,926	3,295	131,221
Due from other funds	8,081	-	8,081
TOTAL ASSETS	\$1,037,399	\$ 120,853	\$1,158,252
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 3,395	\$ -	\$ 3,395
Due to other funds	-	9,565	9,565
TOTAL LIABILITIES	3,395	9,565	12,960
 FUND BALANCES			
Nonspendable	138,426	-	138,426
Assigned	-	111,288	111,288
Unassigned	895,578	-	895,578
TOTAL FUND BALANCES	1,034,004	111,288	1,145,292
TOTAL LIABILITIES AND FUND BALANCES	\$1,037,399	\$ 120,853	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation \$11,179	112,897
Compensated absences - General Fund	-
Capital Lease Obligation	-
Net assets of Governmental Activities	\$1,258,189

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 883,994	\$ 23,588	\$ 907,582
Grants	5,114	-	5,114
Intergovernmental	-	4,718	4,718
Fines and court fees	585,549	-	585,549
Investment income	5,049	392	5,441
Fire	9,995	-	9,995
Insurance proceeds	47,620	-	47,620
Sale of assets	7,396	-	7,396
Miscellaneous	<u>42,620</u>	<u>1,264</u>	<u>43,884</u>
 Total revenues	 <u>1,587,337</u>	 <u>29,962</u>	 <u>1,617,299</u>
 Expenditures:			
Administration	421,541	-	421,541
Public safety	686,651	-	686,651
Transportation	109,199	-	109,199
Community services	19,441	17,897	37,338
Health and welfare	-	-	-
Capital outlay	162,587	-	162,587
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	 <u>1,399,419</u>	 <u>17,897</u>	 <u>1,417,316</u>
 Excess (deficiency) of revenue over expenditures	 187,918	 12,065	 199,983
 Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Net change in fund balances	 187,918	 12,065	 199,983
 Fund balances, beginning	 <u>846,086</u>	 <u>99,223</u>	 <u>945,309</u>
 Fund balances, ending	 <u>\$1,034,004</u>	 <u>\$ 111,288</u>	 <u>\$1,145,292</u>

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

CITY OF KREBS, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net Changes in Fund Balances - Total Governmental Funds \$ 199,983

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

Depreciation Expense	-	
Capital Outlay	-	-

The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bonds and lease obligation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activity. This is the amount by which debt proceeds exceeds debt payments.

Debt payments	-	
CHANGE IN NET ASSETS		<u>\$ 199,983</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KREBS, OKLAHOMA
STATEMENT NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011

	<u>Krebs Utility Authority</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 199,731
Accounts receivable, net	78,604
Due from other funds	1,484
Prepaid Insurance	21,206
Total current assets	<u>301,025</u>
Non-current assets	
Restricted and Committed Cash	158,390
Land & construction in progress	3,242,013
Other capital assets, net of depreciation	1,096,329
Total non-current assets	<u>4,496,732</u>
Total assets	<u>4,797,757</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	33,438
Accrued vacation payable	303
Accrued sick leave payable	1,831
Deposits subject to refund	33,423
Notes payable	44,724
Total current liabilities	<u>113,719</u>
Non-current liabilities:	
Notes payable	829,785
Total non-current liabilities	<u>829,785</u>
Total liabilities	<u>943,504</u>
NET ASSETS:	
Nonspendable	3,531,704
Restricted for Debt Service	82,872
Committed for Meter Deposits	75,518
Assigned	164,159
Total net assets	<u>\$ 3,854,253</u>

