

**THE CITY OF WALTERS,  
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Walters, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.B., the City of Walters, Oklahoma prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.B.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide other assurance on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walters's financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note 1.B.

*Angel, Johnston & Blasingame, P.C.*

Chickasha, Oklahoma  
December 4, 2012

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The management of the City of Walters is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the City's total net assets increased by \$196,292, and the assets of the City exceed its liabilities at June 30, 2012, by \$8,935,110 (net assets). Of this amount, \$193,925 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$1,177,884.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$10,573 or 1.2% of General Fund revenues.

### **ABOUT THE CITY**

The City of Walters is an incorporated municipality with a population of approximately 2,551 located in Cotton County in southwestern Oklahoma. The City is a Council/Manager form of government and operates under home-rule charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body; four elected by ward and one elected at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a non-attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Public Works Authority and Industrial Authority, certain utility services including electric, water, wastewater, and sanitation, along with industrial development.

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***The City's Financial Reporting Entity***

This annual report includes all activities for which the City of Walters City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Walters** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City
- **The Walters Public Works Authority (WPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, electric and sanitation services of the City, with the City Council members serving as the trustees
- **The Walters Industrial Development Authority (WIDA)** - public trust created pursuant to 60 O.S. § 176 that promotes, develops and secures industrial development within the City

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the City of Walters (the "City"), the Walters Public Works Authority (the "Public Works Authority"), and the Walters Industrial Development Authority (the "Industrial Development Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the modified cash basis of accounting. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

**Reporting the City as a Whole**

***The Statement of Net Assets and Statement of Activities***

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its

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activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's electric, water, sewer, and sanitation utilities are reported as business-type activities.

### **Reporting the City's Most Significant Funds - Fund Financial Statements**

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - *governmental and proprietary* - use different accounting approaches.

*Governmental funds* - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

*Proprietary funds* - The City operates two proprietary funds, the Walters Public Works Authority (major fund), and the Walters Industrial Development Authority (non major fund). When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary funds are the Walters Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities, and the Walters Industrial Authority, which accounts for industrial development activity.

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**Notes to the Financial Statements**

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-42 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund, a federal and state award schedule, and a debt service coverage requirement schedule.

**THE CITY AS A WHOLE**

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$196,292.

Following is a summary of net assets reported on a modified cash basis for the City of Walters.

**The City of Walters' Net Assets (Modified Cash Basis)**  
**June 30, 2012**

TABLE 1  
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current and other assets	\$ 1,178	\$ 1,170	1%	\$ 156	\$ 275	-43%	\$ 1,335	\$ 1,444	-8%
Capital assets, net	3,544	3,401	4%	5,911	6,005	-2%	9,456	9,406	1%
Other non-current assets	-	-	0%	45	47	-5%	45	47	-5%
<b>Total assets</b>	<b>4,723</b>	<b>4,571</b>	<b>3%</b>	<b>6,112</b>	<b>6,327</b>	<b>-3%</b>	<b>10,835</b>	<b>10,898</b>	<b>-1%</b>
Current liabilities	19	18	7%	334	525	-36%	354	543	-35%
Non-current liabilities	21	40	-47%	1,525	1,575	-3%	1,546	1,615	-4%
<b>Total liabilities</b>	<b>41</b>	<b>58</b>	<b>-30%</b>	<b>1,859</b>	<b>2,101</b>	<b>-11%</b>	<b>1,900</b>	<b>2,159</b>	<b>-12%</b>
<b>Net assets</b>									
Invested in capital assets, net of related debt	3,401	3,343	2%	4,153	4,002	-4%	7,555	7,345	3%
Restricted	1,146	1,153	-1%	19	125	-85%	1,165	1,278	-9%
Unrestricted	135	16	749%	80	99	19%	215	115	-87%
<b>Total net assets</b>	<b>\$ 4,682</b>	<b>\$ 4,512</b>	<b>4%</b>	<b>\$ 4,253</b>	<b>\$ 4,226</b>	<b>1%</b>	<b>\$ 8,935</b>	<b>\$ 8,738</b>	<b>2%</b>

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

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The decrease in non-current liabilities of 47% in the governmental activities is due to debt payments on the fire truck in the amount of \$17,935. The decrease of 43% in current and other assets in the business-type activities was due to a decrease in the OWRB investments in the amount of \$105,753. The decrease of 36% of business-type current liabilities is due to a decrease in short-term notes payable of \$194,024.

**The City of Walters' Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)**  
**Year Ended June 30, 2012**

**TABLE 2**  
**CHANGES IN NET ASSETS (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
<b>Revenues</b>									
Charges for service	\$ 146	\$ 139	5%	\$ 3,341	\$ 3,074	9%	\$ 3,487	\$ 3,213	9%
Operating grants and contributions	34	37	-8%	-	16	-	34	53	-36%
Capital grants and contributions	137	70	96%	-	-	100%	137	70	96%
Taxes	520	492	6%	-	-	-	520	492	6%
Intergovernmental revenue	47	42	12%	-	-	-	47	42	12%
Investment income	9	13	-31%	61	62	-2%	70	75	-7%
Miscellaneous	50	36	39%	82	69	19%	132	105	26%
<b>Total revenues</b>	<b>943</b>	<b>830</b>	<b>14%</b>	<b>3,484</b>	<b>3,221</b>	<b>8%</b>	<b>4,427</b>	<b>4,051</b>	<b>9%</b>
<b>Expenses</b>									
General government	90	84	7%	-	-	-	90	84	7%
Public safety	525	504	4%	-	-	-	525	504	4%
Streets	397	406	-2%	-	-	-	397	406	-2%
Culture, parks and recreation	311	292	7%	-	-	-	311	292	7%
Cemetery	72	70	3%	-	-	-	72	70	3%
Airport	7	4	75%	-	-	-	7	4	75%
Interest on long-term debt	2	3	-33%	-	-	-	2	3	-33%
Electric	-	-	-	1,881	1,698	11%	1,881	1,698	11%
Water	-	-	-	554	464	19%	554	464	19%
Wastewater	-	-	-	163	114	43%	163	114	43%
Sanitation	-	-	-	230	216	6%	230	216	6%
<b>Total expenses</b>	<b>1,404</b>	<b>1,363</b>	<b>3%</b>	<b>2,828</b>	<b>2,492</b>	<b>13%</b>	<b>4,232</b>	<b>3,855</b>	<b>10%</b>
Excess (deficiency) before transfers	(461)	(533)	-14%	656	729	-10%	195	196	-1%
Transfers	629	543	16%	(629)	(543)	16%	-	-	
<b>Change in net assets</b>	<b>168</b>	<b>10</b>	<b>1580%</b>	<b>27</b>	<b>186</b>	<b>-85%</b>	<b>195</b>	<b>196</b>	<b>-1%</b>
Beginning net assets	4,513	4,502	0%	4,226	4,040	5%	8,739	8,542	2%
Ending net assets	<u>\$ 4,681</u>	<u>\$ 4,512</u>	<b>4%</b>	<u>\$ 4,253</u>	<u>\$ 4,226</u>	<b>1%</b>	<u>\$ 8,934</u>	<u>\$ 8,738</u>	<b>2%</b>

**Governmental Activities**

The City's governmental activities had an increase in net assets of \$169,480.

