

**City of Altus, Oklahoma**

**Report on Audit  
Of  
Financial Statements**

**June 30, 2011**



**City of Altus, Oklahoma**  
**Report on Audit of Financial Statements**  
**June 30, 2011**

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# Ronald C. Cottrell, CPA

## Independent Auditor's Report

February 16, 2012

City Commissioners  
City of Altus  
Altus, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Altus' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altus' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Altus Southwest Area Economic Development Corporation, which represent 67 percent, 78 percent, and 53 percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for Altus Southwest Area Economic Development Corporation, is based on the report of the other auditors.

Except as discussed in the following paragraph, 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Altus' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

The financial statements of Altus Great Plains Recreation, Inc. have not been audited, and we were not engaged to audit the Altus Great Plains Recreation, Inc. financial statements as part of our audit of the City of Altus' basic financial statements. Altus Great Plains Recreation, Inc.'s financial activities are included in the City of Altus' basic financial statements as a discretely presented component unit and represent 33 percent, 22 percent, and 47 percent of the assets, net assets, and revenues, respectively, of the City of Altus' aggregate discretely presented component units.

In our opinion, based on our audit and the report of other auditors and, except for the effects of such adjustments, if any, as might have been determined to be necessary had Altus Great Plains Recreation Inc.'s financial statements been audited, the financial statements referred to previously present fairly, in all material respects, the financial position of the aggregate

## Ronald C. Cottrell, CPA

discretely presented component units for the City of Altus as of June 30, 2011 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2012, on our consideration of the City of Altus' 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 44 through 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Altus' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements and the schedule of expenditures of state awards listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of OMB Circular A-133 or the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ronald C. Cottrell, CPA

**City of Altus, Oklahoma**  
**Management's Discussion and Analysis**  
**June 30, 2011**

The following discussion and analysis of the City of Altus' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 12.

**Financial Highlights**

- ❖ The assets of the City of Altus exceeded its liabilities at the close of the most recent fiscal year by \$ 30,752,021 (net assets). Of this amount, \$ 3,101,793 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ During the year, the government's total net assets decreased by \$ 10,229,153. This is mainly attributed to the payment of MAPS obligations. In FY 09-10 the MAPS loan proceeds were carried as cash, during FY 10-11 the City completed the City Municipal Complex and there were several projects started by Altus Public Schools.
- ❖ As of the close of the current fiscal year, the City of Altus' governmental funds reported combined ending fund balances of \$ 3,678,729, a decrease of \$ 1,696,979 in comparison with the prior year. Approximately \$ 3,040,441 is available for spending at the government's discretion (unreserved fund balance).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 445,912, or 3% of total general fund expenditures.
- ❖ The City of Altus' total debt decreased by \$ 3,115,230 during the current fiscal year. The key factors in this decrease were scheduled debt service payments and debt retirements.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Altus' basic financial statements. The City of Altus' basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad view of the City of Altus' finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Altus' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Altus is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

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underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Altus that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Altus include general government, public safety, public works, culture and recreation and community and economic development. The business-type activities of the City of Altus include the City's electric, water, wastewater, landfill, and sanitation utility operations, as the Altus Municipal Authority.

The government-wide financial statements include not only the City of Altus itself (known as the primary government), but also two legally separate entities for which the City of Altus is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Altus Municipal Authority, although also legally separate, functions for all practical purposes as a department of the City of Altus, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12–13 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Altus, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Altus can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14–16 of this report.

**Proprietary funds.** The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Municipal Authority operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for its workers’ compensation, and to pay for the City’s group health and life insurance activities. Because this service predominantly benefits governmental rather than business-type functions, its operations have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Altus Municipal Authority, which is considered to be a major fund of the City. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 17–19 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has one fiduciary fund, the Flex Benefit Plan fund, which is an agency fund.

The basic fiduciary fund financial statement can be found on page 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21–43 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 44–45 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general and capital improvements funds. Combining and individual fund statements and schedules can be found on pages 46–52 of this report.

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$ 30,752,021 at the close of the most recent fiscal year.

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By far the largest portion of the City's net assets (56%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Altus**  
Net Assets  
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 4,955,271	\$ 8,479,249	\$ 17,635,371	\$ 28,818,598	\$ 22,590,642	\$ 37,297,847
Capital and other noncurrent assets	9,070,887	7,599,942	47,445,267	45,768,810	56,516,154	53,368,752
<b>Total assets</b>	<b>14,026,158</b>	<b>16,079,191</b>	<b>65,080,638</b>	<b>74,587,408</b>	<b>79,106,796</b>	<b>90,666,599</b>
Current liabilities	1,106,493	473,664	8,127,685	6,921,099	9,234,178	7,394,763
Long-term liabilities	1,496,125	1,657,073	37,624,472	40,633,589	39,120,597	42,290,662
<b>Total liabilities</b>	<b>2,602,618</b>	<b>2,130,737</b>	<b>45,752,157</b>	<b>47,554,688</b>	<b>48,354,775</b>	<b>49,685,425</b>
Net assets:						
Invested in capital assets, net of related debt	9,067,251	7,592,179	8,189,917	19,770,582	17,257,168	27,362,761
Restricted	685,551	1,368,003	9,707,509	7,980,596	10,393,060	9,348,599
Unrestricted	1,670,738	4,988,272	1,431,055	(718,458)	3,101,793	4,269,814
<b>Total net assets</b>	<b>\$ 11,423,540</b>	<b>\$ 13,948,454</b>	<b>\$ 19,328,481</b>	<b>\$ 27,032,720</b>	<b>\$ 30,752,021</b>	<b>\$ 40,981,174</b>

An additional portion of the City's net assets (34%) represents resources that are subject to external restrictions on how they may be used, for example, capital improvements and debt service. The remaining balance of unrestricted net assets (\$ 3,101,792) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets decreased by \$ 10,229,153 during the current fiscal year.

**City of Altus**  
Statement of Activities  
Years Ended June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 1,108,417	\$ 1,211,215	\$ 26,555,919	\$ 26,273,614	\$ 27,664,336	\$ 27,484,829
Grants/contributions	950,765	1,874,206	145,238	837,454	1,096,003	2,711,660
General revenues	10,764,268	10,646,274	461,291	(276,383)	11,225,559	10,369,891
<b>Total revenues</b>	<b>12,823,450</b>	<b>13,731,695</b>	<b>27,162,448</b>	<b>26,834,685</b>	<b>39,985,898</b>	<b>40,566,380</b>

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	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Expenses:						
General government	2,474,191	3,013,207	-	-	2,474,191	3,013,207
Public safety	7,764,201	6,919,382	-	-	7,764,201	6,919,382
Public works	2,866,573	3,312,600	-	-	2,866,573	3,312,600
Culture and recreation	1,610,655	1,674,561	-	-	1,610,655	1,674,561
Utilities	-	-	24,053,028	23,324,508	24,053,028	23,324,508
Economic development	30,307	-	359,772	268,580	390,079	268,580
Other	-	22,683	11,056,324	1,344,783	11,056,324	1,367,466
Total expenses	14,745,927	14,942,433	35,469,124	24,937,871	50,215,051	39,880,304
Increase in net assets before transfers	(1,922,477)	(1,210,738)	(8,306,676)	1,896,814	(10,229,153)	686,076
Transfers, net	164,476	662,260	(164,476)	(662,260)	-	-
Increase in net assets	(1,758,001)	(548,478)	(8,471,152)	1,234,554	(10,229,153)	686,076
Net assets, beginning, restated	13,181,541	13,730,019	27,799,633	26,565,079	40,981,174	40,295,098
Net assets, ending	\$ 11,423,540	\$ 13,181,541	\$ 19,328,481	\$ 27,799,633	\$ 30,752,021	\$ 40,981,174

**Governmental activities.** Governmental activities decreased the City's net assets by \$ (1,758,001). Key elements of this decrease are as follows:

- Accrued \$ 869,015 in FEMA disaster reimbursements as revenues in FY 09-10.
- During FY 10-11 the City had an increase in expenditures for personnel services in the form of salary increases, insurance premiums and an increase in retirement benefits.
- Increase in capital outlay expenditures in FY 10-11.

	City of Altus			
	Governmental Activities			
	Years Ended June 30, 2011 and 2010			
	Program Revenues		Cost of Services	
	2011	2010	2011	2010
General government	\$ 139,523	\$ 147,960	\$ 2,474,191	\$ 3,013,207
Public safety	1,234,006	486,464	7,764,201	6,919,382
Public works	485,000	2,132,528	2,866,573	3,312,600
Culture and recreation	200,653	318,469	1,610,655	1,674,561
Economic development	-	-	30,307	22,683
Total governmental activities	\$ 2,059,182	\$ 3,085,421	\$ 14,745,927	\$ 14,942,433

**Business-type activities.** Business-type activities decreased the City's net assets by \$ 8,471,152. The key elements in this increase are:

- Payment of MAPS obligations for both the City and Altus Public Schools.
- Decrease in grant revenues. Accrued \$ 806,800 in FEMA disaster reimbursements in FY 09-10.
- Significant expenditures for infrastructure related purchases, i.e. the maintenance of electric and water lines.

See disclaimer in accompanying Independent Auditor's Report.

**City of Altus**  
 Business-Type Activities  
Years Ended June 30, 2011 and 2010

	Program Revenues		Cost of Services	
	2011	2010	2011	2010
Electric	\$ 18,797,778	\$ 18,987,233	\$ 15,079,213	\$ 14,055,776
Water/wastewater	4,951,125	4,657,729	5,121,962	4,737,147
Sanitation/landfill	1,785,327	1,795,134	1,555,512	1,537,117
Economic development	-	-	359,772	268,580
Interest and fiscal charges	-	-	-	1,577,435
Administration/services	390,493	833,518	2,296,341	1,417,033
Other	776,434	837,454	11,056,324	1,344,783
Total business-type activities	\$ 26,701,157	\$ 27,111,068	\$ 35,469,124	\$ 24,937,871

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,678,729, a decrease of \$ 1,696,979 in comparison with the prior year. Approximately 83% of this total amount (\$ 3,040,441) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been reserved for capital improvements, encumbrances, or debt service.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 445,912. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents 3% of total general fund expenditures.

The fund balance of the City's general fund decreased \$ 43,574 during the current fiscal year due to:

- Increased expenditures in the area of personnel services, including salary costs, health insurance premiums, and retirement benefits.
- Decreased revenues in the area of administration/services, such as interest income.
- Increased expenditures for the maintenance of aging equipment.

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

Unrestricted net assets of the Altus Municipal Authority at the end of the year amounted to \$ 1,431,054. The total decrease in net assets was \$ (8,471,152). Operating revenues showed an

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increase of \$ 282,305 from the \$ 26,273,614 reported in the prior year. Operating expenses were up by \$ 1,436,894 to \$ 23,452,547, due to the following factors:

- Expenditure of MAPS obligations for both the City and Altus Public Schools.
- Increased cost of personnel services, in the areas of salaries, health insurance premiums and retirement benefits.
- Expenditure for some capital items and infrastructure improvements.

Nonoperating revenues and expenses reported a decrease of \$ 157,589 in interest income and a decrease of \$ 157,068 in interest expense. Other non-operating revenues and expenses included disaster reimbursements and expenses of \$ 145,238 and \$ 483,237, respectively, and payments to Altus Public Schools of \$ 10,112,973 for MAPS. Net operating transfers increased \$ 497,784.

### **Budgetary Highlights of Major Governmental Funds**

The City's estimated revenues increased only slightly from \$ 12,198,918 to \$ 12,481,138 for the general fund to account for an increase in expected grant revenues.

Expenditures appropriated went from \$ 15,111,533 to \$ 15,149,514. The only major change occurred in the fire department which increased by approximately \$ 36,000.

During the year, revenues of \$ 12,644,217 were more than budgetary estimates by \$ 163,079. This was primarily due to:

- Increased collections for sales and use taxes.
- Increased activities at the swimming pool.
- Increased collections for miscellaneous revenue.

Expenditures of \$ 13,271,194 were less than budgetary estimates of \$ 15,149,514, due to:

- Delayed purchasing of some capital items.
- Delayed repair on some equipment and property.
- Cost control measures put in place by management and the governing body.