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Public Works</u>
OPERATING REVENUES:	
Water	\$ 314,901
Sewer	210,957
Sanitation	192,442
Surcharges	12,852
Penalties	8,407
Other	2,091
Total operating revenues	741,650
OPERATING EXPENSES:	
Wages	170,825
Payroll taxes	14,876
Capital projects	2,910
Employee benefits	15,660
Testing/other	12,185
Insurance	20,947
Maintenance and supplies	138,471
Fees & Licenses	900
Sanitation	195,313
Office	10,622
Water purchases	7,068
Professional fees	9,000
Utilities	50,558
Depreciation expense	51,662
Total operating expenses	700,997
Net Operating Loss	40,653
NON-OPERATING REVENUES (EXPENSES)	
Investment income	5,891
Interest expense	(39,493)
Grant	-
Total non-operating revenues (expenses)	(33,602)
Change in net assets	7,051
Total net assets, beginning	3,847,202
Total net assets, ending	\$ 3,854,253

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Public Works</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 722,166
Payments to suppliers	(481,902)
Payments to employees	(170,825)
Net Cash Provided by Operating Activities	<u>69,439</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer from/to other funds	-
Net Cash Provided by Non-Capital Financing Activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Construction in progress	(381)
Principal paid on capital debt	(43,433)
Interest paid on capital debt	(39,493)
Change in restricted cash	(4,952)
Net Cash Used in Capital and Related Financing Activities	<u>(88,259)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	5,891
Reinvested interest	-
Net Cash Provided by Investing Activities	<u>5,891</u>
Net Increase in Cash and Cash Equivalents	(12,929)
Cash and Cash Equivalents, beginning of the year	<u>212,660</u>
Cash and Cash Equivalents, ending of the year	<u>\$ 199,731</u>
RECONCILIATION OF OPERATING (LOSS) TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 40,653
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	51,662
Changes in assets and liabilities:	
(Increase)decrease in accounts receivables, net	(4,377)
(Increase)decrease in prepaid insurance	(41)
(Increase)decrease in due from	(4,073)
Increase(decrease) in accounts payable	(3,351)
Increase(decrease) in due to	23,595
Increase(decrease) in deposits subject to refund	(34,629)
Cash Provided by Operating Activities	<u>\$ 69,439</u>

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

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 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 fund 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 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

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

oversight responsibilities. The Krebs Utility 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 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 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.

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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Capital Projects Funds:

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 accounts 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 changes.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds utilize the modified accrual basis of accounting. Under this methods, revenues are recognized in the accounting periods 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.

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 unexpected 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 Principals (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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, and object category) and that the budget be filed with the 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 the fiscal year.

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 type's cash is displayed on the combined balance sheet as "Cash and 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-collectable.

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 an 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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 General Fixed Assets Group. Public domain infrastructure general fixed assets consisting of certain improvements other than buildings, such as road signs, bridges, curbs and gutters, street and sidewalks, drainage 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 General Fixed Assets Group.

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

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

N. Fund Equity:

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for the 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 net assets that have been 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 (4th) year, through nine (9) years of service, employees thereafter accrue vacation leave at the rate of two weeks per year. After completion of the ninth (9th) year of service will thereafter accrue vacation leave at the rate of ten (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 (9) 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, father-in-law and mother-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 the 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 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. Inter-fund 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 (15) 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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the City will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the City, and are held by counterparty or the counterparty's trust department but not in the name of the City. The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2011, all of the City's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The City had deposits at financial institutions with a carrying amount of approximately \$1,374,655 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately \$1,398,171.

Credit Risk

Fixed-income securities are subject to credit risk. However, the City did not have fixed income securities at June 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2011, the City's deposits consisted of demand deposits and certificates of deposit with a maturity of 13 months or less.