The increase in governmental activities capital grants and contributions of 178% was due to grants received from the Department of Commerce for the ADA Pool Bathhouse, airport grant and state aid grants for the library and rural fire.

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**TABLE 3  
Net Revenue (Expense) of Governmental Activities  
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	General government	\$ 90		\$ 84	7%	
Public safety	525	504	4%	(510)	(487)	5%
Streets	397	406	-2%	(375)	(382)	-2%
Culture, parks and recreation	311	292	7%	(124)	(179)	-31%
Cemetery	72	70	3%	(27)	(29)	-7%
Airport	7	4	75%	37	41	-10%
Interest on long-term debt	2	3	-33%	(2)	(3)	-33%
<b>Total</b>	<u>\$ 1,404</u>	<u>\$ 1,363</u>	3%	<u>\$ (1,086)</u>	<u>\$ (1,115)</u>	-3%

**Business-type Activities**

The business-type activities had an increase in net assets of \$26,812.

**TABLE 4  
Net Revenue (Expense) of Business-Type Activities  
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	Electric	\$ 1,881		\$ 1,698	11%	
Water	554	464	19%	(7)	38	118%
Wastewater	163	114	43%	102	110	-7%
Sanitation	230	216	6%	126	101	-25%
<b>Total</b>	<u>\$ 2,828</u>	<u>\$ 2,492</u>	13%	<u>\$ 513</u>	<u>\$ 597</u>	-14%

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$1,177,884. For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$5,282. The proprietary funds reported a combined net asset balance of \$4,252,909. The WPWA total net assets increased by \$24,962.

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**Budgetary Highlights**

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues under final estimates by \$89,495 or a 4.4% negative variance. General Fund actual expenditures were under final appropriations by \$73,515 or a 4% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2012, the City had approximately \$9.5 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets for the year ended June 30, 2012.<sup>1</sup>

**TABLE 5  
Capital Assets  
(In Thousands)  
(Net of accumulated depreciation)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 403	\$ 403	\$ 187	\$ 187	\$ 590	\$ 590
Water rights	-	-	402	402	402	402
Buildings	1,070	1,097	1,750	1,835	2,820	2,932
Imp. other than buildings	299	314	-	-	299	314
Machinery, furniture and equipment	682	732	789	723	1,471	1,455
Infrastructure	778	787	-	-	778	787
Utility property	-	-	2,783	2,853	2,783	2,853
Construction in progress	312	69	-	5	312	74
<b>Totals</b>	<b>\$ 3,544</b>	<b>\$ 3,402</b>	<b>\$ 5,911</b>	<b>\$ 6,005</b>	<b>\$ 9,455</b>	<b>\$ 9,407</b>

This year's more significant capital asset additions include the following:

- Caterpillar mower
- Cemetery fencing
- 2012 Freightliner trash truck
- Transformers

**Debt Administration**

At year-end, the City had \$1,797,950 in long-term debt outstanding, reported on a modified cash basis, which represents a \$262,890 decrease from the prior year.

<sup>1</sup> For more detailed information on capital asset activity please refer to page 34, Note 3. Capital Assets and Depreciation

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**TABLE 6  
Long-Term Debt  
(In Thousands)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Contracts payable	\$ -	\$ -	\$ 717	\$ 744	\$ 717	\$ 744	-3.6%
Notes payable	-	-	1,008	1,200	1,008	1,200	-16.0%
Capital leases	40	58	33	59	73	117	-37.6%
<b>Totals</b>	<u>\$ 40</u>	<u>\$ 58</u>	<u>\$ 1,758</u>	<u>\$ 2,003</u>	<u>\$ 1,798</u>	<u>\$ 2,061</u>	-12.8%

**ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2013 budget is consistent to prior years.

**Contacting the City's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at P.O. Box 485, Walters, Oklahoma 73572 or telephone at 580-875-3337.

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**BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES**

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**Statement of Net Assets (Modified Cash Basis) – June 30, 2011**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 51,895	\$ 13,122	\$ 65,017
Restricted cash and cash equivalents	-	48,535	48,535
Investments	1,126,500	24,542	1,151,042
Restricted investments	-	70,000	70,000
Capital Assets:			
Land and construction in progress	715,369	186,858	902,227
Water rights	-	401,713	401,713
Other capital assets, net of depreciation	2,829,041	5,322,689	8,151,730
Unamortized note issuance costs	-	44,702	44,702
Total Assets	<u>4,722,805</u>	<u>6,112,161</u>	<u>10,834,966</u>
<b>LIABILITIES</b>			
Due to other governments	511	1,978	2,489
Due to depositors	-	99,417	99,417
Long-term liabilities:			
Due within one year	18,770	232,825	251,595
Due in more than one year	21,323	1,525,032	1,546,355
Total liabilities	<u>40,604</u>	<u>1,859,252</u>	<u>1,899,856</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,401,453	4,153,403	7,554,856
Restricted for:			
Nonexpendable endowment	1,000,000	-	1,000,000
Cemetery	141,264	-	141,264
Debt service	4,891	19,118	24,009
Unrestricted	134,593	80,388	214,981
Total net assets	<u>\$ 4,682,201</u>	<u>\$ 4,252,909</u>	<u>\$ 8,935,110</u>

See accompanying notes to these financial statements.

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**Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental Activities							
General Government	\$ 89,435	\$ 4,664	\$ -	\$ -	\$ (84,771)	\$ -	\$ (84,771)
Public Safety	525,199	11,193	4,413	-	(509,593)	-	(509,593)
Highways and streets	397,422	-	22,314	-	(375,108)	-	(375,108)
Culture and Recreation	310,616	85,584	7,469	93,921	(123,642)	-	(123,642)
Cemetery	72,077	44,620	-	-	(27,457)	-	(27,457)
Airport	6,571	-	-	43,329	36,758	-	36,758
Interest on Long-term debt	2,274	-	-	-	(2,274)	-	(2,274)
Total governmental activities	<u>1,403,594</u>	<u>146,061</u>	<u>34,196</u>	<u>137,250</u>	<u>(1,086,087)</u>	<u>-</u>	<u>(1,086,087)</u>
Business-type activities							
Electric	1,881,038	2,172,909	-	-	-	291,871	291,871
Water	553,844	546,352	-	-	-	(7,492)	(7,492)
Wastewater	162,680	265,311	-	-	-	102,631	102,631
Sanitation	230,198	356,308	-	-	-	126,110	126,110
Administration	-	-	-	-	-	-	-
Total business-type activities	<u>2,827,760</u>	<u>3,340,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>513,120</u>	<u>513,120</u>
Total primary government	<u>4,231,354</u>	<u>3,486,941</u>	<u>34,196</u>	<u>137,250</u>	<u>(1,086,087)</u>	<u>513,120</u>	<u>(572,967)</u>
<b>General revenues:</b>							
Taxes:							
Sales and use taxes					\$ 498,607	\$ -	\$ 498,607
Franchise taxes and public service taxes					21,270	-	21,270
Intergovernmental revenue not restricted to specific programs					46,759	-	46,759
Unrestricted investment earnings					9,001	61,047	70,048
Miscellaneous					51,130	81,445	132,575
Transfers					<u>628,800</u>	<u>(628,800)</u>	<u>-</u>
Total general revenues and transfers					<u>1,255,567</u>	<u>(486,308)</u>	<u>769,259</u>
Change in net assets					169,480	26,812	196,292
Net assets - beginning					4,512,721	4,226,097	8,738,818
Net assets - ending					<u>\$ 4,682,201</u>	<u>\$ 4,252,909</u>	<u>\$ 8,935,110</u>

See accompanying notes to these financial statements.