As a result, after net transfers in of \$ 1,652,273, the City did not have to use any of its fund balance carry-forward to fund expenditures.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$ 56,119,266 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Improvements at the Library, Davis Park, City Public Golf Course and the City Auditorium.
- Purchase of two police cars with related equipment.
- Purchase of vehicle for animal control.
- Purchase of several computers and computer equipment for use by the City and Trust Authority.
- Purchase of training equipment for the fire department.
- Purchase for electronic equipment for use at the Chapel in the Altus Cemetery.
- Construction of a new hanger/terminal at the Altus airport.
- Expenditures for road project on North Park Lane.
- Completion of engineering projects for the Oklahoma Department of Transportation.
- Several street maintenance, water line maintenance, water treatment plant and electric line maintenance projects.
- Purchase of equipment such as a shoring box, chipper

**City of Altus**  
Capital Assets  
June 30, 2011 and 2010  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,217,403	\$ 1,217,403	\$ 1,304,662	\$ 1,304,662	\$ 2,522,065	\$ 2,522,065
Construction in progress	1,748,420	78,252	57,017	6,386,314	1,805,437	6,464,566
Buildings and improvements	4,165,146	4,171,675	24,280,120	15,225,648	28,445,266	19,397,323
Machinery and equipment	1,288,743	1,616,500	1,823,720	1,811,695	3,112,463	3,428,195
Infrastructure	651,175	516,112	6,562,811	6,959,480	7,213,986	7,475,592
Intangible water rights		-	13,020,049	13,636,242	13,020,049	13,636,242
Capital assets, net	<u>\$ 9,070,887</u>	<u>\$ 7,599,942</u>	<u>\$ 47,048,379</u>	<u>\$ 45,324,041</u>	<u>\$ 56,119,266</u>	<u>\$ 52,923,983</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 31-32 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$ 34,393,536. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 21,796,993, other notes payable to banks and other governmental entities of \$ 92,875, \$ 1,789,547 in capital lease obligations, contract obligations payable of \$ 9,489,960 for water rights, and accrued compensated absences of \$ 1,224,161.

See disclaimer in accompanying Independent Auditor's Report.

**City of Altus**  
**Outstanding Debt**  
**June 30, 2011 and 2010**

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Capital lease obligations	\$ 3,636	\$ 7,763	\$ 1,785,911	\$ 2,364,663	\$ 1,789,547	\$ 2,372,426
Contract obligation payable	-	-	9,489,960	9,916,695	9,489,960	9,916,695
Notes payable	-	-	21,889,868	23,985,533	21,889,868	23,985,533
Compensated absences	895,566	876,073	328,595	358,039	1,224,161	1,234,112
Total outstanding debt	<u>\$ 899,202</u>	<u>\$ 883,836</u>	<u>\$ 33,494,334</u>	<u>\$ 36,624,930</u>	<u>\$ 34,393,536</u>	<u>\$ 37,508,766</u>

The City's total debt decreased \$ 3,115,230 during the current fiscal year. The key factors in this increase were:

- Scheduled principal payments.
- Scheduled debt retirement.

Additional information on the City's long-term debt can be found in Notes V.G. on pages 33–36 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 revenue and expense budgets. The city expects increases/decreases in revenues and expenditures. Revenues are expected to increase/decrease due to the City not pursuing outside financing for projects as it has in the past. The City has not budgeted service rate increases for utilities and expects taxes to remain at the same level they were for FY 10-11.

When setting the fiscal year 2012 expenditure budget, the City's officials anticipated increases/decreases in operating budgets due to an anticipated employee realignment and reduction in overall operating expenditures due to cost control measures put in place by management and the governing board. The fiscal year 2012 budget includes expenses for several capital improvement projects and programs to include the completion of the Auditorium project, purchase of police and safety vehicles with required equipment, purchase of mowers for both the parks department and the cemetery, repairs to City buildings and infrastructure, purchase of vehicles for planning and repairs to the City's outdoor warning system. The City expects to complete repairs at the water treatment plant, upgrade water distribution lines, replace the scales at the landfill and repair the equipment at the waste water treatment facilities.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Altus' Finance Director, at City of Altus, 220 E. Commerce, Altus, Oklahoma 73521. You may also visit our website at [www.cityofaltus.org](http://www.cityofaltus.org) for more budgetary and contact information.

See disclaimer in accompanying Independent Auditor's Report.

**City of Altus, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,558,412	\$ (2,220,999)	\$ 337,413
Investments	603,567		603,567
Receivables (net of allowance for uncollectibles):			
Accounts	317,371	3,826,320	4,143,691
Taxes	1,773,696		1,773,696
Due from other governments	-	-	-
Internal balances	(384,276)	384,276	-
Inventory	86,501	1,106,461	1,192,962
Restricted assets:			
Cash and investments	-	14,539,313	14,539,313
Total current assets	<u>4,955,271</u>	<u>17,635,371</u>	<u>22,590,642</u>
Noncurrent assets:			
Debt issuance costs (net of accumulated amortization)	-	396,888	396,888
Capital assets (net of accumulated depreciation)	9,070,887	47,048,379	56,119,266
Total noncurrent assets	<u>9,070,887</u>	<u>47,445,267</u>	<u>56,516,154</u>
Total assets	<u>14,026,158</u>	<u>65,080,638</u>	<u>79,106,796</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	717,886	3,671,895	4,389,781
Payable from restricted assets:			
Accrued interest	-	398,854	398,854
Refundable deposits	12,865	831,173	844,038
Short-term notes payable	-	3,413	3,413
Current portion of long-term debt	375,742	3,222,350	3,598,092
Total current liabilities	<u>1,106,493</u>	<u>8,127,685</u>	<u>9,234,178</u>
Noncurrent liabilities:			
Notes payable	-	21,889,868	21,889,868
Capital lease obligations	3,636	1,785,911	1,789,547
Contract obligation payable	-	9,489,960	9,489,960
Deferred gain - contract refinancing	-	5,688,375	5,688,375
Accrued landfill closure and postclosure costs	-	1,664,113	1,664,113
Compensated absences	895,566	328,595	1,224,161
Claims liability	972,665	-	972,665
Less: current portion of long-term debt	(375,742)	(3,222,350)	(3,598,092)
Total noncurrent liabilities	<u>1,496,125</u>	<u>37,624,472</u>	<u>39,120,597</u>
Total liabilities	<u>2,602,618</u>	<u>45,752,157</u>	<u>48,354,775</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	9,067,251	8,189,917	17,257,168
Restricted by:			
Statutes	62,018	-	62,018
Enabling legislation	116,265	4,640,789	4,757,054
Debt service	-	5,066,720	5,066,720
Contractual agreement	507,268	-	507,268
Unrestricted	1,670,738	1,431,055	3,101,793
Total net assets	<u>\$ 11,423,540</u>	<u>\$ 19,328,481</u>	<u>\$ 30,752,021</u>

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





**City of Altus, Oklahoma**  
**Statement of Activities**  
**Year Ended June 30, 2011**

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>				
Primary government:				
Governmental activities:				
General government	\$ 2,474,191	\$ 139,523	\$ -	\$ -
Public safety	7,764,201	393,302	613,399	227,305
Public works	2,866,573	393,114	3,644	88,242
Culture and recreation	1,610,655	182,478	13,000	5,175
Economic development	30,307	-	-	-
Total governmental activities	14,745,927	1,108,417	630,043	320,722
Business-type activities:				
Administrative/services	2,296,341	390,493	-	-
Electric	15,079,213	18,797,778	-	-
Water/wastewater	5,121,962	4,951,125	-	-
Sanitation/landfill	1,555,512	1,785,327	-	-
Economic development	359,772	-	-	-
Other	11,056,324	631,196	145,238	-
Total business-type activities	35,469,124	26,555,919	145,238	-
Total primary government	\$ 50,215,051	\$ 27,664,336	\$ 775,281	\$ 320,722
Component units:				
Altus Great Plains Recreation, Inc.	\$ 279,553	\$ 264,759	\$ -	\$ -
Altus SW Area Economic Development Corp.	504,967	-	294,868	-
Total component units	\$ 784,520	\$ 264,759	\$ 294,868	\$ -
General revenues:				
Taxes:				
Sales and use				
Franchise				
Other				
Interest income				
Miscellaneous				
Transfers - internal activity				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Altus Great Plains Recreation, Inc	Altus SW Area Economic Development Corp
\$ (2,334,668)	\$ -	\$ (2,334,668)	\$ -	\$ -
(6,530,195)	-	(6,530,195)	-	-
(2,381,573)	-	(2,381,573)	-	-
(1,410,002)	-	(1,410,002)	-	-
(30,307)	-	(30,307)	-	-
<u>(12,686,745)</u>	<u>-</u>	<u>(12,686,745)</u>	<u>-</u>	<u>-</u>
-	(1,905,848)	(1,905,848)	-	-
-	3,718,565	3,718,565	-	-
-	(170,837)	(170,837)	-	-
-	229,815	229,815	-	-
-	(359,772)	(359,772)	-	-
<u>-</u>	<u>(10,279,890)</u>	<u>(10,279,890)</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(8,767,967)</u>	<u>(8,767,967)</u>	<u>-</u>	<u>-</u>
<u>(12,686,745)</u>	<u>(8,767,967)</u>	<u>(21,454,712)</u>	<u>-</u>	<u>-</u>
			(14,794)	-
			-	-
			<u>-</u>	<u>(210,099)</u>
			<u>(14,794)</u>	<u>(210,099)</u>
9,646,365	-	9,646,365	-	-
323,919	-	323,919	-	-
639,298	-	639,298	-	-
31,464	445,843	477,307	-	1,039
123,222	15,448	138,670	-	49,536
164,476	(164,476)	-	-	-
<u>10,928,744</u>	<u>296,815</u>	<u>11,225,559</u>	<u>-</u>	<u>50,575</u>
<u>(1,758,001)</u>	<u>(8,471,152)</u>	<u>(10,229,153)</u>	<u>(14,794)</u>	<u>(159,524)</u>
<u>13,181,541</u>	<u>27,799,633</u>	<u>40,981,174</u>	<u>93,321</u>	<u>435,093</u>
<u>\$ 11,423,540</u>	<u>\$ 19,328,481</u>	<u>\$ 30,752,021</u>	<u>\$ 78,527</u>	<u>\$ 275,569</u>

**City of Altus, Oklahoma**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 292,077	\$ 1,968,291	\$ 2,260,368
Investments	-	603,567	603,567
Receivables:			
Accounts	278,869	38,502	317,371
Taxes	1,716,932	56,764	1,773,696
Due from other funds	-	390,099	390,099
Inventory	45,813	40,688	86,501
Total assets	<u>\$ 2,333,691</u>	<u>\$ 3,097,911</u>	<u>\$ 5,431,602</u>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 588,150	\$ 129,736	\$ 717,886
Due to other funds	774,375		774,375
Refundable deposits	12,865	-	12,865
Deferred revenue	247,747	-	247,747
Total liabilities	<u>1,623,137</u>	<u>129,736</u>	<u>1,752,873</u>
Fund balances:			
Reserved for:			
Capital improvements/debt service	-	131,079	131,079
Encumbrances	264,642	242,567	507,209
Unreserved, designated for, reported in:			
Special revenue funds	-	2,594,529	2,594,529
Unreserved, undesignated, report in:			
General Fund	445,912	-	445,912
Total fund balances	<u>710,554</u>	<u>2,968,175</u>	<u>3,678,729</u>
Total liabilities and fund balances	<u>\$ 2,333,691</u>	<u>\$ 3,097,911</u>	<u>\$ 5,431,602</u>

