

**THE CITY OF WALTERS,  
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Walters, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

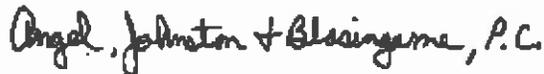
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of June 30, 2011, and the respective changes in financial position—modified cash basis, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.B.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walters's financial statements as a whole. The accompanying supplementary information on pages 47-54 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note 1.B.



Chickasha, Oklahoma  
December 19, 2011

**CITY OF WALTERS, OKLAHOMA**  
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The management of the City of Walters is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2011. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the City's total net assets increased by \$197,409, and the assets of the City exceed its liabilities at June 30, 2011, by \$8,738,818 (net assets). Of this amount, \$114,677 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$1,169,296.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$11,532 or 1.4% of General Fund revenues.
- The City implemented GASB Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions which resulted in the reclassification of some fund types and presentation of fund balance in new categories of nonspendable, restricted, assigned and unassigned.

### **ABOUT THE CITY**

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

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

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

*The City's Financial Reporting Entity*

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

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

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**Reporting the City as a Whole**

*The Statement of Net Assets and Statement of Activities*

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

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

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

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

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

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

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

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

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**Notes to the Financial Statements**

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

**Other Information**

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

**THE CITY AS A WHOLE**

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$197,409.

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

**The City of Walters' Net Assets (Modified Cash Basis)  
June 30, 2011**

TABLE 1  
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current and other assets	\$ 1,170	\$ 1,337	-12%	\$ 275	\$ 102	169%	\$ 1,444	\$ 1,439	0%
Capital assets, net	3,401	3,242	5%	6,005	5,066	19%	9,406	8,308	13%
Other non-current assets	-	-	0%	47	50	-5%	47	50	-5%
<b>Total assets</b>	<u>4,571</u>	<u>4,579</u>	0%	<u>6,327</u>	<u>5,218</u>	21%	<u>10,898</u>	<u>9,797</u>	11%
Current liabilities	18	18	3%	525	485	8%	544	502	8%
Non-current liabilities	40	58	-31%	1,575	695	127%	1,615	754	114%
<b>Total liabilities</b>	<u>58</u>	<u>76</u>	-23%	<u>2,101</u>	<u>1,180</u>	78%	<u>2,159</u>	<u>1,256</u>	72%
<b>Net assets</b>									
Invested in capital assets, net of related debt	3,343	3,167	6%	4,002	3,984	0%	7,345	7,151	3%
Restricted	1,153	1,000	15%	125	149	-16%	1,279	1,149	11%
Unrestricted	16	336	-95%	99	(95)	204%	115	241	52%
<b>Total net assets</b>	<u>\$ 4,513</u>	<u>\$ 4,503</u>	0%	<u>\$ 4,226</u>	<u>\$ 4,038</u>	5%	<u>\$ 8,739</u>	<u>\$ 8,541</u>	2%

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

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The increase in current and other assets in the business-type activities was due to the write-off of prior year internal balances in the amount of \$182,586. The increase of 127% of business-type other non-current liabilities is due to draw-downs in the amount of \$678,924 from the 2009 issuance of debt with the Oklahoma Water Resources Board and also a contract payable for water storage of \$401,713.