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF WALTERS, OKLAHOMA**  
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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 13,212	\$ 21,056	\$ 17,627	\$ 51,895
Investments	-	1,000,000	126,500	1,126,500
Due from other funds	-	-	2,128	2,128
Total assets	<u>13,212</u>	<u>1,021,056</u>	<u>146,255</u>	<u>1,180,523</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	2,128	-	-	2,128
Due to other governments	511	-	-	511
Total liabilities	<u>2,639</u>	<u>-</u>	<u>-</u>	<u>2,639</u>
Fund balances:				
Nonspendable:				
Nonexpendable permanent endowment	-	1,000,000	-	1,000,000
Restricted:				
Cemetery	-	-	141,264	141,264
Debt service	-	-	4,891	4,891
Assigned for capital projects	-	-	100	100
Unassigned	10,573	21,056	-	31,629
Total fund balances	<u>10,573</u>	<u>1,021,056</u>	<u>146,255</u>	<u>1,177,884</u>
Total liabilities and fund balances	<u>\$ 13,212</u>	<u>\$ 1,021,056</u>	<u>\$ 146,255</u>	<u>\$ 1,180,523</u>

See accompanying notes to these financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**  
**(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 519,877	\$ -	\$ -	\$ 519,877
Intergovernmental	153,363	-	64,842	218,205
Charges for services	131,670	-	5,744	137,414
Fines and forfeitures	6,549	-	-	6,549
Licenses and permits	2,643	-	-	2,643
Investment income	1,461	7,514	26	9,001
Miscellaneous	45,400	-	25	45,425
Total revenues	<u>860,963</u>	<u>7,514</u>	<u>70,637</u>	<u>939,114</u>
<b>EXPENDITURES</b>				
Current:				
General government	88,649	-	-	88,649
Public Safety	470,468	-	-	470,468
Highway and streets	379,194	-	-	379,194
Culture and recreation	255,987	-	-	255,987
Cemetery	74,148	-	-	74,148
Airport	69,028	-	-	69,028
Capital Outlay	205,157	-	-	205,157
Debt Service:				
Principal	4,484	-	13,451	17,935
Interest and other charges	568	-	1,706	2,274
Total Expenditures	<u>1,547,683</u>	<u>-</u>	<u>15,157</u>	<u>1,562,840</u>
Excess (deficiency) of revenues over expenditures	<u>(686,720)</u>	<u>7,514</u>	<u>55,480</u>	<u>(623,726)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the sale of capital assets	9,160	-	-	9,160
Transfers in	1,144,540	-	15,718	1,160,258
Transfers out	<u>(472,262)</u>	<u>-</u>	<u>(64,842)</u>	<u>(537,104)</u>
Total other financing sources and uses	<u>681,438</u>	<u>-</u>	<u>(49,124)</u>	<u>632,314</u>
Net change in fund balances	(5,282)	7,514	6,356	8,588
Fund balances - beginning	15,855	1,013,542	139,899	1,169,296
Fund balances - ending	<u>\$ 10,573</u>	<u>\$ 1,021,056</u>	<u>\$ 146,255</u>	<u>\$ 1,177,884</u>

See accompanying notes to these financial statements.

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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Total fund balance, governmental funds	\$	1,177,884
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
		3,544,410
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
		(40,093)
		4,682,201
Net Assets of Governmental Activities in the Statement of Net Assets		4,682,201

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net change in fund balances - total governmental funds:	\$	8,588
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays for capital assets as expenditures while governmental activities report depreciaton expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		282,894
Depreciation expense		(135,937)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold:		
Book value of disposed capital assets		(4,000)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		17,935
Change in net assets of governmental activities	\$	169,480

See accompanying notes to these financial statements.

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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**

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**Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2012**

	<u>Walters Public Works Authority</u>	<u>Non-major Enterprise Fund Walters Industrial Development Authority</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,820	\$ 10,302	\$ 13,122
Investments	17,000	7,542	24,542
Restricted:			
Restricted cash and cash equivalents	48,535	-	48,535
Restricted investments	70,000	-	70,000
Total current assets	<u>138,355</u>	<u>17,844</u>	<u>156,199</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	79,804	107,054	186,858
Water rights	401,713	-	401,713
Other capital assets, net of accumulated depreciation	5,322,689	-	5,322,689
Unamortized note issue costs	44,702	-	44,702
Total non-current assets	<u>5,848,908</u>	<u>107,054</u>	<u>5,955,962</u>
Total assets	<u><u>5,987,263</u></u>	<u><u>124,898</u></u>	<u><u>6,112,161</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other governments	1,978	-	1,978
Deposits subject to refund	99,417	-	99,417
Capital lease payable	26,172	-	26,172
Contracts payable	22,743	-	22,743
Notes payable	183,910	-	183,910
Total current liabilities	<u>334,220</u>	<u>-</u>	<u>334,220</u>
Non-current liabilities:			
Capital lease payable	6,231	-	6,231
Contracts payable	694,505	-	694,505
Notes payable	824,296	-	824,296
Total non-current liabilities	<u>1,525,032</u>	<u>-</u>	<u>1,525,032</u>
Total liabilities	<u><u>1,859,252</u></u>	<u><u>-</u></u>	<u><u>1,859,252</u></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,046,349	107,054	4,153,403
Restricted for debt service	19,118	-	19,118
Unrestricted	62,544	17,844	80,388
Total net assets	<u><u>\$ 4,128,011</u></u>	<u><u>\$ 124,898</u></u>	<u><u>\$ 4,252,909</u></u>

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA**  
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**Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012**

	<b>Walters Public Works Authority</b>	<b>Non-major Enterprise Fund Walters Industrial Development Authority</b>	<b>Total Proprietary Funds</b>
<b>Operating Revenues:</b>			
Electric	\$ 2,172,909	\$ -	\$ 2,172,909
Water	546,352	-	546,352
Sewer	265,311	-	265,311
Sanitation	356,308	-	356,308
Miscellaneous	46,389	-	46,389
Total operating revenues	<u>3,387,269</u>	<u>-</u>	<u>3,387,269</u>
<b>OPERATING EXPENSES</b>			
Electric	1,458,954	-	1,458,954
Water	346,935	-	346,935
Sewer	72,598	-	72,598
Sanitation	169,962	-	169,962
General government	474,616	-	474,616
Depreciation expense	254,868	-	254,868
Amorization expense	2,501	-	2,501
Total operating expenses	<u>2,780,434</u>	<u>-</u>	<u>2,780,434</u>
Operating income	<u>606,835</u>	<u>-</u>	<u>606,835</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	60,946	101	61,047
Miscellaneous revenue	15,550	1,749	17,299
Gain on sale of capital asset	17,757	-	17,757
Interest expense	(47,326)	-	(47,326)
Total non-operating revenue (expenses)	<u>46,927</u>	<u>1,850</u>	<u>48,777</u>
Income before contributions and transfers	653,762	1,850	655,612
Transfers in	537,104	-	537,104
Transfers out	(1,165,904)	-	(1,165,904)
Change in net assets	24,962	1,850	26,812
Total net assets - beginning	4,103,049	123,048	4,226,097
Total net assets - ending	<u>\$ 4,128,011</u>	<u>\$ 124,898</u>	<u>\$ 4,252,909</u>

See accompanying notes to these financial statements.

