

CITY OF KREBS, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Board of Trustees
City of Krebs, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Krebs, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express opinions 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Krebs, Oklahoma as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This is a change from prior year. My opinions are not modified with respect to this matter.

Other Matters

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 20, 2015, on my consideration of City of Krebs's internal control over financial reporting and 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 my 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 in considering City of Krebs, Oklahoma's* internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
January 20, 2015

CITY OF KREBS, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2014

	Primary government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 473,485	\$ 168,541	\$ 642,026
Internal balances	<u>178,757</u>	<u>(178,757)</u>	<u>-</u>
Total current assets	<u>652,242</u>	<u>(10,216)</u>	<u>642,026</u>
Non-current assets:			
Restricted and Committed Cash	-	153,483	153,483
Capital assets, net (Note 3.E.):			
Land and construction in progress	-	3,000	3,000
Other capital assets net of depreciation	<u>533,973</u>	<u>3,987,753</u>	<u>4,521,726</u>
Total non-current assets	<u>533,973</u>	<u>4,144,236</u>	<u>4,678,209</u>
Total assets	<u>1,186,215</u>	<u>4,134,020</u>	<u>5,320,235</u>
LIABILITIES			
Current liabilities:			
Deposit subject to refund	-	43,229	43,229
Notes payable	<u>-</u>	<u>52,990</u>	<u>52,990</u>
Total current liabilities	<u>-</u>	<u>96,219</u>	<u>96,219</u>
Non-current liabilities:			
Notes payable	<u>-</u>	<u>674,099</u>	<u>674,099</u>
Total non-current liabilities	<u>-</u>	<u>674,099</u>	<u>674,099</u>
Total liabilities	<u>-</u>	<u>770,318</u>	<u>770,318</u>
NET ASSETS:			
Capital Assets, Net of Related Debt	533,973	3,263,664	3,797,637
Restricted for debt service	-	67,872	67,872
Committed for meter deposits	-	42,382	42,382
Unrestricted	<u>652,242</u>	<u>(10,216)</u>	<u>642,026</u>
Total net assets	<u>\$1,186,215</u>	<u>\$3,363,702</u>	<u>\$ 4,549,917</u>

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/PROGRAMS	Charges					Net (Expense) Revenue and Changes in Net Assets		
	Expenses		Operating Grants		Governmental Activities		Business Type Activities	
	For	Services	Grants	Operating	Governmental	Business	Type	Total
Governmental activities								
Administration	\$ 432,965	\$ 1,642	\$ -	\$ -	\$ (431,323)	\$ -	\$ -	\$ (431,323)
Public safety	805,299	637,881	-	-	(167,418)	-	-	(167,418)
Transportation	209,085	-	-	-	(209,085)	-	-	(209,085)
Community service	26,526	-	-	-	(26,526)	-	-	(26,526)
Health and welfare	27,248	-	-	-	(27,248)	-	-	(27,248)
Culture and education	13,611	-	-	-	(13,611)	-	-	(13,611)
Total governmental activities	<u>1,514,734</u>	<u>639,523</u>	<u>-</u>	<u>-</u>	<u>(875,211)</u>	<u>-</u>	<u>-</u>	<u>(875,211)</u>
Business-type activities								
Utilities	988,830	769,059	-	-	-	(219,771)	-	(219,771)
Total business-type activities	<u>988,830</u>	<u>769,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,771)</u>	<u>-</u>	<u>(219,771)</u>
Total primary government	<u>\$2,503,564</u>	<u>\$1,408,582</u>	<u>\$ 4,777</u>	<u>\$ -</u>	<u>\$ (875,211)</u>	<u>\$ (219,771)</u>	<u>\$ -</u>	<u>\$ (1,094,982)</u>
General revenues								
Taxes:								
Sales and use					718,033	-		718,033
Franchise					51,485	-		51,485
Cigarette					8,239	-		8,239
Liquor					13,700	-		13,700
Gas					3,674	-		3,674
Commercial vehicle					13,977	-		13,977
Ad Valorem					3,217	-		3,217
Motel					7,588	-		7,588
Investment income and royalties					1,776	1,028		2,804
Transfers					(75,000)	75,000		-
Miscellaneous					36,321	-		36,321
Total general revenues					<u>783,010</u>	<u>76,028</u>		<u>859,038</u>
Change in net assets					(92,201)	(143,743)		(235,944)
Net assets - beginning					<u>1,278,416</u>	<u>3,507,445</u>		<u>4,785,861</u>
Net assets - ending					<u>\$1,186,215</u>	<u>\$3,363,702</u>		<u>\$4,549,917</u>