NOTE 3 - RESTRICTED CASH

The Krebs Utility Authority has restricted cash consisting of customer meter deposits and loan accounts held in the trust service at the First National Bank in McAlester. The accounts and account balances at June 30, 2011 at First National Bank and meter deposit are as follows:

Meter Deposit	\$ 75,518
Rural Development	-
Certificate of Deposit	82,872
Total Restricted	<u>\$ 158,390</u>

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

PRIMARY GOVERNMENT Governmental Activities:	Balance at July 1, 2010	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, 2011
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 Hist Cost	<u>124,076</u>	<u>-</u>	<u>-</u>	<u>124,076</u>
Less Accumulated 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>
Capital Assets, Net	<u>\$ 112,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,897</u>
Capital Assets not being Depreciated:				
Land and Construction in Progress	<u>3,241,632</u>	<u>381</u>	<u>-</u>	<u>3,242,013</u>
Total Capital Assets not Depreciated	<u>3,241,632</u>	<u>381</u>	<u>-</u>	<u>3,242,013</u>
Other Capital Assets				
Buildings	-	-	-	-
Other Improvements	2,529,978	-	-	2,529,978
Machinery & Equipment	-	-	-	-
Total Other Capital Assets at Hist Cost	<u>2,529,978</u>	<u>-</u>	<u>-</u>	<u>2,529,978</u>
Less Accumulated Depreciation for:				
Buildings	\$ -	\$ -	\$ -	\$ -
Other Improvements	1,381,988	51,661	-	1,433,649
Machinery & Equipment	-	-	-	-
Total Accumulated Depreciation	<u>1,381,988</u>	<u>51,661</u>	<u>-</u>	<u>1,433,649</u>
Other Capital Assets, Net	<u>\$ 1,147,990</u>	<u>\$ (51,661)</u>	<u>\$ -</u>	<u>\$ 1,096,329</u>
Business-Type Activities Capital, net	<u>\$ 4,389,622</u>	<u>\$ (51,280)</u>	<u>\$ -</u>	<u>\$ 4,338,342</u>

NOTE 5 - RETIREMENT/PENSION PLANS:

The City of Krebs & Krebs Utility Authority Plan (the "Plan") is a single-employer defined pension plan administered by the 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 counsel 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.

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.

CITY OF KREBS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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 Credit 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 65, or an actuarially reduced benefit starting at early age retirement.

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

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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

<u>In-service Death</u>	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
<u>Payment Options</u>	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
<u>Cost of Living</u>	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 finding 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 of percent of pay which, if paid from the time the 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 cost less payments, from the employee's date of participation to present. The actuarial liability for non-active participants is the present value of the 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 every 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 with 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.

CITY OF KREBS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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, 2011, inter-fund receivables and payables that resulted from various transactions were as follows:

	Due From	Due To
General Fund:		
Street & Alley	\$ -	\$ -
Senior Citizens	9,582	-
Utility Authority	30,977	32,479
Krebs Utility Authority:		
General Fund	32,479	30,977
Street & Alley	-	18
Senior Citizens:		
General Fund	-	9,582
Street & Alley:		
General Fund	-	-
Utility Authority	18	-
Total All Funds	\$ 73,056	\$ 73,056

NOTE 8 - CHANGES IN LONG-TERM DEBT:

During the fiscal year ending June 30, 2010, 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 \$16400.66 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 20, 2011:

Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
\$ 363,963	\$ -	\$ 17,613	\$ 346,350
553,979	-	25,820	528,159
\$ 917,942	\$ -	\$ 43,433	\$ 874,509

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Debt Services Requirements to Maturity

The annual debt service requirements, including only, for long-term debt, as of June 30, 2011, are as follows:

Year Ended June 30	91-04 Principal	91-05 Principal	Interest	Total
2011 - 2012	\$ 17,785	\$ 26,939	\$ 38,148	\$ 82,872
2012 - 2013	18,556	28,106	36,210	82,872
2013 - 2014	19,360	29,324	34,188	82,872
2014 - 2015	21,075	31,921	29,876	82,872
2015 - 2020	119,892	181,595	112,873	414,360
2020 - 2025	149,682	230,274	34,404	414,360
Total	<u>\$ 346,350</u>	<u>\$ 528,159</u>	<u>\$ 285,699</u>	<u>\$ 1,160,208</u>

NOTE 9 - PROPRIETARY FUNDS WORKING CAPITAL:

The net working capital of the enterprise fund (current assets less current liabilities) was \$187,306 at June 30, 2011.