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**Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012**

	Walters Public Works Authority	Non-major Enterprise Fund Walters Industrial Authority	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,387,269	\$ 1,749	\$ 3,389,018
Payments to suppliers	(1,900,420)	-	(1,900,420)
Payments to employees	(622,645)	-	(622,645)
Interfund receipts/payments	(1,974)	-	(1,974)
Receipts of customer meter deposits	23,909	-	23,909
Refunds of customer meter deposits	(18,375)	-	(18,375)
Other receipts	15,550	-	15,550
<b>Net cash provided by operating activities</b>	<b>883,314</b>	<b>1,749</b>	<b>885,063</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	537,199	-	537,199
Transfers to other funds	(1,165,999)	-	(1,165,999)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(628,800)</b>	<b>-</b>	<b>(628,800)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(161,271)	-	(161,271)
Proceeds from debt	222,389	-	222,389
Principal paid on debt	(467,344)	-	(467,344)
Proceeds from sale of asset	17,757	-	17,757
Interest and fiscal agent fees paid on debt	(47,326)	-	(47,326)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(435,795)</b>	<b>-</b>	<b>(435,795)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	-	(85)	(85)
Interest and dividends	60,946	101	61,047
<b>Net cash provided by investing activities</b>	<b>60,946</b>	<b>16</b>	<b>60,962</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(120,335)</b>	<b>1,765</b>	<b>(118,570)</b>
<b>Balances - beginning of year</b>	<b>171,690</b>	<b>8,537</b>	<b>180,227</b>
<b>Balances - end of year</b>	<b>\$ 51,355</b>	<b>\$ 10,302</b>	<b>\$ 61,657</b>
<b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents	2,820	10,302	13,122
Restricted cash and cash equivalents - current	48,535	-	48,535
<b>Total cash and cash equivalents, end of year</b>	<b>51,355</b>	<b>10,302</b>	<b>61,657</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income	\$ 606,835	\$ -	\$ 606,835
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	254,868	-	254,868
Amortization expense	2,501	-	2,501
Miscellaneous revenue	15,550	1,749	17,299
Change in assets and liabilities:			
Due to other governments	(1,974)	-	(1,974)
Due from other funds	1,633	-	1,633
Due to other funds	(1,633)	-	(1,633)
Deposits subject to refund	5,534	-	5,534
<b>Net cash provided by operating activities</b>	<b>\$ 883,314</b>	<b>\$ 1,749</b>	<b>\$ 885,063</b>

See accompanying notes to these financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

**Footnotes to the Basic Financial Statements:**

**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City's financial reporting entity includes the primary government (City of Walters) and two component units.

- **The City of Walters**– that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities
- **The City of Walters Public Works Authority** – that operates the electric, water, wastewater and sanitation services of the City
- **The City of Walters Industrial Development Authority** – that promotes, develops and secures industrial development within the City

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and, through its public trusts, certain utility services including electric, water, wastewater, and sanitation, and economic development activities.

Both component units (Authorities) have the City Council as their governing body (trustees) and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

In determining the financial reporting entity, the City fully complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" that requires all component units of which the City is financially accountable be included in the financial report.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authorities. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents

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and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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 for billed or provided services not yet collected, and accrued revenue and receivables) 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.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits, mowing fees
- Public safety: Fine revenue, impound fees, fire runs and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Culture and recreation: Golf course and swimming pool rentals and fees

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

*Governmental Funds:*

The City's governmental funds are comprised of the following:

**Major Funds:**

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Graham Trust Fund – a permanent fund that accounts for an irrevocable certificate of deposit donated to the City for use of interest earnings as deemed by the City Council

**Non-Major Funds (Reported as Other Governmental Funds):**

- Cemetery Permanent Fund – a capital project fund that accounts for 12.5 percent of cemetery revenues restricted by State law for cemetery capital improvements
- Capital Outlay Fund – a debt service fund that accounts for \$1 meter charge assessed for fire truck capital lease obligation

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

*Proprietary Funds:*

The City's proprietary funds are comprised of the following:

**Major Fund:**

- Walters Public Works Authority (WPWA) – accounts for the operation of the electric, water, wastewater, and sanitation activities

**Non-Major Fund:**

- Walters Industrial Development Authority (WIDA) – accounts for industrial development activities

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

**D. Capital Assets and Depreciation**

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1998. Prior to July 1, 2001, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2001 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings- up to 99 years
- Machinery, furniture and equipment - 3-25 years
- Utility property and improvements - 60 years
- Infrastructure - up to 60 years

#### **E. Long-Term Debt**

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

#### **F. Compensated Absences**

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 9.

#### **G. Fund Balances and Net Assets**

##### *Fund Statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

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- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### **H. Internal and Interfund Balances and Transfers**

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

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**I. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

**2. Deposits and Investments**

For the year ended June 30, 2012, the City recognized \$70,048 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2012, the primary government held the following deposits and investments:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
<b>Deposits:</b>			
Petty cash			\$ 1,709
Demand deposits			93,991
Time deposits			1,221,042
Money market mutual funds:			
Cavanal Hill U.S. Treasury - Admin fund	N/A	AAAm	17,852
			<u>\$ 1,334,594</u>
<b>Total deposits and investments</b>			<u><u>\$ 1,334,594</u></u>
 <b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents			\$ 65,017
Restricted cash and cash equivalents			48,535
Investments			1,151,042
Restricted investments			70,000
			<u>\$ 1,334,594</u>

*Custody Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was not exposed to custodial credit risk as defined above.

*Investment Interest Rate Risk* - the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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*Investment Credit Risk* - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2012, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

*Concentration of Investment Credit Risk* - the City places no limit on the amount it may invest in any one issuer.