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

**City of Altus, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 9,970,284	\$ 221,680	\$ 10,191,964
Licenses and permits	110,024	-	110,024
Intergovernmental	1,477,166	504,341	1,981,507
Fines and forfeitures	248,217	-	248,217
Charges for services	248,041	482,463	730,504
Other	134,600	29,584	164,184
Interest	4,371	15,061	19,432
Total revenues	<u>12,192,703</u>	<u>1,253,129</u>	<u>13,445,832</u>
<b>Expenditures</b>			
Current:			
General government	2,749,024	926	2,749,950
Public safety	6,792,147	537,021	7,329,168
Public works	2,148,502	722,951	2,871,453
Culture and recreation	1,486,492	-	1,486,492
Economic development	20,661	9,646	30,307
Debt service:			
Principal	97,635	503	98,138
Interest	22,999	4,152	27,151
Capital outlay	563,770	1,649,289	2,213,059
Total expenditures	<u>13,881,230</u>	<u>2,924,488</u>	<u>16,805,718</u>
Excess of revenues over (under) expenditures	(1,688,527)	(1,671,359)	(3,359,886)
<b>Other financing sources (uses)</b>			
Transfers in	7,305,545	1,213,856	8,519,401
Transfers out	(5,660,592)	(1,195,902)	(6,856,494)
Total other financing sources (uses)	<u>1,644,953</u>	<u>17,954</u>	<u>1,662,907</u>
<b>Net change in fund balances</b>	(43,574)	(1,653,405)	(1,696,979)
Fund balances, beginning	<u>754,128</u>	<u>4,621,580</u>	<u>5,375,708</u>
Fund balances, ending	<u>\$ 710,554</u>	<u>\$ 2,968,175</u>	<u>\$ 3,678,729</u>

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

**City of Altus, Oklahoma**  
**Reconciliation of the Governmental Funds and**  
**Government-Wide Financial Statements**  
**Year Ended June 30, 2011**

Total fund balance - governmental funds \$ 3,678,729

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

Capital assets and debt issuance costs used in governmental activities are not financial resources and, therefore, are not reported in the funds. 9,070,887

Deferred revenue on fines 247,747

Long-term liabilities are not due and payable in the current period and therefore are not reported in funds. (899,202)

Internal service funds are used to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. (674,621)

Net assets of governmental activities in the Statement of Net Assets \$ 11,423,540

Net change in fund balances – total governmental funds \$ (1,696,979)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period. 1,470,945

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.  
Capital lease principal payments 4,127

Some revenues and expenses in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported in the governmental funds.  
Accrued compensated absences, net change (19,493)  
Deferred revenue, net change (643,552)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (873,049)

Change in net assets of governmental activities \$ (1,758,001)

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

**City of Altus, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Business-type Activities <u>Altus Municipal Authority</u>	Governmental Activities <u>Internal Service Funds</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ (2,220,999)	\$ 298,044
Receivables:		
Accounts (net of allowance for uncollectibles)	3,826,320	-
Due from other funds	774,375	-
Inventory	1,106,461	-
Restricted assets:		
Cash and investments	14,539,313	-
Total current assets	<u>18,025,470</u>	<u>298,044</u>
Noncurrent assets:		
Debt issuance costs (net of accumulated amortization)	396,888	-
Capital assets (net of accumulated depreciation)	47,048,379	-
Total noncurrent assets	<u>47,445,267</u>	<u>-</u>
Total assets	<u>65,470,737</u>	<u>298,044</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	3,671,895	372,106
Payable from restricted assets:		
Accrued interest payable	398,854	-
Refundable deposits	831,173	-
Due to other funds	390,099	-
Short-term notes payable	3,413	-
Current portion of long-term debt	3,222,350	-
Total current liabilities	<u>8,517,784</u>	<u>372,106</u>
Noncurrent liabilities:		
Notes payable	21,889,868	-
Capital lease obligations	1,785,911	-
Contract obligation payable	9,489,960	-
Deferred gain - contract refinancing	5,688,375	-
Accrued landfill closure and postclosure costs	1,664,113	-
Compensated absences	328,595	-
Claims liability	-	600,559
Less: current portion of long-term debt	(3,222,350)	-
Total noncurrent liabilities	<u>37,624,472</u>	<u>600,559</u>
Total liabilities	<u>46,142,256</u>	<u>972,665</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	8,189,917	-
Restricted:		
Debt service	5,066,720	-
Capital improvements	4,640,789	-
Other	-	(674,621)
Unrestricted	1,431,055	-
Total net assets	<u>\$ 19,328,481</u>	<u>\$ (674,621)</u>

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



**City of Altus, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-type Activities	Governmental Activities
	Altus Municipal Authority	Internal Service Funds
<b>Operating revenues</b>		
Charges for services:		
Electric	\$ 18,797,778	\$ -
Water	3,775,774	-
Wastewater	1,175,351	-
Sanitation	1,257,784	-
Landfill	527,543	-
Other	631,196	2,726,142
Penalties and late charges	390,493	-
Total operating revenues	<u>26,555,919</u>	<u>2,726,142</u>
<b>Operating expenses</b>		
Administration	163,530	87,798
Electric	14,827,867	-
Water/wastewater	3,016,483	-
Sanitation	784,198	-
Landfill	470,247	-
Economic development	359,772	-
Utility services	494,186	-
Meter services	314,786	-
Enterprise services	325,626	-
Engineering	99,749	-
Depreciation and amortization	2,453,657	-
Bad debt expense	142,446	-
Claims expense	-	2,203,188
Total operating expenses	<u>23,452,547</u>	<u>2,290,986</u>
Net operating income (loss)	3,103,372	435,156
<b>Nonoperating revenues (expenses)</b>		
Reimbursement for disaster expenses	145,238	-
Disaster expenses	(483,237)	-
Miscellaneous revenues	15,448	9,133
Interest income	445,843	12,037
Interest expense and fiscal charges	(1,420,367)	-
Payments to school - MAPS	(10,112,973)	-
Total nonoperating revenues (expenses)	<u>(11,410,048)</u>	<u>21,170</u>
<b>Operating transfers</b>		
Transfers in	6,823,629	-
Transfers (out)	(6,988,105)	(1,329,375)
Total operating transfers	<u>(164,476)</u>	<u>(1,329,375)</u>
Net income (loss)	(8,471,152)	(873,049)
Net assets, beginning	27,799,633	198,428
Net assets, ending	<u>\$ 19,328,481</u>	<u>\$ (674,621)</u>

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

**City of Altus, Oklahoma**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-type Activities	Governmental Activities
	Altus Municipal Authority	Internal Service Fund
<b>Cash flows from operating activities</b>		
Receipts from customers and others	\$ 27,404,367	\$ 2,726,142
Payments to suppliers	(15,902,549)	(87,798)
Claims and judgments paid	-	(2,199,859)
Payments to employees	(2,943,619)	-
Net cash provided (used) by operating activities	<u>8,558,199</u>	<u>438,485</u>
<b>Cash flows from noncapital financing activities</b>		
Interfund (receivable) payable	(7,462)	-
Miscellaneous revenues/ (expenses)	(10,435,524)	9,133
Operating transfers in (out)	(164,476)	(1,329,375)
Net cash provided (used) by noncapital financing activities	<u>(10,607,462)</u>	<u>(1,320,242)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of long-term debt	85,000	-
Principal paid on long-term debt	(3,186,152)	-
Interest expense and fiscal charges	(1,461,488)	-
(Increase) decrease in restricted assets	11,456,995	-
Acquisition/construction of capital assets	(4,121,682)	-
Net cash provided (used) by capital and related financing activities	<u>2,772,673</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
(Increase) decrease in investments	60,001	700,000
Interest income	450,937	14,082
Net cash provided (used) by investing activities	<u>510,938</u>	<u>714,082</u>
Net increase (decrease) in cash and cash equivalents	1,234,348	(167,675)
Cash and cash equivalents, beginning	(3,455,347)	465,719
Cash and cash equivalents, ending	<u>\$ (2,220,999)</u>	<u>\$ 298,044</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Net operating income (loss)	\$ 3,103,372	\$ 435,156
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	2,453,657	-
Changes in assets and liabilities:		
(Increase) decrease in receivables	1,655,248	-
(Increase) decrease in inventory	14,612	-
Increase (decrease) in accounts payable	1,655,572	-
Increase (decrease) in customer deposits	21,964	-
Increase (decrease) in accrued expenses	(346,226)	-
Increase (decrease) in claims liability	-	3,329
Total adjustments	<u>5,454,827</u>	<u>3,329</u>
Net cash provided (used) by operating activities	<u>\$ 8,558,199</u>	<u>\$ 438,485</u>

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

**City of Altus, Oklahoma**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	Agency Flex Benefit Plan
<b>Assets</b>	
Cash and cash equivalents	\$ 34,342
Total assets	34,342
<b>Liabilities</b>	
Refundable deposits	34,342
Total liabilities	34,342
<b>Net assets</b>	\$ -

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

**City of Altus, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2011**

**I. Organization**

The City of Altus, Oklahoma, (the City) operates under a Council-Aldermanic form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), streets and highways, sanitation and solid waste services, social services, culture and recreation, public improvements, electric and water utilities, planning and zoning, and general administrative services.

**II. Summary of significant accounting policies**

**A. Reporting entity**

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements include two discretely presented component units which are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Blended component units.** The Altus Municipal Authority (AMA) serves all the citizens of the City and is governed by a board comprised of the City's elected commissioners. The Altus Municipal Authority is a public trust created January 10, 1966 and amended July 18, 1989, to finance, develop, and operate any and all public works projects of any type or description including, but not limited to, those of water, sewer, electric, and solid waste facilities. The rates for user charges and bond issuance authorizations require a two-thirds approval of the City Commission and the AMA trustees. The legal liability for the general obligation portion of AMA's debt remains with the City. AMA is reported as an enterprise fund type. Separate financial statements have not been prepared for the Altus Municipal Authority.

**Discretely presented component units.** The following organizations are reported in a separate column in the government-wide financial statements to emphasize these organizations are legally separate from the City

Altus Great Plains Recreation, Inc is a not-for-profit organization promoting programs for the City of Altus' youth. Members of the organization's board are elected by the members of the organization. However, the entity is financially accountable to the City of Altus because the City provides a large share of its annual income and the organization provides services for the benefit of the City.

Altus/Southwest Area Economic Development Corporation is a non-stock, non-profit corporation acting as an instrumentality of the City and surrounding areas for the purpose of assisting in promoting economic growth by seeking business to locate in the City and/or surrounding areas. The City's Mayor serves as the Board Chairman; however, the City does not appoint a voting majority of the board. The EDC is considered financially accountable to the City of Altus because the City provides substantially all its revenues and the organization provides services for the benefit of the City.

Complete financial statements for each of the individual discretely presented component units may be obtained at the entity's offices.

**Related organizations.** The following related organizations are not included in the financial reporting entity:

Downtown Altus Redevelopment Trust Authority (DARTA) was created August 1, 1984, to promote and stimulate the redevelopment of the central business district of the City. The Authority provides financing to businesses for the purpose of acquiring facilities for industrial and mass transportation in the City. The DARTA governing body is appointed by the full City Commission. Any issuance of debt requires a two-thirds approval of Commission and the DARTA trustees.

Altus-Jackson County E-911 Regional Trust Authority was created November 1, 1996 to provide enhanced 911 services and encourage the cooperation of all emergency services, including police, fire, and ambulance services to the City of Altus and Jackson County. Jackson County is the beneficiary of this trust, although City governing body members may serve on the trust board.

Jackson County Industrial Authority, a Title 60 Public Trust, was created July 15, 1966 to promote, acquire, construct, extend, lease, maintain, and operate facilities used in securing and developing industry in the Jackson County limits. Jackson County is the beneficiary of this trust.

Mountain Park Master Conservancy District (the District) was created as a public trust for the purpose of contracting for payment of reimbursable costs and operating a reliable source of water for the City. The governing body of the District is a board of directors composed of a five member group of elected members. Support comes primarily from the Cities of Altus, Snyder and Frederick.

Oklahoma Municipal Power Authority (OMPA) provides distribution of electric services for the City, in conjunction with thirty-four other governmental entities. The OMPA generates power that is purchased and distributed by the thirty-five governmental entities that operate electric distribution systems. The OMPA's board is comprised of thirteen members from the participating entities. Five are automatically appointed from major cities and eight are elected from the remaining participants. Except for contractual commitments to purchase power, no participant has an obligation, entitlement, or residual interest in OMPA.

## **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are

restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The Altus Municipal Authority (AMA) accounts for the City's utility operations including electric, water, wastewater, sanitation, economic development services and landfill. Included within these financial statements are the utility deposit fund and the emergency replacement fund.