**The City of Walters' Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)  
Year Ended June 30, 2011**

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

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
<b>Revenues</b>									
Charges for service	\$ 139	\$ 125	11%	\$ 3,074	\$ 2,728	13%	\$ 3,213	\$ 2,853	13%
Operating grants and contributions	33	35	-6%	16	-	-	49	35	40%
Capital grants and contributions	49	15	227%	-	410	100%	49	425	-88%
Taxes	492	528	-7%	-	-	-	492	528	-7%
Intergovernmental revenue	43	43	0%	-	-	-	43	43	0%
Investment income	13	17	-24%	62	57	9%	75	74	1%
Miscellaneous	61	29	110%	71	37	92%	132	66	100%
<b>Total revenues</b>	<b>830</b>	<b>792</b>	<b>5%</b>	<b>3,223</b>	<b>3,232</b>	<b>0%</b>	<b>4,053</b>	<b>4,024</b>	<b>1%</b>
<b>Expenses</b>									
General government	84	83	1%	-	-	-	84	83	1%
Public safety	504	502	0%	-	-	-	504	502	0%
Streets	406	390	4%	-	-	-	406	390	4%
Culture, parks and recreation	292	277	5%	-	-	-	292	277	5%
Cemetery	70	74	-5%	-	-	-	70	74	-5%
Airport	4	4	0%	-	-	-	4	4	0%
Interest on long-term debt	3	4	-25%	-	-	-	3	4	-25%
Electric	-	-	-	1,698	1,552	9%	1,698	1,552	9%
Water	-	-	-	464	476	-3%	464	476	-3%
Wastewater	-	-	-	114	183	-38%	114	183	-38%
Sanitation	-	-	-	216	208	4%	216	208	4%
<b>Total expenses</b>	<b>1,363</b>	<b>1,334</b>	<b>2%</b>	<b>2,492</b>	<b>2,419</b>	<b>3%</b>	<b>3,855</b>	<b>3,753</b>	<b>3%</b>
Excess (deficiency) before transfers	(533)	(542)	-2%	731	813	-10%	198	271	-27%
Transfers	543	625	-13%	(543)	(625)	-13%	-	-	
<b>Change in net assets</b>	<b>10</b>	<b>83</b>	<b>-88%</b>	<b>188</b>	<b>188</b>	<b>0%</b>	<b>198</b>	<b>271</b>	<b>-27%</b>
<b>Beginning net assets</b>	<b>4,503</b>	<b>4,420</b>	<b>2%</b>	<b>4,038</b>	<b>3,850</b>	<b>5%</b>	<b>8,541</b>	<b>8,270</b>	<b>3%</b>
<b>Ending net assets</b>	<b>\$ 4,513</b>	<b>\$ 4,503</b>	<b>0%</b>	<b>\$ 4,226</b>	<b>\$ 4,038</b>	<b>5%</b>	<b>\$ 8,739</b>	<b>\$ 8,541</b>	<b>2%</b>

**Governmental Activities**

The City's governmental activities had an increase in net assets of \$9,690.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
	General government	\$ 84		\$ 83	1%	
Public safety	504	502	0%	(487)	(488)	0%
Streets	406	390	4%	(382)	(366)	4%
Culture, parks and recreation	292	277	5%	(204)	(199)	3%
Cemetery	70	74	-5%	(29)	(33)	-12%
Airport	4	4	0%	41	6	583%
Interest on long-term debt	3	4	-25%	(3)	(4)	-25%
<b>Total</b>	<u>\$ 1,363</u>	<u>\$ 1,334</u>	2%	<u>\$ (1,140)</u>	<u>(\$1,159)</u>	-2%

**Business-type Activities**

The business-type activities had an increase in net assets of \$187,719.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2011	2010		2011	2010	
	Electric	\$ 1,698		\$ 1,552	9%	
Water	464	476	-3%	38	(36)	206%
Wastewater	114	183	-38%	110	420	-74%
Sanitation	216	208	4%	101	70	-44%
<b>Total</b>	<u>\$ 2,492</u>	<u>\$ 2,419</u>	3%	<u>\$ 597</u>	<u>\$ 718</u>	-17%

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

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$1,169,296. For the year ended June 30, 2011, the General Fund's total fund balance decreased by \$175,053. The proprietary funds reported a combined net asset balance of \$4,226,097. The WPWA total net assets increased by \$185,861.

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**Budgetary Highlights**

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final estimates by \$122,733 or an 8.3% negative variance. General Fund actual expenditures were under final appropriations by \$339,587 or a 23.6% positive variance.