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

CITY OF KREBS, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 473,485	\$ 473,485
Due from other funds	<u>178,757</u>	<u>178,757</u>
TOTAL ASSETS	<u><u>\$ 652,242</u></u>	<u><u>\$ 652,242</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Due to other funds	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
 FUND BALANCES		
Nonspendable	178,757	178,757
Unassigned	<u>473,485</u>	<u>473,485</u>
TOTAL FUND BALANCES	<u>652,242</u>	<u>652,242</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 652,242</u></u>	
 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		<u>533,973</u>
Net assets of Governmental Activities		<u><u>\$1,186,215</u></u>

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

CITY OF KREBS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Sales/Use tax	\$ 718,033	\$ 718,033
Franchise tax	51,485	51,485
Tobacco tax	8,239	8,239
Alcoholic beverage tax	13,700	13,700
Gas tax	3,674	3,674
Motor vehicle tax	13,977	13,977
Ad Valorem tax	3,217	3,217
Motel tax	7,588	7,588
Fire memberships and services	6,941	6,941
Royalties	818	818
Grants	-	-
Fines and court fees	630,940	630,940
Investment income	958	958
License and permits	1,642	1,642
Miscellaneous	<u>36,321</u>	<u>36,321</u>
 Total revenues	 <u>1,497,533</u>	 <u>1,497,533</u>
Expenditures:		
Administration	475,305	475,305
Public safety	877,002	877,002
Transportation	197,527	197,527
Community services	20,725	20,725
Health and welfare	27,248	27,248
Culture and education	<u>13,611</u>	<u>13,611</u>
 Total expenditures	 <u>1,611,418</u>	 <u>1,611,418</u>
 Excess (deficiency) of revenue over expenditures before transfers	 (113,885)	 (113,885)
 Transfers to/from other funds		
Transfer out	<u>(75,000)</u>	<u>(75,000)</u>
 Total transfers	 <u>(75,000)</u>	 <u>(75,000)</u>
 Net change in fund balance	 (188,885)	 (188,885)
 Fund balances, beginning	 <u>841,127</u>	 <u>841,127</u>
 Fund balances, ending	 <u>\$ 652,242</u>	 <u>\$ 652,242</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, 2014

Net Changes in Fund Balances - Total Governmental Funds \$ (188,885)

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	(57,195)	
Capital Outlay	<u>153,879</u>	<u>96,684</u>
 CHANGE IN NET ASSETS		 <u>\$ (92,201)</u>

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

CITY OF KREBS, OKLAHOMA
STATEMENT NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

	<u>Krebs Utility Authority</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ <u>168,541</u>
Total current assets	<u>168,541</u>
Non-current assets	
Restricted and Committed Cash	153,483
Land	3,000
Other capital assets, net of depreciation	<u>3,987,753</u>
Total non-current assets	<u>4,144,236</u>
Total assets	<u>4,312,777</u>
LIABILITIES:	
Current liabilities:	
Due to other funds	178,757
Deposits subject to refund	43,229
Notes payable	<u>52,990</u>
Total current liabilities	<u>274,976</u>
Non-current liabilities:	
Notes payable	<u>674,099</u>
Total non-current liabilities	<u>674,099</u>
Total liabilities	<u>949,075</u>
NET ASSETS:	
Capital Assets, net of related debt	3,263,664
Restricted for Debt Service	67,872
Committed for Meter Deposits	42,382
Unrestricted	<u>(10,216)</u>
Total net assets	<u>\$ 3,363,702</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
MODIFIED CASH BASIS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Public Works</u>
OPERATING REVENUES:	
Water	\$ 300,597
Sewer	193,258
Sewer - Alderson contract	49,155
Sanitation	186,833
Surcharges	10,879
Penalties	11,715
Other	16,622
Total operating revenues	769,059
OPERATING EXPENSES:	
Wages	191,607
Payroll taxes	18,656
Employee benefits	9,345
Testing	10,374
Insurance	-
Maintenance and repairs	188,100
Supplies	76,213
Fees & Licenses	2,814
Sanitation	226,761
Office	10,312
Water purchases	598
Professional fees	15,997
Utilities and telephone	69,395
Miscellaneous	2,749
Depreciation expense	137,482
Total operating expenses	960,403
Net Operating Loss	(191,344)
NON-OPERATING REVENUES (EXPENSES)	
Investment income	1,028
Interest and fees expense	(28,427)
Total non-operating revenues (expenses)	(27,399)
Transfers to/from other funds	
Transfer in	75,000
Total transfers	75,000
Change in net assets	(143,743)
Total net assets, beginning	3,507,445
Total net assets, ending	\$ 3,363,702