NOTE 10 - CONTRIBUTED CAPITAL:

Contributed Capital at June 30, 2011, consists of:

Waterlines:	
REAP Grant	\$ 43,000

NOTE 11 - ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Krebs Utility Authority has an allowance for doubtful accounts of \$2,617 at June 30, 2011.

NOTE 12 - LOAN AGREEMENT CONSTRUCTION IN PROGRESS:

The Krebs Utility 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 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. The reserve fund is required to establish an emergency fund for maintenance and repairs and debt repayment. The 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, 2011

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 the 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 available from State Auditor.
4. Budget Amendment forms are also from the State Auditor.

C. Other Provisions:

1. Estimated revenue of the 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 into 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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4. Budget amendments:
 - I. Department head and governing body approval required and excise Board written notification.
 - ii. Supplemental Appropriations of 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.

CITY OF KREBS, OKLAHOMA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	SPECIAL REVENUE FUNDS		
	STREET AND ALLEY FUND	SENIOR CITIZENS FUND	TOTAL NON-MAJOR FUNDS
ASSETS			
Cash & cash equivalents	\$ 45,535	\$ 3,265	\$ 48,800
Investments	68,758	-	68,758
Receivables:			
Accounts receivable	3,295	-	3,295
Accrued interest receivable	-	-	-
Due from other funds	18	-	18
Other receivables	-	-	-
	<u>\$ 117,606</u>	<u>\$ 3,265</u>	<u>\$ 120,871</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	9,583	9,583
	<u>-</u>	<u>9,583</u>	<u>9,583</u>
FUND BALANCES			
Reserved for:			
Unreserved, reported in:			
Special Revenue funds	117,606	(6,318)	111,288
	<u>117,606</u>	<u>(6,318)</u>	<u>111,288</u>
Total fund balances	<u>117,606</u>	<u>(6,318)</u>	<u>111,288</u>
Total liabilities & fund balances	<u>\$ 117,606</u>	<u>\$ 3,265</u>	<u>\$ 120,871</u>

CITY OF KREBS, OKLAHOMA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>STREET AND ALLEY FUND</u>	<u>SENIOR CITIZENS FUND</u>	<u>TOTAL NON-MAJOR FUNDS</u>
REVENUES:			
Taxes	\$ 14,539	\$ 9,049	\$ 23,588
Intergovernmental	-	4,718	4,718
Investment income	392	-	392
Miscellaneous	<u>1,264</u>	<u>-</u>	<u>1,264</u>
Total revenues	<u>\$ 16,195</u>	<u>\$ 13,767</u>	<u>\$ 29,962</u>
EXPENDITURES:			
Current:			
Administration	\$ -	\$ -	\$ -
Public safety	-	-	-
Community services	532	17,365	17,897
Health and welfare	-	-	-
Administrative services	-	-	-
Capital outlay	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>532</u>	<u>17,365</u>	<u>17,897</u>
Excess (deficit)	15,663	(3,598)	12,065
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	15,663	(3,598)	12,065
Fund balances - beginning	<u>101,943</u>	<u>(2,720)</u>	<u>99,223</u>
Fund balances - ending	<u>\$ 117,606</u>	<u>\$ (6,318)</u>	<u>\$ 111,288</u>

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 Board of Trustees
City of Krebs
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 City of Krebs, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Krebs, Oklahoma's basic financial statements, and have issued my report thereon dated November 2, 2012 which did not include Management's Discussion and Analysis or budgetary comparison schedules. 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.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. The City failed to use purchase orders which comply with Oklahoma statutes.

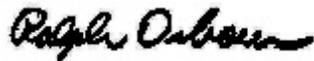
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weaknesses, yet important enough to merit attention by those charged with governance. I consider the deficiency described above to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Krebs, Oklahoma's financial statements are free of material misstatement, I 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 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*.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
November 2, 2012