*Restricted Cash and Investments* - The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2012 are as follows:

<u>Type of Restricted Asset</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Utility Deposits	\$ 29,417	\$ 70,000
OWRB Debt Service	17,852	-
UDAG Savings	1,266	-
Total	<u>\$ 48,535</u>	<u>\$ 70,000</u>

### 3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital assets balances changed as follows:

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	Balance at July 01, 2011	Additions	Disposals	Transfers	Balance at June 30, 2012
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	\$ 403,040	\$ -	\$ -	\$ -	\$ 403,040
Construction in progress	68,661	243,668	-	-	312,329
Total capital assets not being depreciated	<u>471,701</u>	<u>243,668</u>	<u>-</u>	<u>-</u>	<u>715,369</u>
Other capital assets:					
Buildings	1,794,313	6,294	-	-	1,800,607
Improvements	419,219	14,490	-	-	433,709
Infrastructure	799,114	-	-	-	799,114
Machinery, furniture and equipment	1,775,759	18,442	5,200	-	1,789,001
Total other capital assets at historical cost	<u>4,788,405</u>	<u>39,226</u>	<u>5,200</u>	<u>-</u>	<u>4,822,431</u>
Less accumulated depreciation for:					
Buildings	697,461	32,935	-	-	730,396
Improvements	104,703	30,381	-	-	135,084
Infrastructure	12,469	8,253	-	-	20,722
Machinery, furniture and equipment	1,044,020	64,368	1,200	-	1,107,188
Total accumulated depreciation	<u>1,858,653</u>	<u>135,937</u>	<u>1,200</u>	<u>-</u>	<u>1,993,390</u>
Other capital assets, net	2,929,752	(96,711)	4,000	-	2,829,041
Governmental activities capital assets, net	<u>\$ 3,401,453</u>	<u>\$ 146,957</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 3,544,410</u>
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 186,859	\$ -	\$ -	\$ -	\$ 186,859
Water Rights	401,713	-	-	-	401,713
Construction in progress	4,650	-	4,650	-	-
Total capital assets not being depreciated	<u>593,222</u>	<u>-</u>	<u>4,650</u>	<u>-</u>	<u>588,572</u>
Other capital assets:					
Buildings	3,772,620	2,320	-	-	3,774,940
Machinery, furniture and equipment	1,475,777	139,218	56,500	-	1,558,495
Utility property	4,692,295	27,591	-	-	4,719,886
Total other capital assets at historical cost	<u>9,940,692</u>	<u>169,129</u>	<u>56,500</u>	<u>-</u>	<u>10,053,321</u>
Less accumulated depreciation for:					
Buildings	1,938,025	85,892	-	-	2,023,917
Machinery, furniture and equipment	752,915	70,164	53,291	-	769,788
Utility Property Improvements	1,838,116	98,811	-	-	1,936,927
Total accumulated depreciation	<u>4,529,056</u>	<u>254,867</u>	<u>53,291</u>	<u>-</u>	<u>4,730,632</u>
Other capital assets, net	5,411,636	(85,738)	3,209	-	5,329,689
Business-type activities capital assets, net	<u>\$ 6,004,858</u>	<u>\$ (85,738)</u>	<u>\$ 7,859</u>	<u>\$ -</u>	<u>\$ 5,911,261</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

**Governmental Activities:**

General government	\$ 786
Public safety	57,005
Highways and streets	15,965
Culture and recreation	54,882
Cemetery	7,299
	<u>\$ 135,937</u>

**Business-Type Activities:**

Electric	\$ 109,858
Water	108,510
Sewer	30,091
Sanitation	6,408
	<u>\$ 254,867</u>

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**4. Long-Term Debt and Debt Service Requirements**

Type of Debt	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
<b>Governmental Activities:</b>					
Capital lease payable	\$ 58,028	\$ -	\$ 17,935	\$ 40,093	18,770
Total Governmental Activities	<u>\$ 58,028</u>	<u>\$ -</u>	<u>\$ 17,935</u>	<u>\$ 40,093</u>	<u>\$ 18,770</u>
<b>Business-Type Activities:</b>					
Notes Payable	\$ 1,199,595	\$ 222,389	\$ 413,778	\$ 1,008,206	183,910
Capital lease payable	59,204	-	26,801	32,403	26,172
Contracts payable	744,013	-	26,765	717,248	22,743
Total Business-Type Activities	<u>2,002,812</u>	<u>222,389</u>	<u>467,344</u>	<u>1,757,857</u>	<u>232,825</u>
Total Long-Term Debt	<u>\$ 2,060,840</u>	<u>\$ 222,389</u>	<u>\$ 485,279</u>	<u>\$ 1,797,950</u>	<u>\$ 251,595</u>

**Reconciliation to Statement of Net Assets:**

**Governmental Activities:**

Due within one year	\$ 18,770
Due in more than one year	21,323
Total Governmental Activities Long-term liabilities	<u>\$ 40,093</u>

**Business-Type Activities:**

Due within one year	\$ 232,825
Due in more than one year	1,525,032
Total Business-Type Activities Long-term liabilities	<u>\$ 1,757,857</u>

*Governmental Activities:*

At June 30, 2012, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable

Lease obligation for purchase of fire truck, payable in 120 monthly installments of \$1,684, interest of 4.56%.	\$ 40,093
Total Capital Leases Payable	<u>\$ 40,093</u>
Current portion	18,770
Noncurrent portion	21,323
Total Capital Leases Payable	<u>\$ 40,093</u>

*Business-Type Activities:*

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to City's business-type activities at June 30, 2012, includes the following:

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Long-Term Note Commitments

OWRB Promissory Note dated December 23, 2009, original amount \$1,326,407, due in semi-annual principal installments each March 15 and September 15, final installment due September 2030, interest rate of 2.21%. The note is secured by a pledge of net utility revenues, certain sales tax revenues, and a mortgage on the facilities.	\$	772,190
Note payable to Welch State Bank, original amount of \$112,369, payable in monthly installments of \$2,483 with a 2.9% interest rate, final payment due April 2016.		107,943
Note payable to Walters Bank and Trust, original amount of \$41,420, payable in monthly installments of \$1,248 with a 5.5% interest rate, final payment due September 2013.		18,053
Note payable to Walters Bank and Trust, original amount of \$110,020, payable in monthly installments of \$10,186 with a 5.5% interest rate, final payment due June 2013.		110,020
<b>Total Notes Payable</b>	<b>\$</b>	<b><u>1,008,206</u></b>
Current portion		183,910
Noncurrent portion		824,296
<b>Total Notes Payable</b>	<b>\$</b>	<b><u>1,008,206</u></b>

Capital Lease Obligations Payable

Lease obligation for purchase of dumpsters, original amount of \$54,055, payable in monthly installments of \$1,019 with a 4.96% interest rate, final payment due September 2013.	\$	14,766
Lease obligation for purchase of polycarts, original amount of \$66,248, payable in monthly installments of \$1,249 with a 4.96% interest rate, final payment due September 2013.		<u>17,637</u>
<b>Total Capital Leases Payable</b>	<b>\$</b>	<b><u>32,403</u></b>
Current portion		26,172
Noncurrent portion		6,231
<b>Total Capital Leases Payable</b>	<b>\$</b>	<b><u>32,403</u></b>