The Graham Trust Fund reported actual budgetary basis revenues under final estimates by \$1,002 or a 9.1% negative variance. Graham Trust Fund actual expenditures were under final appropriations by \$7,500 or a 100% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2011, the City had approximately \$9.4 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets for the year ended June 30, 2011.<sup>1</sup>

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

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 403	\$ 403	\$ 187	\$ 187	\$ 590	\$ 590
Water rights	-	-	402	-	402	-
Buildings	1,097	1,129	1,835	1,920	2,932	3,049
Imp. other than buildings	314	287	-	-	314	287
Machinery, furniture and equipment	732	754	723	697	1,455	1,451
Infrastructure	787	605	-	-	787	605
Utility property	-	-	2,854	1,715	2,854	1,715
Construction in progress	69	64	4	547	73	611
<b>Totals</b>	<b>\$ 3,402</b>	<b>\$ 3,242</b>	<b>\$ 6,005</b>	<b>\$ 5,066</b>	<b>\$ 9,407</b>	<b>\$ 8,308</b>

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

- Storm drains and curbs
- Chevy digger
- Rodding machine
- Sewer project improvements

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

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**Debt Administration**

At year-end, the City had \$2,060,840 in long-term debt outstanding, reported on a modified cash basis, which represents a \$903,564 increase from the prior year.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
	Contracts payable	\$ -	\$ -	\$ 744	\$ 363	\$ 744	\$ 363
Notes payable	-	-	1,200	605	1,200	605	98.3%
Capital leases	58	75	59	114	117	189	-38.1%
<b>Totals</b>	<b>\$ 58</b>	<b>\$ 75</b>	<b>\$ 2,003</b>	<b>\$ 1,082</b>	<b>\$ 2,061</b>	<b>\$ 1,157</b>	<b>78.1%</b>

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

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

- The FY 2011 budget is consistent to prior years.

**Contacting the City's Financial Management**

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

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

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 43,157	\$ 28,198	\$ 71,355
Restricted cash and cash equivalents	-	152,029	152,029
Investments	1,126,500	24,456	1,150,956
Restricted investments	-	70,000	70,000
Capital Assets:			
Land and construction in progress	471,701	191,509	663,210
Water rights	-	401,713	401,713
Other capital assets, net of depreciation	2,929,752	5,411,636	8,341,388
Unamortized note issuance costs	-	47,203	47,203
Total Assets	<u>4,571,110</u>	<u>6,326,744</u>	<u>10,897,854</u>
<b>LIABILITIES</b>			
Due to other governments	361	3,952	4,313
Due to depositors	-	93,883	93,883
Long-term liabilities:			
Due within one year	17,935	427,469	445,404
Due in more than one year	40,093	1,575,343	1,615,436
Total liabilities	<u>58,389</u>	<u>2,100,647</u>	<u>2,159,036</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,343,425	4,002,046	7,345,471
Restricted for:			
External contracts:			
Nonexpendable endowment	1,000,000	-	1,000,000
Debt service	4,422	125,229	129,651
Other purposes	13,542	-	13,542
Statutory requirements	135,477	-	135,477
Unrestricted	15,855	98,822	114,677
Total net assets	<u>\$ 4,512,721</u>	<u>\$ 4,226,097</u>	<u>\$ 8,738,818</u>

See accompanying notes to these financial statements.

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

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Primary government</b>						
<b>Governmental Activities</b>						
General Government	\$ 84,376	\$ 8,037	\$ -	\$ -	\$ (76,339)	\$ (76,339)
Public Safety	503,786	11,268	-	4,398	(488,120)	(488,120)
Highways and streets	405,517	-	23,511	-	(382,006)	(382,006)
Culture and Recreation	292,436	78,892	9,253	-	(204,291)	(204,291)
Cemetery	69,862	41,145	-	-	(28,717)	(28,717)
Airport	3,661	-	-	44,898	41,237	41,237
Interest on Long-term debt	3,072	-	-	-	(3,072)	(3,072)
<b>Total governmental activities</b>	<b>1,362,710</b>	<b>139,342</b>	<b>32,764</b>	<b>49,296</b>	<b>(1,141,308)</b>	<b>(1,141,308)</b>
<b>Business-type activities:</b>						
Electric	1,698,220	2,046,587	-	-	348,367	348,367
Water	463,658	485,758	15,927	-	38,027	38,027
Wastewater	114,182	224,650	-	-	110,468	110,468
Sanitation	216,190	316,991	-	-	100,801	100,801
<b>Total business-type activities</b>	<b>2,492,250</b>	<b>3,073,986</b>	<b>15,927</b>	<b>-</b>	<b>597,663</b>	<b>597,663</b>
<b>Total primary government</b>	<b>3,854,960</b>	<b>3,213,328</b>	<b>48,691</b>	<b>49,296</b>	<b>(1,141,308)</b>	<b>(543,645)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Sales and use taxes				\$ 468,013	\$ -	\$ 468,013
Franchise taxes and public service taxes				23,908	-	23,908
Intergovernmental revenue not restricted to specific programs				42,384	-	42,384
Unrestricted investment earnings				12,573	61,967	74,540
Miscellaneous				61,348	70,861	132,209
<b>Transfers</b>				<b>542,772</b>	<b>(542,772)</b>	<b>-</b>
<b>Total general revenues and transfers</b>				<b>1,150,998</b>	<b>(409,944)</b>	<b>741,054</b>
<b>Change in net assets</b>				<b>9,690</b>	<b>187,719</b>	<b>197,409</b>
<b>Net assets - beginning</b>				<b>4,503,031</b>	<b>4,038,378</b>	<b>8,541,409</b>
<b>Net assets - ending</b>				<b>\$ 4,512,721</b>	<b>\$ 4,226,097</b>	<b>\$ 8,738,818</b>