Additionally, the City reports the following fund types:

Internal service funds account for charges to the operating funds of the City used to pay workers' compensation claims (Workers' Compensation Fund) and the expenses of the City's group health and life insurance plans (Assurance Fund).

Fiduciary funds include the flex-benefit plan account for employee withholdings under the City's Section 125 Plan (Flex-Benefit Plan).

Included in the aggregated governmental funds total under the caption nonmajor governmental funds are the special revenue and capital projects funds which did not meet the criteria to be major funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

## **D. Assets, liabilities, and net assets or equity**

### ***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component unit, are reported at fair value. Investments in open-ended mutual fund shares are also considered cash equivalents and are reported at the funds' current share price.



## ***2. Receivables and payables***

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

## ***3. Inventories and prepaid items***

Inventories are valued at average cost and consist of fuel stored for use in City vehicles, materials and supplies used for vehicle maintenance, and office and janitorial supplies. Enterprise fund inventories include electrical and water parts and supplies, such as transformers and poles, meters, fittings, and pipe.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

The cost of inventory is allocated to the user departments based upon consumption.

## ***4. Restricted assets***

Certain proceeds of the Altus Municipal Authority’s enterprise fund promissory notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate trustee accounts, and their use is limited by applicable loan covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

## ***5. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15–50
Improvements other than buildings	5–100
Infrastructure	25–100
Furniture, equipment, and vehicles	2–40

### **6. *Compensated absences***

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated sick leave is paid to employees only upon retirement at a rate of one day’s pay for every three days accumulated sick leave, up to a maximum of 30 days. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

### **7. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **III. Reconciliation of government-wide and fund financial statements**

### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities such as capital lease obligations are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

Capital leases payable	\$ 3,636
Accrued compensated absences	895,566
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 899,202</u>

Another element of the reconciliation concerns timing of revenue recognition. The fund financial statements record revenues on a modified accrual basis, generally including revenues received within two months after year end, while government-wide financial statements recognize revenue on the full accrual basis when earned. The details of this difference are as follows:

Deferred revenue – fines	\$ 247,747
Deferred revenue – grants	<u>-</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 247,747</u>

Another difference concerns capital asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

Capital assets, net of accumulated depreciation	<u>\$ 9,070,887</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 9,070,887</u>

One final difference between the governmental fund balance sheet and the government-wide statement of net assets is the inclusion of the net assets of internal service funds with governmental activities in the government-wide financial statements, while it is reported in a proprietary fund in the fund financial statements. The details of this difference are as follows:

Internal service funds for unemployment and employee health insurance	<u>\$ 674,621</u>
Net adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 674,621</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay	\$ 2,289,598
Depreciation expense	(774,237)
Disposition of capital assets, net	<u>(44,416)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,470,945</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Principal repayments:	
Capital lease obligations	\$ 4,127
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>4,127</u>
	<u>\$ 4,127</u>

Another element of that reconciliation states that some expenses reported in the statement of activities do not provide current financial resources and, therefore, are not reported in governmental funds, or do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Compensated absences, net change	\$ 19,493
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>19,493</u>
	<u>\$ 19,493</u>

Another difference involves revenue recognition. Some revenues are not reported in the governmental funds because they are not considered available within two months after the year end but are recognized in revenues when earned in the governmental activities. The details of this difference are as follows:

Deferred revenue – fines, net change	\$ 16,978
Deferred revenue – grants, net change	<u>626,574</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>643,552</u>
	<u>\$ 643,552</u>

A final element of that reconciliation states that internal service funds are used by management to charge the costs of unemployment and employee health insurance to individual funds. The excess of revenues over expenses is included in the statement of activities with governmental activities but is shown as a proprietary fund in the fund financial statements.

Internal service funds used to charge the cost of unemployment and employee health insurance to individual funds.	\$ 873,049
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>873,049</u>
	<u>\$ 873,049</u>

#### IV. Stewardship, compliance, and accountability

##### Budgetary information

Annual budgets are adopted for all governmental funds and the Altus Municipal Authority. All unencumbered annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not exceed 90% of the budget until actual revenues equal to the estimated amount have been received. No expenditure can exceed the actual amount on hand.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city administrator so that a budget may be prepared. The city commission meets with the city administrator and city financial officer to review their needs estimates and requests of the departments. The city commission holds a public hearing prior to June 15 and a final budget is formally approved and adopted no later than June 23.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments require the approval of the commission. Once the budget is established, the commission must authorize any amendments that change the total legal appropriations of the fund previously approved in the budget. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

#### V. Detailed notes on all funds

##### A. Deposits and investments

###### *Deposits*

The City's carrying amount of deposits was \$ 3,575,549 as of June 30, 2011, and the bank balances totaled \$ 4,955,800. Deposits are carried at cost.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The investment policy for custodial credit risk for deposits states, "Safety of principal is the foremost objective of the investment program. All collateral pledged to secure public funds shall be valued at no more than market value. The collateralization level will be 110% of market value or principal and accrued interest. Collateral will be held by the City Clerk-Treasurer of the City of Altus or by an independent third party with whom the entity has a current custodial agreement." As of June 30, 2011, \$ 4,760,298 of the City's bank balances of \$ 4,955,800 was exposed to custodial credit risk as follows:

Collateralized with securities held by the bank's trust department, but not in the City's name	\$ 4,205,779
Not collateralized at 110% of the market value of the investments	554,519
	<u>\$ 4,760,298</u>

### Investments

As of June 30, 2011, the City had investments primarily in certificates of deposits with maturities of less than three years, diversified over several financial institutions as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	<1 year	\$ 6,253,566
U.S. Treasury Mutual Funds	n/a	<u>5,685,516</u>
Total		<u>\$ 11,939,082</u>

*Interest Rate Risk.* The City of Altus' investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Emergency funds may be invested with maturities up to five (5) years from date of purchase. All other funds maturities will be no more than two (2) years from date of purchase.

*Credit Risk.* The City's investment policy limits investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit; c) savings accounts of savings and loans associations, banks, and credit unions, to the extent that the amounts are fully insured by the Federal Deposit Insurance Corporation, or d) County, Municipal, or school district direct debt obligation for which an ad valorem tax may be levied. As of June 30, 2011, the City's investments in certificates of deposit were all federally insured or adequately collateralized by pledges of securities owned by the various financial institutions.

*Concentration of Credit Risk.* The City of Altus' investment policy limits to 50% the amount of the City's investment portfolio that may be invested in a single financial institution, with the exception of investments in U.S. Treasury securities and accounts. Of the City's total investments at June 30, 2011, approximately 48% were invested in U.S. Treasury security mutual funds accounts. Of the City of Altus' investments, all were in certificates of deposit with 100% invested with one financial institution. For the Altus Municipal Authority, 52% of its total investments were with the same financial institution.

*Custodial Credit Risk – Investments.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The investment policy for custodial credit risk for deposits states, "Safety of principal is the foremost objective of the investment program. All collateral pledged to secure public funds shall be valued at no more than market value. The collateralization level will be 110% of market value or principal and accrued interest. Collateral will be held by the City Clerk-Treasurer of the City of Altus or by an independent third party with whom the entity has a current custodial agreement." As of June 30, 2011, \$ 2,450,000 of the City's investments was exposed to custodial credit risk as follows:

Collateralized with securities held by the bank's trust department, but not in the City's name	<u>\$ 2,450,000</u>
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## B. Receivables

Receivables as of June 30, 2011, for the City of Altus' individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Altus Municipal Authority	Total
Receivables:				
Taxes	\$ 1,716,932	\$ 56,764	\$ -	\$ 1,773,696
Accounts	502	38,502	4,801,349	4,840,353
Court fines	278,367	-	-	278,367
Gross receivables	1,995,801	95,266	4,801,349	6,892,416
Less: allowance for uncollectibles	-	-	(975,029)	(975,029)
Net total receivables	<u>\$ 1,995,801</u>	<u>\$ 95,266</u>	<u>\$ 3,826,320</u>	<u>\$ 5,917,387</u>

## C. Restricted assets

The Altus Municipal Authority's various revenue notes include restricted cash and investments for the unexpended portion of the project fund, debt service funds for repayment of the principal and interest when due, and debt service reserve funds to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. The funds are on deposit with the trustee bank.

The following is a summary of the restricted cash and investment account balances as of June 30, 2011:

	Enterprise Funds Altus Municipal Authority				Total
	Reserve Fund	Sinking Fund	Construction Fund	Meter Deposit Fund	
FNB Series 2011 note	\$ -	\$ -	\$ 130,560	\$ -	\$ 130,560
Mountain Park bonds	930,055	465,282	-	-	1,395,337
Utility Refunding Series 2003 notes	-	225,393	-	-	225,393
Water treatment plant	-	-	4,627,383	-	4,627,383
FSB – MAPS	-	3,264,679	-	-	3,264,679
BOK Series 2008 notes	-	184,905	3,615,061	-	3,799,966
BOK Series 2009 notes	-	264,700	122	-	264,822
Meter deposit fund	-	-	-	831,173	831,173
Total restricted assets	<u>\$ 930,055</u>	<u>\$ 4,404,959</u>	<u>\$ 8,373,126</u>	<u>\$ 831,173</u>	<u>\$ 14,539,313</u>

## D. Capital assets

Capital asset balances and activities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,217,403	\$ -	\$ -	\$ 1,217,403
Construction in progress	78,252	1,716,539	(46,371)	1,748,420
Total capital assets, not being depreciated	<u>1,295,655</u>	<u>1,716,539</u>	<u>(46,371)</u>	<u>2,965,823</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	10,229,971	249,534	-	10,479,505
Machinery and equipment	6,374,992	208,457	(105,387)	6,478,062
Infrastructure	594,948	161,439	-	756,387
Total capital assets, being depreciated	<u>17,199,911</u>	<u>619,430</u>	<u>(105,387)</u>	<u>17,713,954</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,058,296)	(256,063)	-	(6,314,359)
Machinery and equipment	(4,758,492)	(493,028)	62,201	(5,189,319)
Infrastructure	(78,836)	(26,376)	-	(105,212)
Total accumulated depreciation	<u>(10,895,624)</u>	<u>(775,467)</u>	<u>62,201</u>	<u>(11,608,890)</u>
Total capital assets, being depreciated, net	<u>6,304,287</u>	<u>(156,037)</u>	<u>(43,186)</u>	<u>6,105,064</u>
Governmental activities capital assets, net	<u>\$ 7,599,942</u>	<u>\$ 1,560,502</u>	<u>\$ (89,557)</u>	<u>\$ 9,070,887</u>

**Business-type activities:**

**Altus Municipal Authority**

Capital assets, not being depreciated:

Land	\$ 1,304,662	\$ -	\$ -	\$ 1,304,662
Construction in progress	6,386,314	57,017	(6,386,314)	57,017
Total capital assets, not being depreciated	<u>7,690,976</u>	<u>57,017</u>	<u>(6,386,314)</u>	<u>1,361,679</u>

Capital assets, being depreciated:

Buildings and improvements	22,023,190	9,867,440	(422)	31,890,208
Machinery and equipment	5,905,182	486,201	(75,727)	6,315,656
Water rights	24,647,726	-	-	24,647,726
Infrastructure	23,543,548	71,919	-	23,615,467
Total capital assets, being depreciated	<u>76,119,646</u>	<u>10,425,560</u>	<u>(76,149)</u>	<u>86,469,057</u>

Less accumulated depreciation for:

Building and improvements	(6,797,542)	(812,546)	-	(7,610,088)
Machinery and equipment	(4,093,487)	(474,177)	75,727	(4,491,936)
Water rights	(11,011,484)	(616,193)	-	(11,627,677)
Infrastructure	(16,584,068)	(507,571)	38,984	(17,052,656)
Total accumulated depreciation	<u>(38,486,581)</u>	<u>(2,410,487)</u>	<u>114,711</u>	<u>(40,782,357)</u>
Total capital assets, being depreciated, net	<u>37,633,065</u>	<u>8,015,073</u>	<u>38,562</u>	<u>45,686,700</u>
Business-type activities capital assets, net	<u>\$ 45,324,041</u>	<u>\$ 8,072,090</u>	<u>\$ (6,347,752)</u>	<u>\$ 47,048,379</u>

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

Governmental activities:

General government	\$ 158,227
Public safety	301,590
Public works	192,790
Cultural and recreation	121,630
Total depreciation expense – governmental activities	<u>\$ 774,237</u>

Business-type activities:

Electric	\$ 251,346
Water/wastewater	1,576,656
Sanitation	66,581
Landfill	206,758
Administration/services	295,904
Total depreciation expense – business-type activities	<u>\$ 2,397,245</u>



## E. Deposits subject to refund

Utility customers are required to make a meter deposit which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2011, cash and investments included \$ 831,173 available for refund of customer deposits, while the liability to customers was \$ 831,173.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court, at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2011, \$ 12,865 was being held that was subject to refund.