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, 2014

	<u>Public Works</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 770,911
Payments to suppliers	(550,323)
Payments to employees	<u>(219,608)</u>
Net Cash Provided by Operating Activities	<u>980</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfer from General	<u>75,000</u>
Net Cash Used in Non-Capital and Related Financing Activities	<u>75,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(29,422)
Principal paid on capital debt	(50,791)
Interest and fees paid on capital debt	(28,427)
(Increase) decrease in restricted cash	<u>(5,556)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(114,196)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>1,028</u>
Net Cash Provided by Investing Activities	<u>1,028</u>
Net Increase in Cash and Cash Equivalents	(37,188)
Cash and Cash Equivalents, beginning of the year	<u>205,729</u>
Cash and Cash Equivalents, ending of the year	<u><u>\$ 168,541</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (191,344)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	137,482
Changes in assets and liabilities:	
Increase(decrease) in due to	52,990
Increase(decrease) in deposits subject to refund	<u>1,852</u>
Cash Provided by Operating Activities	<u><u>\$ 980</u></u>

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

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Krebs, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The City is a charter city in which the citizens elect the mayor at large and eight council members by wards. The financial statements of the City have been prepared in conformity with the modified cash basis. The significant accounting policies of the government are described below.

The accompanying financial statements present the activities of the City of Krebs. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Component Units

Component units are legally separate organizations for which the City is financially accountable as described above. A blended component unit is a separate legal entity that meets the component unit criteria above. In addition, the blended component units provide services that almost exclusively benefit the City even though they do not provide services directly to the City. These component units are blended into those of the City by appropriate fund type to constitute the primary government presentation. A discretely presented component unit is reported separate from City fund types in the financial statements.

Blended Component Units

Krebs Utility Authority - The Authority provides water, sewer, and sanitation services in the City. Trustees of the Authority are made up of the mayor and City Council of Krebs. Financial transactions occur between the City and Authority on a regular basis.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services with report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions on these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the City are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item B below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- A. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- B. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Fund Types and Major Funds

The City reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City reports the following major enterprise funds:

Krebs Utility Authority - The Authority provides certain utility services for the City.

Investments

The City follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The City considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits, government bonds, U.S. government notes and securities. Money held by trustee banks for use in retiring bonds is usually held in United States government securities.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The City has not maintained inventory records, however, the value of inventory on hand at June 30, 2014 is not believed to be material.

Prepaids recording payments to vendors that benefit future reporting periods are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements. Under the modified cash basis, prepaids are not reported. The expense is included in the period the liability is paid.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The City maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$2,000 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

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

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture, machinery, and equipment	3-30
Utility system	5-60

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the City. The City does not record a liability for accrued compensated absences. The amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. 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, 2014, 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 \$789,953 at June 30, 2014. The bank balance of the deposits at June 30, 2014 was approximately \$780,127.

Credit Risk

Fixed-income securities are subject to credit risk. However, the City did not have fixed income securities at June 30, 2014.