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF WALTERS, OKLAHOMA  
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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011**

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 18,344	\$ 13,542	\$ 11,271	\$ 43,157
Investments	-	1,000,000	126,500	1,126,500
Due from other funds	-	-	2,128	2,128
Total assets	<u>18,344</u>	<u>1,013,542</u>	<u>139,899</u>	<u>1,171,785</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	2,128	-	-	2,128
Due to other governments	361	-	-	361
Total liabilities	<u>2,489</u>	<u>-</u>	<u>-</u>	<u>2,489</u>
Fund balances:				
Nonspendable:				
Nonexpendable permanent endowment	-	1,000,000	-	1,000,000
Restricted:				
Cemetery	-	-	135,477	135,477
Other	-	13,542	-	13,542
Debt service	-	-	4,422	4,422
Assigned:				
Cemetery	4,323	-	-	4,323
Unassigned	11,532	-	-	11,532
Total fund balances	<u>15,855</u>	<u>1,013,542</u>	<u>139,899</u>	<u>1,169,296</u>
Total liabilities and fund balances	<u>\$ 18,344</u>	<u>\$ 1,013,542</u>	<u>\$ 139,899</u>	<u>\$ 1,171,785</u>

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA**  
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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**  
**(Modified Cash Basis) – Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Graham Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 491,921	\$ -	\$ -	\$ 491,921
Intergovernmental	149,383	-	-	149,383
Charges for services	120,809	-	5,057	125,866
Fines and forfeitures	8,385	-	-	8,385
Licenses and permits	5,091	-	-	5,091
Investment income	1,510	10,998	65	12,573
Miscellaneous	32,109	-	3,500	35,609
Total revenues	<u>809,208</u>	<u>10,998</u>	<u>8,622</u>	<u>828,828</u>
<b>EXPENDITURES</b>				
Current:				
General government	83,675	-	-	83,675
Public Safety	452,585	-	-	452,585
Highway and streets	390,437	-	-	390,437
Culture and recreation	239,579	-	-	239,579
Cemetery	63,333	-	-	63,333
Airport	50,921	-	-	50,921
Capital Outlay	66,168	-	9,999	76,167
Debt Service:				
Principal	2,846	-	14,291	17,137
Interest and other charges	522	-	2,550	3,072
Total Expenditures	<u>1,350,066</u>	<u>-</u>	<u>26,840</u>	<u>1,376,906</u>
Excess (deficiency) of revenues over expenditures	<u>(540,858)</u>	<u>10,998</u>	<u>(18,218)</u>	<u>(548,078)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the sale of capital assets	800	-	-	800
Transfers in	1,030,113	-	15,785	1,045,898
Transfers out	(665,108)	-	(189)	(665,297)
Total other financing sources and uses	<u>365,805</u>	<u>-</u>	<u>15,596</u>	<u>381,401</u>
Net change in fund balances	(175,053)	10,998	(2,622)	(166,677)
Fund balances - beginning	190,908	1,002,544	142,521	1,335,973
Fund balances - ending	<u>\$ 15,855</u>	<u>\$ 1,013,542</u>	<u>\$ 139,899</u>	<u>\$ 1,169,296</u>

See accompanying notes to these financial statements.