## F. Short-term debt

The City has a \$ 25,000 line of credit with Caterpillar Corporation. During the year ended June 30, 2011, the City utilized the line of credit for repairs to a dozer in the amount of \$ 20,480. The City will make 12 monthly payments of \$ 1,706 at 0.00%.

Short-term debt transactions for the year ended June 30, 2011 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Caterpillar Corporation	\$ 20,480	\$ -	\$ (17,067)	\$ 3,413	\$ 3,413
Total short-term debt	\$ 20,480	\$ -	\$ (17,067)	\$ 3,413	\$ 3,413

## G. Long-term debt

### Compensated absences

Accrued compensated absences as of June 30, 2011 were as follows:

Governmental activities	\$ 895,566
Business-type activities	328,595
Totals	<u>\$ 1,224,161</u>

### Capital leases

The City has entered into several lease agreements as lessee for financing the acquisition of buildings, land, and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The capital lease obligations are as follows:

#### **Governmental activities:**

\$ 16,569 capital lease with Deere Credit for cemetery equipment dated May 24, 2009, with an interest rate of 9.25%, monthly payment of \$ 346 and a maturity date of May 22, 2012.	\$ 3,636
Total governmental activities	<u>\$ 3,636</u>

**Business-Type Activities:**

2009 capital lease with First National Bank, original issue amount of \$ 1,450,000, dated February 9, 2009 by Altus Municipal Authority secured by equipment, with an interest rate of 3.95%, final maturity of December 28, 2011.	\$ 153,378
Capital lease with Caterpillar Financial Services, dated June 9, 2010 in the amount of \$ 330,000, with monthly payments of \$ 6,009, including interest at 3.50% through June 14, 2013, for the lease purchase of a scraper.	273,647
Capital lease with Oklahoma Municipal Power Authority, dated May 1, 2010 in the amount of \$ 1,870,467, payable in monthly installments of \$ 24,625, including interest at 5.081% through October 1, 2016, for the lease purchase of an electric substation.	<u>1,358,886</u>
Total business-type activities	<u>1,785,911</u>
Total capital lease obligations	<u>\$ 1,789,547</u>

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset:		
Cemetery equipment	\$ 16,569	\$ -
Equipment	-	1,450,000
Scraper	-	330,000
Electric substation	-	1,870,467
Total	<u>\$ 16,569</u>	<u>\$ 3,650,467</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease Obligations</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2012	\$ 3,807	\$ 524,032
2013	-	367,610
2014	-	367,610
2015	-	367,610
2016	-	301,129
2017 – 2021	-	73,877
Total required payments	<u>3,807</u>	<u>2,001,868</u>
Less: amount representing interest	<u>(171)</u>	<u>(215,957)</u>
Total principal payments	<u>\$ 3,636</u>	<u>\$ 1,785,911</u>

## Notes and contract obligation payable

Long-term liabilities of the City of Altus as of June 30, 2011, are summarized as follows:

### **Business-type activities**

Altus Municipal Authority

Notes payable:

Oklahoma Department of Commerce CDBG Note, original issue amount of \$232,183, dated October 2, 1998, issued by Altus Municipal Authority, secured by available utility revenues, with no interest, final maturity September 1, 2018.	\$ 92,875
Altus Municipal Authority Utility Refunding Note, Series 2003, original issue amount of \$ 2,015,000, dated September 30, 2003, payable in annual installments ranging from \$ 190,000 to \$ 260,000, with interest at 3.85% due semi-annually, final maturity of September 1, 2012, secured by available utility revenues.	505,000
\$ 10,000,000 Altus Municipal Authority Sales Tax Revenue Note, Series 2008, dated December 24, 2008, due in quarterly installments of \$ 175,000 to \$ 275,000 plus interest at 4.00% beginning August 1, 2009, with final payment due November 1, 2020, secured by sales tax revenues from a special sales tax of 1.75% as approved by the voters of the City on August 26, 2009, proceeds to be used by the City and the Altus School District for capital improvements.	8,715,000
\$ 14,285,000 Altus Municipal Authority Sales Tax Revenue Note, Series 2009, dated March 25, 2009 due in quarterly installments of \$ 145,000 to \$ 385,000 plus interest at 4.25% beginning August 1, 2009 with final payment due November 1, 2020, secured by sales tax revenues from a special sales tax of 1.75%, proceeds to be used by the City and the Altus School District for capital improvements.	12,360,000
First National Bank \$ 300,000 Altus Municipal Authority Revenue Note, Series 2010, dated June 25, 2011, due and payable in monthly installments of \$ 12,996, including interest at 3.75%, payable from hotel/motel tax revenues, for capital improvements.	152,906
First National Bank \$ 85,000 Altus Municipal Authority Revenue Note, Series 2011, dated March 31, 2011, due and payable in monthly installments of \$ 7,272, including interest at 5.00%, payable from hotel/motel tax revenues, for capital improvements.	<u>64,087</u>
Total notes payable	<u>21,889,868</u>
<b>Contract Obligation Payable:</b>	
\$ 11,709,765 contract obligation payable to the Mountain Park Master Conservancy District, due in 252 average monthly installments of \$ 79,284, with interest rates from 3.75% to 5.26%, secured by a pledge of gross revenues of the water as approved by voters.	<u>9,489,960</u>
Total business-type activities	<u>31,379,828</u>
Total long-term debt	<u><u>\$ 34,393,536</u></u>

Long-term liabilities transactions for the year ended June 30, 2011, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities</b>					
Capital lease obligations	\$ 7,763	\$ -	\$ (4,127)	\$ 3,636	\$ 3,636
Compensated absences	876,073	19,493	-	895,566	-
Total governmental activities	883,836	19,493	(4,127)	899,202	3,636
<b>Business-type activities</b>					
Notes payable	23,985,533	85,000	(2,180,665)	21,889,868	2,323,602
Capital lease obligations	2,364,663	-	(578,752)	1,785,911	448,523
Contract obligations payable	9,916,695	-	(426,735)	9,489,960	450,225
Compensated absences	358,039	-	(29,444)	328,595	-
Total business-type activities	36,624,930	85,000	(3,215,596)	33,494,334	3,222,350
Total long-term debt	<u>\$ 37,508,766</u>	<u>\$ 104,493</u>	<u>\$ (3,219,723)</u>	<u>\$ 34,393,536</u>	<u>\$ 3,225,986</u>

Annual debt service requirements to maturity for business-type activities long-term debt are as follows:

Year Ending June 30,	Business-type Activities			
	Notes Payable		Contract Obligation Payable	
	Principal	Interest	Principal	Interest
2012	\$ 2,323,600	\$ 864,641	\$ 450,225	\$ 479,830
2013	2,196,609	772,611	465,885	459,570
2014	2,016,609	686,497	489,375	438,139
2015	2,106,609	601,963	508,950	415,139
2016	2,191,609	513,797	536,355	390,964
2017–2021	11,054,832	1,117,521	3,116,340	1,516,553
2022–2026			3,922,830	623,972
Totals	<u>\$ 21,889,868</u>	<u>\$ 4,557,030</u>	<u>\$ 9,489,960</u>	<u>\$ 4,324,167</u>

## H. Debt issuance costs

Debt issuance costs of \$ 560,551 have been capitalized and are being amortized on the straight-line basis over the term of the relevant debt issues. As of June 30, 2011, accumulated amortization was \$ (163,663) including current year amortization of \$ 26,279.

## I. Compensated absences

Full-time employees with at least one year of service earn vacation of ten to twenty days per year depending on years of service completed. A maximum of ten to fifteen days may be carried over from one benefit year into another, depending on years of service completed.

Full-time employees earn sick leave at the rate of eight hours per month. Upon retirement, employees are paid at the rate of one day's pay for every three days accumulated sick leave up to a maximum of 30 days.

In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay as follows:

Governmental activities	\$ 895,566
Business-type activities	328,595
Total accrued compensated absences	<u>\$ 1,224,161</u>

**J. Interfund receivables, payables, and transfers**

The composition of interfund activity and balances as of June 30, 2011, is as follows:

Interfund transfers:

	Transfers Out				Totals
	General Fund	Non-major Governmental	Altus Municipal Authority	Internal Service Funds	
Transfer in:					
General fund	\$ -	\$ 917,743	\$ 6,387,802	\$ -	\$ 7,305,545
Nonmajor Governmental	562,890	50,663	600,303	-	1,213,856
Altus Municipal Authority	5,097,702	227,496	-	1,329,375	6,654,573
Totals	<u>\$ 5,660,592</u>	<u>\$ 1,195,902</u>	<u>\$ 6,988,105</u>	<u>\$ 1,329,375</u>	<u>\$ 15,173,974</u>

Additional transfers totaling \$ 169,056 are reported in the enterprise fund financial statements for transfers of capital assets and long-term debt principal payments expended in governmental funds but capitalized or recorded in the enterprise funds. These transfers are also reported in both governmental and business-type activities in the government-wide financial statements.

Interfund receivables/payables:

Receivable fund	Payable fund	Amount
Non-major governmental	Altus Municipal Authority	\$ 390,099
Altus Municipal Authority	General Fund	774,375
Totals		<u>1,164,474</u>

**K. Landfill closure and post-closure liability**

Federal and State regulations require the City to place a final cover on its landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for thirty (30) years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of those costs as an operating expense of the Altus Municipal Authority each fiscal year. The amount of the current period expense is based upon the amount of landfill capacity used as of each fiscal year.

The \$ 1,664,113 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2011, represents the cumulative amount of such cost reported to date based on the use of approximately 70% of the estimated capacity of the landfill. The Altus Municipal Authority will recognize the remaining estimated costs of closure and post-closure care in the amount of \$ 707,291 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2011. Actual

costs may be more or less at that time than are currently estimated. The estimated closure and post-closure costs and the accrued liability as of June 30, 2011, are as follows:

Estimated closure costs	\$ 1,497,965
Estimated post-closure costs	873,439
Total estimated costs	<u>2,371,404</u>
Accrued closure costs	1,664,113
Remaining costs to be recognized	<u>\$ 707,291</u>
Current estimated costs charged to expense	<u>\$ 56,370</u>

The City has qualified under the State of Oklahoma Department of Environmental Quality (DEQ) financial assurance test relating to these future closure and post-closure costs, whereby the City's overall financial condition and other submitted information serves as evidence of the City's ability to pay for the closure and post-closure care costs when the landfill is actually closed. As such, the City is not required to fund an escrow trust account for the costs.

**L. Deferred gain – Contract refinancing**

In August 1981, the Altus Municipal Authority entered into a contract with the Mountain Park Master Conservancy District for facilities related to secure a reliable water supply source for the future use of the City. As part of the contract agreement, \$ 22,601,376 of the total project cost of \$ 34,196,074 was assumed by the Altus Municipal Authority through a contractual obligation to the Conservation District.

In June 2005, the Mountain Park Master Conservancy District refinanced the project debt. The Authority's share of the refinanced debt was \$ 11,709,765. As a result of the refinancing, an accounting gain of \$ 8,015,425 was recorded and deferred with the Authority amortizing the gain over a twenty-one year period. The unamortized amount of this gain as of June 30, 2011, is \$ 5,692,726, with a current year amortization of \$ 381,686 recognized as an offset to interest expense.

**VI. Other information**

**A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property and general liability, and is self-insured for workers' compensation and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment. Judgments against the City may be paid by a property tax assessment over a three-year period.