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 Trustees monitor's the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2014, the City's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 at First National Bank and meter deposit are as follows:

Meter Deposit	\$ 85,611
Rural Development	<u>67,872</u>
Total Restricted	<u>\$ 153,483</u>

NOTE 4 - CAPITAL ASSETS

PRIMARY GOVERNMENT Governmental Activities:	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Other capital assets:				
Buildings	\$ 260,754	\$ 121,360	\$ -	\$ 382,114
Other Improvements	40,853	-	-	40,853
Machinery & Equipment	<u>293,800</u>	<u>32,519</u>	-	<u>326,319</u>
Total Other Capital Assets at Hist Cost	<u>595,407</u>	<u>153,879</u>	-	<u>749,286</u>
Less Accumulated Depreciation for:				
Buildings	38,818	7,762	-	46,580
Other Improvements	7,725	3,120	-	10,845
Machinery & Equipment	<u>111,575</u>	<u>46,313</u>	-	<u>157,888</u>
Total Accumulated Depreciation	<u>158,118</u>	<u>57,195</u>	-	<u>215,313</u>
Capital Assets, Net	<u>\$ 437,289</u>	<u>\$ 96,684</u>	<u>\$ -</u>	<u>\$ 533,973</u>
Capital Assets not being Depreciated:				
Land and Construction in Progress	<u>3,000</u>	-	-	<u>3,000</u>
Total Capital Assets not Depreciated	<u>3,000</u>	-	-	<u>3,000</u>
Other Capital Assets				
Buildings	-	-	-	-
Other Improvements	5,799,656	12,375	-	5,812,031
Machinery & Equipment	<u>-</u>	<u>17,047</u>	-	<u>17,047</u>
Total Other Capital Assets at Hist Cost	<u>5,799,656</u>	<u>29,422</u>	-	<u>5,829,078</u>
Less Accumulated Depreciation for:				
Buildings	\$ -	\$ -	\$ -	\$ -
Other Improvements	1,703,843	137,482	-	1,841,325
Machinery & Equipment	<u>-</u>	<u>-</u>	-	<u>-</u>
Total Accumulated Depreciation	<u>1,703,843</u>	<u>137,482</u>	-	<u>1,841,325</u>
Other Capital Assets, Net	<u>\$ 4,095,813</u>	<u>\$ (108,060)</u>	<u>\$ -</u>	<u>\$ 3,987,753</u>
Business-Type Activities Capital, net	<u>\$ 4,098,813</u>	<u>\$ (108,060)</u>	<u>\$ -</u>	<u>\$ 3,990,753</u>

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES

BUSINESS-TYPE ACTIVITIES

General Government	\$	1,860	Water/Wastewater	\$	137,482
Public Safety		37,976			
Transportation		11,558			
Community Service		5,801			

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 - RETIREMENT/PENSION PLANS

The City of Krebs maintains a defined benefit plan, Oklahoma Municipal Retirement Fund (OMRF), for employees not covered by other plans. This Plan is an agent multiple employer defined benefit pension plan.

Oklahoma Municipal Retirement Fund (OMRF)

Plan Description

The City's defined benefit pension plan, Employee Retirement System of Krebs & Krebs Utility Authority, Oklahoma (ERSKO) provides retirement and disability benefits and death benefits to plan members and beneficiaries. All employees are covered except police, firefighters, and other employees covered under a state system. Effective July 1, 1998, normal retirement for covered employees was reduced from age 65 to age 60. Elected members of the City Council shall not be considered employees solely by reason of their holding such office. Employees hired after their 60th birthday are excluded from plan membership. ERSKO is affiliated with the Oklahoma Municipal Retirement System (OMRF), an agent multiple-employer pension plan. OMRF issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, Oklahoma 73105, or by calling 1-888-394-6673.

Funding policy

For the fiscal year ended June 30, 2014, employees were required to contribute 3.00% of annual compensation. The City was required to contribute the remaining amounts necessary to fund the pension plan, using an actuarial basis. The City's contribution rate, for the fiscal year ended June 30, 2014 was 5.17%. During the year ended June 30, 2014, the City and the employees contributed \$18,646 and \$9,354, respectively, to the OMRF. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund and the demographic experience of the participant group. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the cost.

Annual Pension Cost

The City's annual pension cost of \$18,656 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2014 actuarial valuation. As of January 1, 2013, the unfunded actuarial liabilities of \$101,961 and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increase per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustment, if any, for the current period and each of the nine preceding periods. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at June 30, 2014 was 30 years.