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

**Fund Balance – Net Assets Reconciliation:**

Total fund balance, governmental funds	\$	1,169,296
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
		3,401,453
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
		(58,028)
		4,512,721
Net Assets of Governmental Activities in the Statement of Net Assets		4,512,721

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

Net change in fund balances - total governmental funds:	\$	(166,677)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays for capital assets as expenditures while governmental activities report depreciaton expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		281,556
Depreciation expense		(122,326)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		17,137
Change in net assets of governmental activities		9,690

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**

**CITY OF WALTERS, OKLAHOMA**  
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**Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2011**

	<u>Walters Public Works Authority</u>	<u>Non-major Enterprise Fund Walters Industrial Development Authority</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 19,661	\$ 8,537	\$ 28,198
Investments	17,000	7,456	24,456
Restricted:			
Restricted cash and cash equivalents	152,029	-	152,029
Restricted investments	70,000	-	70,000
Total current assets	<u>258,690</u>	<u>15,993</u>	<u>274,683</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	84,454	107,055	191,509
Water rights	401,713	-	401,713
Other capital assets, net of accumulated depreciation	5,411,636	-	5,411,636
Unamortized note issue costs	47,203	-	47,203
Total non-current assets	<u>5,945,006</u>	<u>107,055</u>	<u>6,052,061</u>
Total assets	<u>6,203,696</u>	<u>123,048</u>	<u>6,326,744</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other governments	3,952	-	3,952
Deposits subject to refund	93,883	-	93,883
Capital lease payable	26,717	-	26,717
Contracts payable	22,818	-	22,818
Notes payable	377,934	-	377,934
Total current liabilities	<u>525,304</u>	<u>-</u>	<u>525,304</u>
Non-current liabilities:			
Capital lease payable	32,487	-	32,487
Contracts payable	721,195	-	721,195
Notes payable	821,661	-	821,661
Total non-current liabilities	<u>1,575,343</u>	<u>-</u>	<u>1,575,343</u>
Total liabilities	<u>2,100,647</u>	<u>-</u>	<u>2,100,647</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,894,991	107,055	4,002,046
Restricted for debt service	125,229	-	125,229
Unrestricted	82,829	15,993	98,822
Total net assets	<u>\$ 4,103,049</u>	<u>\$ 123,048</u>	<u>\$ 4,226,097</u>

See accompanying notes to these financial statements.

**CITY OF WALTERS, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011**

	<u>Walters Public Works Authority</u>	<u>Non-major Enterprise Fund Walters Industrial Development Authority</u>	<u>Total Proprietary Funds</u>
<b>Operating Revenues:</b>			
Electric	\$ 2,046,587	\$ -	\$ 2,046,587
Water	485,758	-	485,758
Sewer	224,650	-	224,650
Sanitation	316,991	-	316,991
Miscellaneous	33,872	-	33,872
Total operating revenues	<u>3,107,858</u>	<u>-</u>	<u>3,107,858</u>
<b>OPERATING EXPENSES</b>			
Electric	1,308,281	-	1,308,281
Water	264,331	-	264,331
Sewer	47,776	-	47,776
Sanitation	163,516	-	163,516
General government	416,493	-	416,493
Depreciation expense	239,159	-	239,159
Amortization expense	2,501	-	2,501
Total operating expenses	<u>2,442,057</u>	<u>-</u>	<u>2,442,057</u>
Operating income	<u>665,801</u>	<u>-</u>	<u>665,801</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	61,859	108	61,967
Insurance proceeds	16,976	-	16,976
Grant revenue	15,927	-	15,927
Miscellaneous revenue	18,263	1,750	20,013
Interest expense	(50,193)	-	(50,193)
Total non-operating revenue (expenses)	<u>62,832</u>	<u>1,858</u>	<u>64,690</u>
Income before contributions and transfers	728,633	1,858	730,491
Transfers in	665,274	-	665,274
Transfers out	(1,208,046)	-	(1,208,046)
Change in net assets	185,861	1,858	187,719
Total net assets - beginning	3,917,188	121,190	4,038,378
Total net assets - ending	<u>\$ 4,103,049</u>	<u>\$ 123,048</u>	<u>\$ 4,226,097</u>

See accompanying notes to these financial statements.