**B. Commitments and contingent liabilities**

Grants and contracts

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

## Litigation

The City of Altus and the Altus Municipal Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The accompanying financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three (3) year period by a City for the payment of any court-assessed judgment rendered against the City. This statutory taxing authority is not available to the AMA.

While the outcome of any of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and State Statutes relating to judgments, the City feels that any settlement or judgment would not have a material effect on the financial condition of the City.

## Investment in Quartz Mountain Aerospace

As of June 30, 2011, an uncertainty exists as to ultimate ownership of a building Altus Municipal Authority (AMA) acquired from Quartz Mountain Aerospace, Inc. (formerly known as Luscombe Aircraft Corporation), as part of bankruptcy proceedings of Quartz Mountain Aerospace, Inc. AMA wrote off its investment in QMA stock of \$ 2,663,859 and recorded the fair market value of the building estimated at \$ 1,531,929. The difference was recognized as a loss on investments. The Oklahoma Industrial Finance Authority also has a claim against the building for a loan it had made to QMA. The AMA believes it will prevail and receive a clear title to the building.

## Mountain Park Master Conservancy District – Contract Commitments

The Altus Municipal Authority (AMA) entered into a 25 year contract with the Mountain Park Master Conservancy District. Operating and maintenance costs of Mountain Park are shared by the member governments. AMA's share of costs for the year ended June 30, 2011 was \$ 232,077.

## Construction projects

The City of Altus entered into a contract on June 9, 2009 for the construction of an Altus Municipal Complex building. The building was subsequently completed in November 2010. Altus Public Schools entered into a contract dated November 10, 2008 in the amount of \$ 12,689,870 for renovation and addition to the high school building. The funding for this project, as well as the City Municipal Complex building, is from the sales tax revenue bonds, Series 2008 and 2009, as approved by the citizens in 2008. As of June 30, 2010, the City had paid \$ 10,787,190 on the school contract, leaving a balance on the contract of \$ 1,902,680. Other projects up to a total of \$ 34,000,000, allocated equally to the City and the School, are included in the overall capital improvements program as approved by the citizens. To date, the City has issued two revenue notes totaling \$ 24,000,000; however, no other contracts have been made. As of June 30, 2011, the City had construction funds on hand of approximately \$ 3,615,183 and the balances outstanding on the loans totaled \$ 21,075,000. The loans are being repaid from the proceeds of a special 1 ¾ cent sales tax.

## **C. Prior period adjustment**

An adjustment was made to the beginning fund balance in the governmental fund financial statements and to beginning net assets in the proprietary fund financial statements to record the amount of accrued sales taxes receivable that were due from the general fund to Altus Municipal Authority as of June 30, 2010, in the amount of \$ 766,914. This decreased the

general fund beginning fund balance and increased the Altus Municipal Authority's beginning net assets.

#### **D. Employee retirement systems and pension plans**

The City of Altus participates in the Oklahoma State Police Pension and Retirement System (OPPRS) and the Oklahoma State Firefighters' Pension and Retirement System (OFPRS), both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Altus maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Altus (the Plan).

##### Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2011, for employees and employer were \$ 155,688 and \$ 253,014, respectively, on covered payroll of \$ 1,946,288. The State of Oklahoma made on-behalf payments to OPPRS totaling \$ 196,320 during the year.

##### Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2011, for employees and employer were \$ 129,487 and \$ 210,417, on covered payroll of \$ 1,618,586. The State of Oklahoma made on-behalf payments to OFPRS totaling \$ 398,172 during the year.

##### Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma



Municipal Retirement Fund (OMRF). The OMRF board of trustees retains BankOne as custodian to hold the Plan's assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after ten years of service. Employees, who retire at age 65 or completion of 10 years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.625% of final average compensation multiplied by the number of years of credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed 10 years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age.

Employee contributions are returned with interest if their employment is terminated prior to completion of ten years of service. A death benefit is payable after ten years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse. For a vested single participant, 50% of the accrued benefit is payable for 60 months certain.

Funding Policy – The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan. The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2011. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases based on the age of the employee.

The total actuarial liability exceeded the net assets available for benefits by \$ 4,350,256 at January 1, 2011, as follows:

Actuarial accrued liability	\$ 19,675,946
Net assets available for benefits (actuarial value)	(15,325,690)
Unfunded actuarial accrued liability	<u>\$ 4,350,256</u>

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level percentage of payrolls over a period of thirty years.

For the year ended June 30, 2011, employees were required to contribute 4% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City's contribution rate, for the year ended June 30, 2011, was 12.68%. Contributions to the Plan for payroll for the year ended June 30, 2011, for employees and employer were \$ 244,734 and \$ 775,929, respectively. For the year ended June 30, 2011, the City's covered payroll was \$ 6,121,454 out of a total payroll of \$ 10,939,618. Covered payroll refers to all compensation paid by the City of Altus to active employees covered by the Plan on which contributions are based.

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

The schedule of funding progress for the Plan for the past ten years is as follows:

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/11	\$15,325,690	\$ 19,675,946	\$ 4,350,256	77.89 %	\$ 5,868,590	74.13 %
01/01/10	14,220,590	18,406,843	4,186,253	77.26 %	5,864,211	71.39 %
01/01/09	13,706,405	17,128,211	3,421,806	80.02 %	5,365,391	63.78 %
01/01/08	14,409,141	15,996,679	1,587,538	90.08 %	4,904,734	32.38 %
01/01/07	13,891,579	15,156,045	1,264,466	91.66 %	4,722,591	26.77 %
01/01/06	14,015,541	14,772,829	757,289	94.87 %	4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01)%

#### Oklahoma Municipal Retirement Fund – Defined Contribution Plan

Plan Description – The City has also provide a defined contribution plan and trust known as the City of Altus Plan and Trust (the Plan) in the form of the Oklahoma Municipal Retirement Fund Defined Contribution Plan (OMRF). The plan is administered by BankOne of Oklahoma City, Oklahoma. The defined contribution plan is available to all full-time employees except those covered by other plans. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities.

Funding Policy – Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months of employment and voluntarily select their before-tax percentage-of-contribution up to 15% of compensation. By City ordinance, the City, as employer, is required to make variable contributions to the plan, based on availability of funds. As of July 2002, City contributions were 1.49% of gross salary. The employee is fully vested after 10 years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the City Commission. Contributions to the plan for the year ended June 30, 2011, for employees and employer were \$ 89,385 and \$ 90,764, on a covered payroll of \$ 6,091,547.

Oklahoma Municipal Retirement Fund – Defined Contribution Plan – CMO Plan

Plan Description – In addition to the above plans, the City has provided a defined contribution plan in the form of the OMRF – CMO Plan. The CMO defined contribution plan is available to any person who is in the position of City Administrator.

Funding Policy – Employees are eligible to participate upon employment and voluntarily elect their percentage of contribution with a minimum contribution of 3% of compensation. The City makes contributions to the Plan based on the employment agreement with the employee and employer contributions are immediately vested. The authority to establish and amend the provisions of the Plan rests with the City Commission. Contributions to the Plan for the year ended June 30, 2011, for the employee and employer were \$ 2,965 and \$ 9,884 on covered payroll of \$ 98,843.

**City of Altus, Oklahoma**  
**Budgetary Comparison Schedule**  
**General Fund (Budgetary Basis)**  
**Year Ended June 30, 2011**

	General Fund			
	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Fund balance, beginning</b>	\$ 690,283	\$ 690,283	\$ 669,511	\$ (20,772)
<b>Resources</b>				
Taxes	9,763,925	9,763,925	9,965,707	201,782
Licenses and permits	119,000	119,000	110,024	(8,976)
Intergovernmental	1,500,193	1,782,413	1,926,121	143,708
Fines and forfeitures	358,500	358,500	255,068	(103,432)
Charges for services	350,200	350,200	247,959	(102,241)
Miscellaneous	103,100	103,100	134,967	31,867
Interest	4,000	4,000	4,371	371
Operating transfers	8,206,546	8,206,546	7,310,119	(896,427)
<b>Total resources</b>	<u>20,405,464</u>	<u>20,687,684</u>	<u>19,954,336</u>	<u>(733,348)</u>
Amounts available for appropriation	21,095,747	21,377,967	20,623,847	(754,120)
<b>Charges to appropriations:</b>				
Council	127,851	127,851	80,177	47,674
Mayor	30,640	30,640	25,314	5,326
Administrative services	1,043,898	1,038,990	917,408	121,582
Administration	299,970	299,970	273,195	26,775
Law	129,336	130,002	128,546	1,456
Information systems	239,311	239,311	223,311	16,000
Finance	264,387	264,387	266,326	(1,939)
Human resources	261,849	264,565	252,480	12,085
Clerk-treasurer	183,851	185,377	176,772	8,605
Central purchasing	217,191	217,191	170,125	47,066
Municipal court	223,861	223,861	210,114	13,747
Police	3,823,285	3,823,285	3,628,367	194,918
Fire	2,369,226	2,405,007	2,381,356	23,651
Emergency services	121,675	121,675	110,527	11,148
Communications	121,183	121,183	58,095	63,088
Cemetery	203,737	203,737	181,801	21,936
Planning	405,248	405,248	386,982	18,266
Street	892,941	892,941	757,091	135,850
Fleet maintenance	589,023	589,023	532,406	56,617
Building maintenance	354,092	354,092	282,331	71,761
Parks and recreation	1,702,178	1,702,878	1,470,242	232,636
Debt service	221,518	221,518	220,729	789
Capital outlay	1,285,282	1,286,782	537,499	749,283
Operating transfers	5,984,214	5,984,214	5,657,846	326,368
<b>Total charges to appropriations</b>	<u>21,095,747</u>	<u>21,133,728</u>	<u>18,929,040</u>	<u>2,204,688</u>
<b>Fund balance, ending</b>	<u>\$ -</u>	<u>\$ 244,239</u>	<u>\$ 1,694,807</u>	<u>\$ 1,450,568</u>

See disclaimer in accompanying Independent Auditor's Report.

**City of Altus, Oklahoma**  
**Reconciliation of Budgetary Comparison Schedule on a Budgetary**  
**Basis With Fund Financial Statements on a GAAP Basis**  
**Year Ended June 30, 2011**

<u><b>Budgetary funds</b></u>	<u>General Fund</u>
<b>Revenues</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 12,644,217
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(451,514)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 12,192,703
<b>Expenditures</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 13,271,194
Adjustments:	
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	610,036
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	\$ 13,881,230
<b>Other financing sources (uses)</b>	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ 1,652,273
Adjustments:	
<i>Budgetary</i> other financing sources and uses are reported on the cash basis, rather than the modified accrual basis	(7,320)
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	\$ 1,644,953

See disclaimer in accompanying Independent Auditor's Report.