The contribution for the City for this plan was \$18,816, \$15,648, and \$18,656 for 2012, 2013 and 2014, respectively.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Schedule of Funding Progress

Historical trend information for the OMRF Employee Retirement System of Krebs, Oklahoma for the past ten years is as follows:

Actuarial Valuation Date	Value Of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a % Covered Payroll
1/1/2004	70,543	184,669	38.2%	235,624	235,624	48.4%
1/1/2005	89,346	183,077	48.8%	141,285	141,285	66.3%
1/1/2006	96,850	199,710	48.5%	156,287	156,287	65.8%
1/1/2007	116,306	207,588	56.0%	163,368	163,368	55.9%
1/1/2008	135,088	236,291	57.2%	170,011	170,011	59.5%
1/1/2009	143,609	245,130	58.6%	161,863	161,863	62.7%
1/1/2010	166,719	261,597	63.7%	201,816	201,816	47.0%
1/1/2011	195,990	293,844	66.7%	320,671	320,671	30.5%
1/1/2012	234,025	335,986	69.7%	375,960	375,960	27.1%
1/1/2013	263,596	365,630	72.1%	102,034	303,873	33.6%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Police Department Plan

All City police department employees hired before the age of 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8% of base salary and the City contributes an additional 13%. The OPPRS issues publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335 or by calling 1-800-347-6552.

The Required contribution from the City for this plan was \$30,295, \$34,462, and \$34,175 for 2012, 2013, and 2014, respectively. The required contribution was fulling contributed. At June 30, 2014, the system held no related-party investments of the City or of its related entities.

Fire Department Plan

All City full time or volunteer firefighters hired before the age of 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension System (OFPS). Under this plan, police department personnel contribute 8% of base salary and the City contributes an additional 13% for full time firefighters and the City contributes \$60 per volunteer firefighter. During the year, the City only employed firefighters on a volunteer basis. The OFPS issues publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414 or by calling 1-800-525-7461.

The Required contribution from the City for this plan was \$1,200, \$1,080, and \$1,260 for 2012, 2013 and 2014, respectively. The required contribution was fulling contributed. At June 30, 2014, the system held no related-party investments of the City or of its related entities.

CITY OF KREBS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

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, 2014, inter-fund receivables and payables that resulted from various transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Utility Authority	\$ 178,757	\$ -
Krebs Utility Authority:		
General Fund	-	178,757
 Total All Funds	<u>\$ 178,757</u>	<u>\$ 178,757</u>

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 \$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 20, 2014:

<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2014</u>
\$ 309,254	\$ -	\$ 20,198	\$ 289,056
468,626	-	30,593	438,033
<u>\$ 777,880</u>	<u>\$ -</u>	<u>\$ 50,791</u>	<u>\$ 727,089</u>

Debt Services Requirements to Maturity

The annual debt service requirements, including only, for long-term debt, as of June 30, 2014, are as follows:

<u>Year Ended June 30</u>	<u>91-04 Principal</u>	<u>91-05 Principal</u>	<u>Interest</u>	<u>Total</u>
2014 - 2015	\$ 21,068	\$ 31,922	\$ 29,882	\$ 82,872
2015 - 2016	21,981	33,305	27,586	82,872
2016 - 2017	22,933	34,748	25,191	82,872
2017 - 2018	23,927	36,252	22,693	82,872
2018 - 2019	24,964	37,825	20,083	82,872
2020 - 2024	142,018	215,184	57,158	414,360
2025 - 2026	32,165	48,797	1,910	82,872
Total	<u>\$ 289,056</u>	<u>\$ 438,033</u>	<u>\$ 184,503</u>	<u>\$ 911,592</u>

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 - PROPRIETARY FUNDS WORKING CAPITAL:

The net working capital of the enterprise fund (current assets less current liabilities) was (\$106,435) at June 30, 2014.

NOTE 10 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

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.

CITY OF KREBS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.
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.

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

To the Honorable Mayor and Members of the City Council
City of Krebs
Krebs, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Krebs, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Krebs's basic financial statements and have issued my report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Krebs's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, I do not express an opinion of the effectiveness of City of Krebs's internal control.

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

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 that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of 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*.

Purpose of the Report

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

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
January 20, 2015