Contracts Payable

Contract payable to the Waurika Project Master Conservancy District, original amount of \$110,423, for use of water facility, payable in 50 annual installments of \$5,155, final maturity in November 2026. Contract is secured by water revenues of the WPWA.	\$	56,067
Contract payable to the Waurika Project Master Conservancy District, original amount of \$401,713, for use of water facility, payable in 50 annual installments of \$7,746, final maturity in October 2035. Contract is secured by water revenues of the WPWA.		380,470
Contract payable to the Waurika Project Master Conservancy District, original amount of \$498,862 for use of water conveyance facility, Payable in 50 annual installments of \$20,422, final maturity in March 2031. Contract is secured by water revenues of the WPWA.		<u>280,711</u>
<b>Total Contracts Payable</b>	<b>\$</b>	<b><u>717,248</u></b>
Current portion		22,743
Noncurrent portion		694,505
<b>Total Contracts Payable</b>	<b>\$</b>	<b><u>717,248</u></b>

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The assets acquired through capital leases are as follows:

Assets:	
Machinery and equipment	\$356,450
Less: accumulated depreciation	<u>32,361</u>
Total net assets	<u>\$324,089</u>

Long-term debt service requirements to maturity are as follows:

Year Ended June 30,	Governmental	
	Capital Lease Obligations	
	Principal	Interest
2013	\$18,770	\$1,439
2014	19,645	565
2015	<u>1,678</u>	<u>6</u>
Total	<u>\$40,093</u>	<u>\$2,010</u>

Year Ended June 30,	Business-Type					
	Notes Payable		Contracts		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$183,910	\$30,465	\$22,743	\$28,617	\$26,172	\$469
2014	64,951	22,116	23,626	27,734	6,231	25
2015	62,987	20,338	24,545	26,815	-	-
2016	59,761	18,598	25,500	25,860	-	-
2017	36,286	17,247	26,492	24,868	-	-
2018-2022	197,019	70,649	148,773	108,057	-	-
2023-2027	225,834	41,835	179,929	76,612	-	-
2028-2032	177,458	9,908	181,559	39,731	-	-
2033-2037	-	-	84,081	6,761	-	-
Total	<u>\$1,008,206</u>	<u>\$231,156</u>	<u>\$717,248</u>	<u>\$365,055</u>	<u>\$32,403</u>	<u>\$494</u>

Interest expense was charged to functions as follows in the Statement of Activities:

Business-Type Activities:

Electric	\$ 3,537
Water	18,280
Sewer	22,292
Sanitation	<u>3,217</u>
Total Interest Expense	<u>\$ 47,326</u>

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**Pledge of Future Revenues**

*Sales Tax and Utility Net Revenues Pledge* - The City has pledged three cents (or 100%) of future sales tax revenue and utility revenues to repay the \$1,326,407 Series 2009 OWRB Promissory Notes. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and net utility revenues and are payable through 2030. The total principal and interest payable for the remainder of the life of the notes is \$990,369. Pledged sales taxes (three cents) received in the current year were \$472,262 and net utility revenues (not including investment income) were \$864,204. Debt service payments of \$64,532 for the current fiscal year were 4.8% of both pledged sales taxes and net utility revenues of \$1,336,466.

*Utility Net Revenues Pledge* - The City has pledged future net water utility revenues to repay the \$1,023,564 Waurika Project Master Conservancy District contracts payable. Proceeds from the contracts provided financing for capital assets. The contracts are payable from net water revenues and are payable through 2035. The total principal and interest payable for the remainder of the life of these contracts is \$1,082,303. Net water utility revenues were \$199,417. Debt service payments of \$55,245 for the current fiscal year were 27.7% of net water utility revenues.

**5. Sales Tax Revenue**

Sales tax revenue represents a 3 cent tax on each dollar of taxable sales of which 1 cent is transferred to the Walters Public Works Authority and used to secure debt payments.

**6. Internal Balances and Transfers Between Legal Entities**

Internal balances between fund and legal entities are comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
Cemetery General Fund	Cemetery Permanent Fund	\$ 2,128	Reimburse cemetery revenue still owed
Total		<u>\$ 2,128</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 2,128	\$ (2,128)	\$ -
Proprietary Funds	-	-	-
Total	<u>\$ 2,128</u>	<u>\$ (2,128)</u>	<u>\$ -</u>

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Transfers between funds and legal entities are comprised of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	WPWA	\$ 472,262	Sales tax transfer
CDBG Fund	WPWA	64,842	To reimburse expenses
WPWA	Cemetery Fund	11,665	Operational subsidy
WPWA	General Fund	472,262	Sales tax transfer
WPWA	General Fund	9,613	Adjustment to utility receivable
WPWA	General Fund	651,000	Operational subsidy
WPWA	CDBG Fund	100	To start CDBG Fund
WPWA	Capital Outlay Fund	15,618	Operational subsidy
Total		<u>\$ 1,697,362</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,160,258	\$ (537,104)	\$ 623,154
Proprietary Funds	537,104	(1,165,904)	(628,800)
	<u>\$ 1,697,362</u>	<u>\$ (1,703,008)</u>	<u>(5,646)</u>

**Reconciliation to Statement of Activities:**

Governmental activity capital assets bought by Business-type activities	<u>5,646</u>
	<u>-</u>

## 7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Building and Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.
- Workers' Compensation – Workers' compensation is covered through purchase of commercial insurance – CompSource Oklahoma.
- Employee's Group Health and Life – Covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.

The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claims reserves and other purposes for the benefit of the city. Management believes such insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City, and such claims have not exceeded the coverage over the past three fiscal years.

**8. Retirement Plan Participation**

The City participates in two employee retirement plans:

*Oklahoma State Firefighters Pension System*

Pursuant to the requirements of Title 11, section 22-102, the City of Walters participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan, while the City is required by state law to contribute 13% per year per firefighter to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The City's obligation to fund the plan extends only to making the statutorily required contributions.

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$ 15,039	\$ 15,039
2011	14,632	14,632
2012	15,556	15,556

A copy of the Firefighters Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 Lincoln Blvd. Suite 263, Oklahoma City, OK, 73105-3707.

*Principal Mutual Life Defined Contribution Plan*

The City provides a pension benefit for all of its full-time employees with the exception of the fire department, through a defined contribution plan. The plan is administered by the City and plan assets are supervised by Principal Mutual Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate six months from the date of employment. Employee contributions were equal to an amount not less than 4% and not to exceed 10% of total earnings with employer contributions equal to 7.7% of the employee's total salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after six years continuous service. The authority to establish and amend the provisions of the Plan rests with the City Council.