**City of Altus, Oklahoma**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	Special Revenue			
	ODOC Grant Fund	Altus Donation Fund	Airport Fund	Hotel/Motel Tax Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 59	\$ 66,331	\$ 34,745	\$ 131,853
Investments	-	-	-	-
Receivables:				
Accounts, net	-	-	38,502	-
Taxes	-	-	-	24,950
Due from other funds	-	-	-	-
Inventory	-	-	40,688	-
Total assets	<u>\$ 59</u>	<u>\$ 66,331</u>	<u>\$ 113,935</u>	<u>\$ 156,803</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 120</u>	<u>\$ 7,345</u>	<u>\$ 20,269</u>
Total liabilities	<u>-</u>	<u>120</u>	<u>7,345</u>	<u>20,269</u>
<b>Fund balances</b>				
Reserved:				
Capital improvements/debt service	59	-	-	116,265
Encumbrances/other	36,600	66,211	56,606	20,269
Unreserved:				
Designated	<u>(36,600)</u>	<u>-</u>	<u>49,984</u>	<u>-</u>
Total fund balances	<u>59</u>	<u>66,211</u>	<u>106,590</u>	<u>136,534</u>
Total liabilities and fund balances	<u>\$ 59</u>	<u>\$ 66,331</u>	<u>\$ 113,935</u>	<u>\$ 156,803</u>

Special Revenue				Capital Projects	
Street & Alley Fund	Emergency E-911 Fund	Parks Development Fund	Economic Development Construction Fund	FAA Grant Fund	Capital Improvement Fund
\$ 53,425	\$ 4	\$ 159,481	\$ 113,941	\$ -	\$ 605,142
-	-	-	603,567	-	-
-	-	-	-	-	-
31,814	-	-	-	-	-
-	-	-	390,099	-	-
-	-	-	-	-	-
<u>\$ 85,239</u>	<u>\$ 4</u>	<u>\$ 159,481</u>	<u>\$ 1,107,607</u>	<u>\$ -</u>	<u>\$ 605,142</u>
\$ -	\$ 6,597	\$ 95,405	\$ -	\$ -	\$ -
-	6,597	95,405	-	-	-
-	-	-	-	-	-
37,976	52	-	-	-	24,853
47,263	(6,645)	64,076	1,107,607	-	580,289
85,239	(6,593)	64,076	1,107,607	-	605,142
<u>\$ 85,239</u>	<u>\$ 4</u>	<u>\$ 159,481</u>	<u>\$ 1,107,607</u>	<u>\$ -</u>	<u>\$ 605,142</u>

**City of Altus, Oklahoma**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**  
(continued)

	Capital Projects			
	Landfill Improvement Fund	Cemetery Perpetual Fund	Drainage Improvement Fund	ODOT Grant Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 679,692	\$ 14,755	\$ 108,863	\$ -
Investments	-	-	-	-
Receivables:				
Accounts, net	-	-	-	-
Taxes	-	-	-	-
Due from other funds	-	-	-	-
Inventory	-	-	-	-
Total assets	\$ 679,692	\$ 14,755	\$ 108,863	\$ -
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
<b>Fund balances</b>				
Reserved:				
Capital improvements/debt service	-	14,755	-	-
Encumbrances/other	-	-	-	-
Unreserved:				
Designated	679,692	-	108,863	-
Total fund balances	679,692	14,755	108,863	-
Total liabilities and fund balances	\$ 679,692	\$ 14,755	\$ 108,863	\$ -



<u>Debt Service</u>		Total Nonmajor Governmental Funds
Debt Service Fund		
\$ -		\$ 1,968,291
-		603,567
-		38,502
-		56,764
-		390,099
-		40,688
<u>\$ -</u>		<u>\$ 3,097,911</u>
<u>\$ -</u>		<u>\$ 129,736</u>
<u>-</u>		<u>129,736</u>
-		131,079
-		242,567
<u>-</u>		<u>2,594,529</u>
<u>-</u>		<u>2,968,175</u>
<u>\$ -</u>		<u>\$ 3,097,911</u>

**City of Altus, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

	Special Revenue			
	ODOC Grant Fund	Altus Donation Fund	Airport Fund	Hotel/Motel Tax Fund
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ 221,664
Intergovernmental	73,200	4,991	-	-
Charges for services	-	-	330,520	-
Other	-	21,080	-	-
Interest	17	-	4,362	-
Total revenues	<u>73,217</u>	<u>26,071</u>	<u>334,882</u>	<u>221,664</u>
<b>Expenditures</b>				
Current:				
General government	-	926	-	-
Public safety	-	3,972	-	-
Public works	-	35,582	523,646	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	9,646
Debt service				
Principal	-	-	503	-
Interest	-	-	-	-
Capital outlay	73,200	4,839	980,439	-
Total expenditures	<u>73,200</u>	<u>45,319</u>	<u>1,504,588</u>	<u>9,646</u>
Excess of revenues over (under) expenditures	17	(19,248)	(1,169,706)	212,018
<b>Other financing sources (uses)</b>				
Transfers in	-	33,892	223,303	-
Transfers (out)	-	-	(350)	(227,478)
Total other financing sources (uses)	<u>-</u>	<u>33,892</u>	<u>222,953</u>	<u>(227,478)</u>
<b>Net change in fund balances</b>	17	14,644	(946,753)	(15,460)
Fund balances, beginning	<u>42</u>	<u>51,567</u>	<u>1,053,343</u>	<u>151,994</u>
Fund balances, ending	<u>\$ 59</u>	<u>\$ 66,211</u>	<u>\$ 106,590</u>	<u>\$ 136,534</u>

Special Revenue			Capital Projects		
Street & Alley Fund	Emergency E-911 Fund	Parks Development Fund	Economic Development Construction Fund	FAA Grant Fund	Capital Improvement Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
186,840	-	-	-	28,025	-
-	146,374	-	-	-	-
-	4	8,400	-	-	-
3,053	-	755	6,872	-	-
<u>189,893</u>	<u>146,378</u>	<u>9,155</u>	<u>6,872</u>	<u>28,025</u>	<u>-</u>
-	-	-	-	-	-
-	533,049	-	-	-	-
163,723	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
137,275	-	95,405	-	28,375	118,471
<u>300,998</u>	<u>533,049</u>	<u>95,405</u>	<u>-</u>	<u>28,375</u>	<u>118,471</u>
(111,105)	(386,671)	(86,250)	6,872	(350)	(118,471)
-	391,998	-	-	350	464,313
<u>(968,056)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(968,056)</u>	<u>391,998</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>464,313</u>
(1,079,161)	5,327	(86,250)	6,872	-	345,842
<u>1,164,400</u>	<u>(11,920)</u>	<u>150,326</u>	<u>1,100,735</u>	<u>-</u>	<u>259,300</u>
<u>\$ 85,239</u>	<u>\$ (6,593)</u>	<u>\$ 64,076</u>	<u>\$ 1,107,607</u>	<u>\$ -</u>	<u>\$ 605,142</u>

**City of Altus, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

(continued)

	Capital Projects			
	Landfill Improvement Fund	Cemetery Perpetual Fund	Drainage Improvement Fund	ODOT Grant Fund
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	211,285
Charges for services	-	5,569	-	-
Other	-	100	-	-
Interest	-	-	-	-
Total revenues	<u>-</u>	<u>5,669</u>	<u>-</u>	<u>211,285</u>
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	4,152	-	-
Capital outlay	-	-	-	211,285
Total expenditures	<u>-</u>	<u>4,152</u>	<u>-</u>	<u>211,285</u>
Excess of revenues over (under) expenditures	-	1,517	-	-
<b>Other financing sources (uses)</b>				
Transfers in	100,000	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	100,000	1,517	-	-
Fund balances, beginning	<u>579,692</u>	<u>13,238</u>	<u>108,863</u>	<u>-</u>
Fund balances, ending	<u>\$ 679,692</u>	<u>\$ 14,755</u>	<u>\$ 108,863</u>	<u>\$ -</u>

<u>Debt Service</u>			<u>Total</u>
<u>Debt</u>			<u>Nonmajor</u>
<u>Service</u>			<u>Governmental</u>
<u>Fund</u>			<u>Funds</u>
\$	16	\$	221,680
	-		504,341
	-		482,463
	-		29,584
	2		15,061
	18		1,253,129
	-		926
	-		537,021
	-		722,951
	-		-
	-		9,646
	-		503
	-		4,152
	-		1,649,289
	-		2,924,488
	18		(1,671,359)
	-		1,213,856
	(18)		(1,195,902)
	(18)		17,954
	-		(1,653,405)
	-		4,621,580
\$	-	\$	2,968,175

**City of Altus, Oklahoma**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2011**

	<u>Workers'</u> <u>Compensation</u> <u>Fund</u>	<u>Assurance</u> <u>Fund</u>	<u>Total</u> <u>Internal</u> <u>Service</u> <u>Funds</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 38,317	\$ 259,727	\$ 298,044
Total current assets	<u>38,317</u>	<u>259,727</u>	<u>298,044</u>
Noncurrent assets:			
Total noncurrent assets	-	-	-
Total assets	<u>38,317</u>	<u>259,727</u>	<u>298,044</u>
<b>Liabilities</b>			
Current liabilities:			
Claims liability	210,047	162,059	372,106
Total current liabilities	<u>210,047</u>	<u>162,059</u>	<u>372,106</u>
Noncurrent liabilities:			
Claims liability	600,559	-	600,559
Total noncurrent liabilities	<u>600,559</u>	<u>-</u>	<u>600,559</u>
Total liabilities	<u>810,606</u>	<u>162,059</u>	<u>972,665</u>
<b>Net assets</b>			
Restricted	(772,289)	97,668	(674,621)
Total net assets	<u>\$ (772,289)</u>	<u>\$ 97,668</u>	<u>\$ (674,621)</u>

**City of Altus, Oklahoma**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Internal Service Funds**  
**Year Ended June 30, 2011**

	Workers' Compensation Fund	Assurance Fund	Total Internal Service Funds
<b>Operating revenues</b>			
Charges for services:			
Other	\$ 425,297	\$ 2,300,845	\$ 2,726,142
Total operating revenues	<u>425,297</u>	<u>2,300,845</u>	<u>2,726,142</u>
<b>Operating expenses</b>			
Administration expense	87,749	49	87,798
Claims expense	364,877	1,838,311	2,203,188
Total operating expenses	<u>452,626</u>	<u>1,838,360</u>	<u>2,290,986</u>
Net operating income (loss)	(27,329)	462,485	435,156
<b>Nonoperating revenues (expenses)</b>			
Miscellaneous	9,108	25	9,133
Interest	10,815	1,222	12,037
Total nonoperating revenues (expenses)	<u>19,923</u>	<u>1,247</u>	<u>21,170</u>
<b>Operating transfers</b>			
Transfers in	-	-	-
Transfers out	(850,375)	(479,000)	(1,329,375)
Total operating transfers	<u>(850,375)</u>	<u>(479,000)</u>	<u>(1,329,375)</u>
Net income (loss)	(857,781)	(15,268)	(873,049)
Net assets, beginning	85,492	112,936	198,428
Net assets, ending	<u>\$ (772,289)</u>	<u>\$ 97,668</u>	<u>\$ (674,621)</u>

**City of Altus, Oklahoma**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**Year Ended June 30, 2011**

	Workers' Compensation Fund	Assurance Fund	Total Internal Service Funds
<b>Cash flows from operating activities</b>			
Receipts from customers and others	\$ 425,297	\$ 2,300,845	\$ 2,726,142
Payments to suppliers	(87,749)	(49)	(87,798)
Claims and judgments paid	(357,393)	(1,842,466)	(2,199,859)
Net cash provided (used) by operating activities	<u>(19,845)</u>	<u>458,330</u>	<u>438,485</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers in (out)	(850,375)	(479,000)	(1,329,375)
Miscellaneous revenues	9,108	25	9,133
Net cash provided (used) by noncapital financing activities	<u>(841,267)</u>	<u>(478,975)</u>	<u>(1,320,242)</u>
<b>Cash flows from capital and related financing activities</b>			
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash flows from investing activities</b>			
(Increase) decrease in investments	700,000	-	700,000
Interest income	12,860	1,222	14,082
Net cash provided (used) by investing activities	<u>712,860</u>	<u>1,222</u>	<u>714,082</u>
Net increase (decrease) in cash and cash equivalents	(148,252)	(19,423)	(167,675)
Cash and cash equivalents, beginning	<u>186,569</u>	<u>279,150</u>	<u>465,719</u>
Cash and cash equivalents, ending	<u>\$ 38,317</u>	<u>\$ 259,727</u>	<u>\$ 298,044</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ (27,329)	\$ 462,485	\$ 435,156
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Changes in assets and liabilities:			
Increase (decrease) in claims liability	7,484	(4,155)	3,329
Total adjustments	<u>7,484</u>	<u>(4,155)</u>	<u>3,329</u>
Net cash provided (used) by operating activities	<u>\$ (19,845)</u>	<u>\$ 458,330</u>	<u>\$ 438,485</u>





## Ronald C. Cottrell, CPA

### **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards***

February 16, 2012

City Commissioners  
City of Altus  
Altus, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Altus' basic financial statements and have issued our report thereon dated February 16, 2012, which was qualified because one discretely presented component unit was not audited. Our report includes a reference to other auditors. We did not audit management's discussion and analysis or the budgetary comparison schedules, which are required supplementary information, and therefore expressed no opinion on it. 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. Other auditors audited the financial statements of Altus SW Area Economic Development Corp., as described in our report on City of Altus' financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the auditor.

#### **Internal Control Over Financial Reporting**

Management of the City of Altus is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Altus' 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 of Altus' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Altus' internal control over financial reporting.