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**Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011**

	Walters Public Works Authority	Non-major Enterprise Fund Walters Industrial Authority	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 3,107,858	\$ 1,750	\$ 3,109,608
Payments to suppliers	(1,577,752)	-	(1,577,752)
Payments to employees	(622,645)	-	(622,645)
Interfund receipts/payments	(181,406)	-	(181,406)
Receipts of customer meter deposits	24,915	-	24,915
Refunds of customer meter deposits	(25,715)	-	(25,715)
Other receipts	51,166	-	51,166
<b>Net cash provided by operating activities</b>	<b>776,421</b>	<b>1,750</b>	<b>778,171</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	665,274	-	665,274
Transfers to other funds	(1,208,046)	-	(1,208,046)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(542,772)</b>	<b>-</b>	<b>(542,772)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(1,177,867)	-	(1,177,867)
Proceeds from debt	1,616,340	-	1,616,340
Principal paid on debt	(695,640)	-	(695,640)
Interest and fiscal agent fees paid on debt	(50,193)	-	(50,193)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(307,360)</b>	<b>-</b>	<b>(307,360)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	-	(96)	(96)
Interest and dividends	61,859	108	61,967
<b>Net cash provided by investing activities</b>	<b>61,859</b>	<b>12</b>	<b>61,871</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11,852)</b>	<b>1,762</b>	<b>(10,090)</b>
<b>Balances - beginning of year</b>	<b>183,542</b>	<b>6,775</b>	<b>190,317</b>
<b>Balances - end of year</b>	<b>\$ 171,690</b>	<b>\$ 8,537</b>	<b>\$ 180,227</b>
<b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents	19,661	8,537	28,198
Restricted cash and cash equivalents - current	152,029	-	152,029
<b>Total cash and cash equivalents, end of year</b>	<b>171,690</b>	<b>8,537</b>	<b>180,227</b>
	(Continued)	(Continued)	(Continued)
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income	\$ 665,801	\$ -	\$ 665,801
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	239,159	-	239,159
Amortization expense	2,501	-	2,501
Miscellaneous revenue	51,166	1,750	52,916
Change in assets and liabilities:			
Due to other governments	1,180	-	1,180
Due from other funds	38,275	-	38,275
Due to other funds	(220,861)	-	(220,861)
Deposits subject to refund	(800)	-	(800)
<b>Net cash provided by operating activities</b>	<b>\$ 776,421</b>	<b>\$ 1,750</b>	<b>\$ 778,171</b>

See accompanying notes to these financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

**Footnotes to the Basic Financial Statements:**

**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

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

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

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

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

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

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

**B. Basis of Presentation and Accounting**

*Government-Wide Financial Statements:*

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

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

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

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

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

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

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

*Governmental Funds:*

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

**Major Funds:**

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

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

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

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

*Proprietary Funds:*

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

**Major Fund:**

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

**Non-Major Fund:**

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

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

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

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

**D. Capital Assets and Depreciation**

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

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$500 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1998. Prior to July 1, 2001, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2001 are recorded at cost.

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

- Buildings 40 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 years

**E. Long-Term Debt**

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

**F. Compensated Absences**

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

**G. Fund Balances and Net Assets**

*Fund Statements:*

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54 in the current fiscal year, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund. It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net assets are displayed in three components:

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

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

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

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

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**I. Use of Estimates**

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

**2. Deposits and Investments**

For the year ended June 30, 2011, the City recognized \$74,540 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2011, the primary government held the following deposits and investments:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
<b>Deposits:</b>			
Petty cash			\$ 1,609
Demand deposits			98,171
Time deposits			1,220,956
Money market mutual funds:			
Cavanal Hill U.S. Treasury - Admin fund	N/A	AAAm	123,604
			<u>\$ 1,444,340</u>
<b>Total deposits and investments</b>			<u><u>\$ 1,444,340</u></u>
 <b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents			\$ 71,355
Restricted cash and cash equivalents			152,029
Investments			1,150,956
Restricted investments			70,000
			<u>\$ 1,444,340</u>

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

As of June 30, 2011, the City was not exposed to custodial credit risk as defined above.