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
2010	\$ 36,868	\$ 58,045
2011	36,014	55,926
2012	39,256	58,627

**9. Commitments and Contingencies**

*Compensated Absences:*

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012, is summarized as follows:

- City – Accrued compensated absences \$134,008
- WPWA – Accrued compensated absences \$183,886

*Commitments:*

The City has the following on-going construction projects for which there are outstanding construction contracts. Total expenditures as of June 30, 2012 are as follows:

- Pool House Renovation Project - \$183,360
- Dollar General Street Construction - \$2,932
- Airport Runway, Rehabilitation and Reconstruction Project - \$126,037

*Litigation:*

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

*Federal and State Award Programs:*

The City of Walters participates in various federal or state grant/loan programs from year to year. In 2012, the City's involvement in federal and state award programs was not material. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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**SUPPLEMENTAL INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Beginning Budgetary Fund Balance:</b>	\$ (236)	\$ (236)	\$ 11,532	\$ 11,768
<b>Resources (Inflows):</b>				
Taxes	503,304	503,304	519,877	16,573
Intergovernmental	312,404	312,404	153,363	(159,041)
Charges for services	82,219	82,578	92,794	10,216
Fines and forfeitures	9,124	9,124	6,549	(2,575)
Licenses and permits	5,728	5,728	2,643	(3,085)
Investment Income	19	19	183	164
Miscellaneous	11,521	11,164	36,771	25,607
Transfers In	580,364	1,110,229	1,132,875	22,646
<b>Total Resources (Inflows)</b>	<u>1,504,683</u>	<u>2,034,550</u>	<u>1,945,055</u>	<u>(89,495)</u>
<b>Amounts available for appropriation</b>	<u>1,504,447</u>	<u>2,034,314</u>	<u>1,956,587</u>	<u>(77,727)</u>
<b>Charges to Appropriations (Outflows):</b>				
Police	240,395	239,635	239,983	(348)
Fire	238,476	258,477	235,537	22,940
Streets	307,456	407,262	405,328	1,934
Parks	233,152	233,533	233,815	(282)
General government	90,939	90,937	88,649	2,288
Library	50,995	51,375	51,763	(388)
Airport	49,449	70,781	69,028	1,753
Golf course	132,440	152,439	149,432	3,007
Transfer out	161,145	514,873	472,262	42,611
<b>Total Charges to Appropriations</b>	<u>1,504,447</u>	<u>2,019,312</u>	<u>1,945,797</u>	<u>73,515</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ -</u>	<u>\$ 15,002</u>	<u>\$ 10,790</u>	<u>\$ (4,212)</u>

CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012, (Cont.)**

**Footnotes to Budgetary Comparison Schedules:**

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year-end, therefore encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.
3. The actual amounts on the budgetary comparison schedules differ from the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance due to a difference in the presentation of the General Fund. In the governmental fund statements, the General Fund includes the Cemetery General Fund. This fund did not meet the definition of special revenue funds as defined in GASB 54. The detail of the differences is as follows:

Resources - Budgetary Comparison Schedule	\$ 1,945,055
Cemetery General Fund revenue	57,943
Cemetery General Fund transfer in	11,665
Revenue - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 2,014,663</u>
Charges to appropriations - Budgetary Comparison Schedule	\$ 1,945,797
Cemetery General Fund expenditures	74,148
Expenditures - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 2,019,945</u>

**CITY OF WALTERS, OKLAHOMA  
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**Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – June 30, 2012**

	<u>Capital Project Funds</u>		<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
	<u>Cemetery Permanent Fund</u>	<u>CDBG Fund</u>	<u>Capital Outlay Fund</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 12,636	\$ 100	\$ 4,891	\$ 17,627
Investments	126,500	-	-	126,500
Due from other funds	2,128	-	-	2,128
Total assets	<u>141,264</u>	<u>100</u>	<u>4,891</u>	<u>146,255</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balances:				
Restricted for:				
Cemetery	141,264	-	-	141,264
Debt service	-	-	4,891	4,891
Assigned for capital projects	-	100	-	100
Total fund balances	<u>141,264</u>	<u>100</u>	<u>4,891</u>	<u>146,255</u>
Total liabilities and fund balances	<u>\$ 141,264</u>	<u>\$ 100</u>	<u>\$ 4,891</u>	<u>\$ 146,255</u>

**CITY OF WALTERS, OKLAHOMA**  
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**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds**  
**(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Capital Project Funds</u>		<u>Debt Service Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>Cemetery Permanent Fund</u>	<u>CDBG Fund</u>	<u>Capital Outlay Fund</u>	
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ 64,842	\$ -	\$ 64,842
Charges for services	5,744	-	-	5,744
Investment income	18	-	8	26
Miscellaneous	25	-	-	25
Total revenues	<u>5,787</u>	<u>64,842</u>	<u>8</u>	<u>70,637</u>
<b>EXPENDITURES</b>				
Debt Service:				
Principal	-	-	13,451	13,451
Interest and other charges	-	-	1,706	1,706
Total Expenditures	<u>-</u>	<u>-</u>	<u>15,157</u>	<u>15,157</u>
Excess (deficiency) of revenues over expenditures	<u>5,787</u>	<u>64,842</u>	<u>(15,149)</u>	<u>55,480</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	100	15,618	15,718
Transfers out	-	(64,842)	-	(64,842)
Total other financing sources and uses	<u>-</u>	<u>(64,742)</u>	<u>15,618</u>	<u>(49,124)</u>
Net change in fund balances	5,787	100	469	6,356
Fund balances - beginning	135,477	-	4,422	139,899
Fund balances - ending	<u>\$ 141,264</u>	<u>\$ 100</u>	<u>\$ 4,891</u>	<u>\$ 146,255</u>

CITY OF WALTERS, OKLAHOMA  
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**Combining Schedule of Balance Sheet Accounts – General Fund Accounts (Modified Cash Basis) – June 30, 2012**

	<b>General Fund</b>	<b>Cemetery General</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,301	\$ 1,911	\$ 13,212
Total assets	11,301	1,911	13,212
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	-	2,128	2,128
Due to other governments	511	-	511
Total liabilities	511	2,128	2,639
Fund balances:			
Unassigned	10,790	(217)	10,573
Total fund balances	10,790	(217)	10,573
Total liabilities and fund balances	\$ 11,301	\$ 1,911	\$ 13,212

CITY OF WALTERS, OKLAHOMA  
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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund  
Accounts (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Cemetery General</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes	\$ 519,877	\$ -	\$ 519,877
Intergovernmental	153,363	-	153,363
Charges for services	92,794	38,876	131,670
Fines and forfeitures	6,549	-	6,549
Licenses and permits	2,643	-	2,643
Investment income	183	1,278	1,461
Miscellaneous	27,611	17,789	45,400
Total revenues	<u>803,020</u>	<u>57,943</u>	<u>860,963</u>
<b>EXPENDITURES</b>			
Current:			
General government	88,649	-	88,649
Public Safety	470,468	-	470,468
Highway and streets	379,194	-	379,194
Culture and recreation	255,987	-	255,987
Cemetery	-	74,148	74,148
Airport	69,028	-	69,028
Capital Outlay	205,157	-	205,157
Debt Service:			
Principal	4,484	-	4,484
Interest and other charges	568	-	568
Total Expenditures	<u>1,473,535</u>	<u>74,148</u>	<u>1,547,683</u>
Excess (deficiency) of revenues over expenditures	<u>(670,515)</u>	<u>(16,205)</u>	<u>(686,720)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from the sale of capital assets	9,160	-	9,160
Transfers in	1,132,875	11,665	1,144,540
Transfers out	(472,262)	-	(472,262)
Total other financing sources and uses	<u>669,773</u>	<u>11,665</u>	<u>681,438</u>
Net change in fund balances	(742)	(4,540)	(5,282)
Fund balances - beginning	11,532	4,323	15,855
Fund balances (deficit) - ending	<u>\$ 10,790</u>	<u>\$ (217)</u>	<u>\$ 10,573</u>