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 over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

## Ronald C. Cottrell, CPA

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item no. 2011-1 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item nos. 2011-2 through 2011-3 to be significant deficiencies.

### **Compliance and Other Matters**

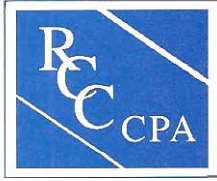
As part of obtaining reasonable assurance about whether the City of Altus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City of Altus in a separate letter dated February 16, 2012.

City of Altus' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Altus' responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the city commissioners and management of the City of Altus, 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.

Ronald C. Cottrell, CPA



## Ronald C. Cottrell, CPA

### **Independent Auditor's Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

February 16, 2011

City Commissioners  
City of Altus  
Altus, Oklahoma

#### **Compliance**

We have audited the compliance of City of Altus' compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Altus' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Altus' management. Our responsibility is to express an opinion on the City of Altus' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Altus, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Altus' compliance with those requirements.

In our opinion, the City of Altus complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

#### **Internal Control Over Compliance**

Management of the City of Altus is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Altus' internal control over compliance with requirements that could have a direct and material

## Ronald C. Cottrell, CPA

effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Altus' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the city council and management of the City of Altus, Oklahoma, 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.

Ronald C. Cottrell, CPA

**City of Altus, Oklahoma**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b><u>Federal Programs</u></b>			
<b><u>U. S. Department of Homeland Security</u></b>			
Direct Program:			
Assistance to Firefighters Grant	97.044	EMW-2009-FP-01619	\$ 14,203
Pass-Through Program From:			
Oklahoma Dept of Civil Emergency Management - Emergency Management Performance Grants (EMPG)	97.042	EMPG - 2010 EMPG - 2011 SLA Sub-grant 4th	8,532 25,595 5,000 <u>39,127</u>
Hazardous Material Emergency Preparedness - Local Emergency Planning Committee (LEPC)	97.007	FY 10-11	1,784 <u>1,784</u>
Disaster Grant-Public Assistance	97.036	FEMA-1883-DR-OK FEMA-1876-DR-OK FEMA-1775-DR-OK	1,349,965 50,734 3,921 <u>1,404,620</u>
Hazardous Materials Training Program (HMGP)	97.039	FEMA-1712-DR-OK Project #36 FEMA-1712-DR-OK Project #48	1,565  9,000 <u>10,565</u>
State Homeland Security Program (SHSP) - Regional Response Sustainment Total U.S. Department of Homeland Security	97.073		2,068 <u>1,472,367</u>
<b><u>U. S. Department of Transportation</u></b>			
Direct Program:			
Airport Improvement Program -	20.106	AIP3-40-0002-011-2011	28,025
Pass-Through Program From:			
Oklahoma Department of Transportation - Highway Planning & Construction Grant	20.205	ST0-133E(069)EH/SJP 22646 (04)	90,164 <u>118,189</u>
Total U.S. Department of Transportation			<u>118,189</u>

The accompanying notes are an integral part of this schedule.

**City of Altus, Oklahoma**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

(continued)

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b><u>Federal Programs</u></b>			
<u>U. S. Department of Justice</u>			
Direct Program:			
Bullet-proof Vest Partnership Program	16.607	2009 BUBX09048923	1,163
		2010 BUBX10050509	3,862
Total U.S. Department of Justice			<u>5,025</u>
 <u>U. S. Department of Housing and Urban Development</u>			
Pass-Through Program From:			
Oklahoma Department of Commerce -			
Community Development Block Grant	14.228	13429 CDBG 08	73,200
Total U.S. Department of Housing and Urban Development			<u>73,200</u>
Total Expenditures of Federal Awards			<u>\$ 1,668,781</u>

The accompanying notes are an integral part of this schedule.

**City of Altus, Oklahoma**  
**Schedule of Expenditures of State Awards**  
**Year Ended June 30, 2011**

State Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b><u>State Programs</u></b>			
<u>Oklahoma Department of Emergency Management</u>			
Direct Program -			
Disaster Grants - State Public Assistance		FEMA-1775-DR-OK	\$ 177,914
Total Oklahoma Department of Emergency Management			<u>177,914</u>
<u>Oklahoma Department of Commerce</u>			
Direct Program -			
Multipurpose Senior Center (MSC/SAF)		14222 CDC 10	5,000
Pass-Through Program:			
South Western Oklahoma Development Authority			
Community Expansion of Nutritional Assistance (CENA)		186 CENA 10	3,644
Oklahoma Strategic Military Planning Commission			
Local Assessment Incentive Grant		1609009936	152
		1609009086	6,125
Total Oklahoma Oklahoma Department of Commerce			<u>14,921</u>
Total Expenditures of State Awards			<u>\$ 192,835</u>

The accompanying notes are an integral part of this schedule.



**City of Altus, Oklahoma**  
**Notes to the Schedules of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

**I. Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Altus, Oklahoma and is presented on the cash basis of accounting, which is another comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**II. Expenditures**

Expenditures represent the current year federal grant/contract portion only.

**III. Noncash Awards**

City of Altus, Oklahoma expended no form of noncash assistance during the year and had no loans or loan guarantees outstanding at June 30, 2011, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

**IV. Subrecipients**

City of Altus, Oklahoma provided no federal awards to subrecipients.



**City of Altus, Oklahoma**  
**Summary Schedule of Prior Audit Findings**

**Financial Statement Findings**

**2010-1 Collateralization of Deposits**

Condition – Collateralization of deposits at two local financial institutions were in excess of the cash balances as of June 30, 2011, but were less than the 110% required by the City of Altus Investment Policy. In addition, the 2009 bond construction funds account, with a June 30, 2010 balance of approximately \$7,057,300 was not collateralized at all.

Status – Collateralization of deposits at one of the banks was still less than the required 110%.

**2010-2 Inventory**

Condition – Perpetual records are maintained for the electric, water, fleet maintenance, and warehouse inventories. Year-end physical counts are made and compared with the perpetual records. The inventory records are adjusted to the physical counts after verifications of any significant differences noted. The general ledger accounting records are also adjusted to the final inventory values at year-end. Inventory values in the general ledger are not adjusted throughout the year.

Status – This condition was resolved.

**2010-3 Utility Accounts Receivable Reconciliation**

Condition – Proper reconciliations of the utility billing aging reports were not made with the general ledger accounting records on a monthly basis. We noted that the aging report did not reconcile with the general ledger control account balances as of June 30, 2010.

Status – This condition was resolved.

**2010-4 Airport Fuel Sales**

Condition – Fuel sales, purchases, and inventory volumes and values are not being reconciled each month with sales and purchase records, physical inventory readings, or the general ledger control accounts. A possible shortage of approximately 1000 gallons of jet fuel was noted in our audit review. The difference was later determined to be mostly the City usage of the jet fuel.

Status – Proper reconciliations are still not being made. This condition still exists.

**2010-5 Recreation Program Waivers**

Condition – Recreation program fee waivers are approved by the program director. A waiver request is part of the participant application form signed by the parent. Application forms are filed with other applications for a particular program.

Status – This condition still exists.

## **2010-6 Travel**

Condition – From our testing of 92 travel claims and reimbursements we noted the following:

Purpose of travel not documented	9
Department-head approved own travel, without city administrator approval	1
Itemized receipts were not attached to travel claim	4
Ten registrants to the OML Conference were all reimbursed for use of their personal vehicle (City policy requires pooling)	10
Employee was reimbursed for lodging at Quartz Mountain (located within 2 hours of Altus – violation of City policy)	1
Employee claimed to be a passenger with another employee then received mileage reimbursement	1
City paid lodging, mileage, and training expenses for a contract worker	1

Status – This condition has been resolved.

## **2010-7 City Fuel Credit Cards**

Condition – Five (5) monthly statements for fuel credit card purchases were not properly supported by individual fuel purchase receipts, but rather were paid from the vendor statement. Also, several instances were noted in our review of the fuel card check-out list where employees did not return the fuel card in a timely manner. One employee did not return the card for 6 months, while another employee had two fuel cards checked out at once. No analysis is made of fuel usage with miles traveled for individual City-owned vehicles.

Status – This condition has been resolved.

## **2010-8 Contract With Altus Great Plains Recreation, Inc.**

Condition – The City entered into a contract agreement with Altus Great Plains Recreation, Inc. (AGPRI) on March 1, 2002 to provide assistance and services regarding the recreation programs and activities administered by the City's parks and recreation department. The contract was for one year with automatic renewal unless terminated by one of the parties. The City has not renewed the contract for the fiscal year ended June 30, 2011 or beyond. Additionally, the City did not properly monitor the agreement to ensure both parties adhered to the provisions of the agreement. This condition was also reported as a finding in the prior year audit.

Status – This condition has been resolved.

## **Federal Award Findings and Questioned Costs**

There were no matters reported in the prior year's audit report.

**City of Altus, Oklahoma**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued:	Qualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

**2011-1 Collateralization of Deposits**

Criteria – The City of Altus Investment Policy states, “All collateral pledged to secure public funds shall be valued at no more than market value. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value or principal and accrued interest.”

Condition – Collateralization of deposits at one local financial institution was in excess of the cash balances as of June 30, 2011, but less than the 110% required by the City of Altus Investment Policy. The deposits below the 110% collateralization requirement totaled \$ 554,519.

Cause and Effect – Deposit balances are not compared with collateralization amounts on a regular basis. Uncollateralized deposits could be lost in the event of a bank failure.

## Ronald C. Cottrell, CPA

Recommendation – The City of Altus should implement procedures and controls to compare deposits in each financial institution with collateralization on a monthly basis, or if balances show a large increase. This will help ensure all deposits and investments are adequately insured and/or collateralized at all times.

Management's Response – The City of Altus agrees with this finding and is implementing new procedures and controls to compare deposits in each financial institution with collateralization on a monthly basis.

### 2011-2 Daily Deposit of Receipts

Criteria – Oklahoma Statutes, Title 11, Chapter 1, Section 11-115 states, "...the city treasurer shall deposit daily funds received for the city in depositories as the council may designate..."

Condition – Several outlying operations of the City that collect cash do not always bring their collections to city hall on a daily basis for processing and inclusion in the daily deposit. During our testing of the various operating departments we noted the following:

- Swimming pool – collections for July 7-11, 2010 were received by the city clerk on July 12.
- Planning – collections for July 15-19, 2010 were received by the city clerk on July 20.
- Golf – collections for November 4-7, 2010 were received by the city clerk on November 9.
- Landfill – collections for January 14-24, 2011 were received by the city clerk on January 25.

Cause and Effect – Funds held by the collecting department could be misappropriated or stolen if not deposited in a timely manner.

Recommendation – The City should establish procedures to ensure that all funds collected are brought to the city clerk on a daily basis for deposit to help ensure the safeguarding of the cash and compliance with State Statutes. The City could also consider a consolidation of collection procedures where most all cash is collected at City Hall.

Management's Response – The City of Altus concurs with the recommendation of the Auditors. The City will be establishing and implementing procedures to insure deposits are made daily as per State Statutes.

### 2011-3 Airport Fuel Sales

Criteria – Accurate records should be maintained to document all revenue and expense transactions, as well as, balances in asset and liability accounts. Periodic reconciliations should be made of subsidiary and other supporting records with the general ledger control account balances, to help ensure the activity and balances are accurately reported in the financial statements.

Condition – Fuel sales, purchases, and inventory volumes and values were not properly reconciled each month with sales and purchase records, physical inventory records, or the general ledger control accounts. Inventory records were changed to account for differences.

## Ronald C. Cottrell, CPA

Cause and Effect – Errors occurred in the posting of fuel receipts. Year-end inventory values were adjusted from the end of one day to the beginning of the next to account for differences. Fuel sales, purchase costs, and/or inventory values could be misstated in the financial statements. Also, possible misappropriation or theft of fuel could occur and not be detected.

Recommendation – Fuel purchases, sales, and inventory amounts should be reconciled monthly by the airport manager. The finance department should make necessary adjustments to inventory at the end of each month and reconcile the information from the airport with the general ledger control accounts.

Management's Response – The City agrees with the recommendation and will be establishing procedures to eliminate this condition before the next audit cycle.

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### Section III – Federal Award Findings and Questioned Costs

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No matters were reported.