**CITY OF WALTERS, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**WPWA Proprietary Fund Accounts - Combining Schedule of Net Assets (Modified Cash Basis) – June 30, 2012**

	<u>WPWA</u> <u>Operating</u> <u>Account</u>	<u>OWRB Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,820	\$ -	\$ 2,820
Investments	17,000	-	17,000
Restricted:			
Restricted cash and cash equivalents	48,535	-	48,535
Restricted investments	70,000	-	70,000
Total current assets	<u>138,355</u>	<u>-</u>	<u>138,355</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	79,804	-	79,804
Water rights	401,713	-	401,713
Other capital assets, net of accumulated depreciation	5,322,689	-	5,322,689
Unamortized note issue costs	44,702	-	44,702
Total non-current assets	<u>5,848,908</u>	<u>-</u>	<u>5,848,908</u>
Total assets	<u>5,987,263</u>	<u>-</u>	<u>5,987,263</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other governments	1,978	-	1,978
Deposits subject to refund	99,417	-	99,417
Capital lease payable	26,172	-	26,172
Contracts payable	22,743	-	22,743
Notes payable	183,910	-	183,910
Total current liabilities	<u>334,220</u>	<u>-</u>	<u>334,220</u>
Non-current liabilities:			
Capital lease payable	6,231	-	6,231
Contracts payable	694,505	-	694,505
Notes payable	824,296	-	824,296
Total non-current liabilities	<u>1,525,032</u>	<u>-</u>	<u>1,525,032</u>
Total liabilities	<u>1,859,252</u>	<u>-</u>	<u>1,859,252</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,046,349	-	4,046,349
Restricted for debt service	19,118	-	19,118
Unrestricted	62,544	-	62,544
Total net assets	<u>\$ 4,128,011</u>	<u>\$ -</u>	<u>\$ 4,128,011</u>

CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012

**WPWA Proprietary Fund Accounts - Combining Statement of Revenues, Expenditures and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>WPWA Operating Account</u>	<u>OWRB Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Electric charges	\$ 2,172,909	-	\$ 2,172,909
Water charges	546,352	-	546,352
Sewer charges	265,311	-	265,311
Sanitation charges	356,308	-	356,308
Miscellaneous	46,389	-	46,389
Total operating revenues	<u>3,387,269</u>	<u>-</u>	<u>3,387,269</u>
<b>OPERATING EXPENSES</b>			
Electric	1,458,954		1,458,954
Water	346,935	-	346,935
Sewer	72,598	-	72,598
Sanitation	169,962	-	169,962
General government	474,616	-	474,616
Depreciation	254,868	-	254,868
Amortization expense	2,501	-	2,501
Total Operating Expenses	<u>2,780,434</u>	<u>-</u>	<u>2,780,434</u>
Operating income	<u>606,835</u>	<u>-</u>	<u>606,835</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	60,946	-	60,946
Miscellaneous revenue	15,550	-	15,550
Gain on sale of capital asset	17,757	-	17,757
Interest expense	(47,326)	-	(47,326)
Total non-operating revenue (expenses)	<u>46,927</u>	<u>-</u>	<u>46,927</u>
Income before transfers	<u>653,762</u>	<u>-</u>	<u>653,762</u>
Interaccount transfers in	95	-	95
Interaccount transfers out	-	(95)	(95)
Transfers in	537,104	-	537,104
Transfers out	(1,165,904)	-	(1,165,904)
Change in net assets	25,057	(95)	24,962
Total net assets - beginning	<u>4,102,954</u>	<u>95</u>	<u>4,103,049</u>
Total net assets - ending	<u>\$ 4,128,011</u>	<u>\$ -</u>	<u>\$ 4,128,011</u>

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – For the Year Ended June 30, 2012**

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Awards Expended
<b>FEDERAL AWARDS:</b>				
<b><u>FEDERAL AVIATION ADMINISTRATION:</u></b>				
Airport Improvement Grant	20.106	AIP-3-40-0103-001-2010	\$ 58,292	\$ 43,329
<b><u>U.S. DEPARTMENT OF INTERIOR:</u></b>				
Passed through the Oklahoma Tourism and Recreation Department:				
Land and Water Conservation Fund	15.916	40-01190	30,316	5,377
<b><u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>				
Passed through the Oklahoma Department of Commerce:				
CDBG grant - ADA Pool Bathhouse	14.228	14173 CDBG 93	<u>142,997</u>	<u>142,198</u>
<b>Total Federal Awards</b>			<u>\$ 231,605</u>	<u>\$ 190,904</u>
 <b>STATE AWARDS:</b>				
<b><u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u></b>				
Rural Fire Grant			\$ 4,413	\$ 4,413
<b><u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u></b>				
State Aid			7,469	7,469
<b><u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GOVERNMENTS:</u></b>				
REAP Grant - Pool Bathhouse		2010 REAP - 102282	40,000	35,866
REAP Grant - Water Plant		2011 REAP	<u>45,000</u>	<u>39,439</u>
			<u>85,000</u>	<u>75,305</u>
<b>Total State Awards</b>			<u>\$ 96,882</u>	<u>\$ 87,187</u>

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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**Schedule of Debt Service Coverage Requirement – Year Ended June 30, 2012**

<b>DEBT SERVICE COVERAGE:</b>	<b>OWRB Series 2009 Promissory Note</b>
<b>GROSS REVENUE AVAILABLE:</b>	
Charges for services (all utility services)	3,387,269
Investment income	60,946
Sales tax appropriated and transferred from the City General Fund	<u>472,262</u>
Total Gross Revenue Available	<u>3,920,477</u>
<b>OPERATING EXPENSES:</b>	
Total Operating Expenses	<u>2,523,065</u>
Net Revenue Available for Debt Service	<u>\$1,397,412</u>
Maximum Annual Debt Service on all Obligations Payable From Revenues of the System	<u>\$53,533</u>
Computed Coverage	<u>2610%</u>
Coverage Requirement	<u>125%</u>

At June 30, 2012, the City met the coverage requirement for the 2009 OWRB Promissory Notes. The note has a coverage requirement of 125%; therefore the City meets their requirement.

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

Members of the City Council  
City of Walters, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 4, 2012. The report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

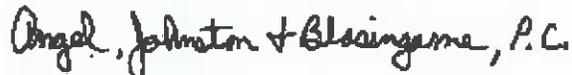
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting as described in the accompanying schedule of findings and responses that we consider to be significant deficiencies over financial reporting: 12-1. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 12-1.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the City of Walters, 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.



Chickasha, Oklahoma  
December 4, 2012

**CITY OF WALTERS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2012**

**Deficiencies of Internal Control, Compliance and Other Matters**

12-1. Criteria – All federal and state programs are reported on a separate schedule. If the federal expenditures exceed \$500,000 in a fiscal year then they are required to comply with Circular A-133.

Condition – During the process of the audit we located additional state program expenditures that had not previously been identified.

Cause – There is no formal identification process to insure all federal and state programs are properly reported in the financial statements.

Effect – The financial statements were adjusted to include this information.

Recommendation – Track in some manner all active federal and state programs to prevent the possibility of incomplete reporting of programs.

Management response – Management agrees.