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

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

As of June 30, 2011, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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

*Restricted Cash and Investments* - The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Asset</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Utility Deposits	\$ 26,800	\$ 70,000
Conservancy District	555	-
OWRB Debt Service	123,605	-
UDAG Savings	1,069	-
Total	<u>\$ 152,029</u>	<u>\$ 70,000</u>

### 3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

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	Balance at July 01, 2010	Additions	Disposals	Transfers	Balance at June 30, 2011
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	\$ 403,040	\$ -	\$ -	\$ -	\$ 403,040
Construction in progress	63,898	164,031	159,268	-	68,661
Total capital assets not being depreciated	<u>466,938</u>	<u>164,031</u>	<u>159,268</u>	<u>-</u>	<u>471,701</u>
Other capital assets:					
Buildings	1,794,313	-	-	-	1,794,313
Improvements	363,115	56,104	-	-	419,219
Infrastructure	612,311	186,803	-	-	799,114
Machinery, furniture and equipment	1,774,973	34,052	33,100	(166)	1,775,759
Total other capital assets at historical cost	<u>4,544,712</u>	<u>276,959</u>	<u>33,100</u>	<u>(166)</u>	<u>4,788,405</u>
Less accumulated depreciation for:					
Buildings	665,202	32,259	-	-	697,461
Improvements	75,589	29,114	-	-	104,703
Infrastructure	7,369	5,100	-	-	12,469
Machinery, furniture and equipment	1,021,267	55,853	33,100	-	1,044,020
Total accumulated depreciation	<u>1,769,427</u>	<u>122,326</u>	<u>33,100</u>	<u>-</u>	<u>1,858,653</u>
Other capital assets, net	2,775,285	154,633	-	(166)	2,929,752
Governmental activities capital assets, net	<u>\$ 3,242,223</u>	<u>\$ 318,664</u>	<u>\$ 159,268</u>	<u>\$ (166)</u>	<u>\$ 3,401,453</u>
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 186,859	\$ -	\$ -	\$ -	\$ 186,859
Water Rights	-	401,713	-	-	401,713
Construction in progress	546,886	668,692	1,210,928	-	4,650
Total capital assets not being depreciated	<u>733,745</u>	<u>1,070,405</u>	<u>1,210,928</u>	<u>-</u>	<u>593,222</u>
Other capital assets:					
Buildings	3,772,619	-	-	-	3,772,619
Machinery, furniture and equipment	1,377,189	101,122	2,700	166	1,475,777
Utility property	3,475,193	1,217,103	-	-	4,692,296
Total other capital assets at historical cost	<u>8,625,001</u>	<u>1,318,225</u>	<u>2,700</u>	<u>166</u>	<u>9,940,692</u>
Less accumulated depreciation for:					
Buildings	1,852,146	85,879	-	-	1,938,025
Machinery, furniture and equipment	680,341	75,274	2,700	-	752,915
Utility Property Improvements	1,760,110	78,006	-	-	1,838,116
Total accumulated depreciation	<u>4,292,597</u>	<u>239,159</u>	<u>2,700</u>	<u>-</u>	<u>4,529,056</u>
Other capital assets, net	4,332,404	1,079,066	-	166	5,411,636
Business-type activities capital assets, net	<u>\$ 5,066,149</u>	<u>\$ 2,149,471</u>	<u>\$ 1,210,928</u>	<u>\$ 166</u>	<u>\$ 6,004,858</u>

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

**Governmental Activities:**

General government	\$ 701
Public safety	52,202
Highways and streets	11,941
Culture and recreation	50,953
Cemetery	6,529
	<u>\$ 122,326</u>

**Business-Type Activities:**

Administration	\$ 16,962
Electric	94,413
Water	99,822
Sewer	24,830
Sanitation	3,132
	<u>\$ 239,159</u>

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

<u>Type of Debt</u>	<u>Balance July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Capital lease payable	\$ 75,165	\$ -	\$ 17,137	\$ 58,028	17,935
Total Governmental Activities	<u>\$ 75,165</u>	<u>\$ -</u>	<u>\$ 17,137</u>	<u>\$ 58,028</u>	<u>\$ 17,935</u>
<b>Business-Type Activities:</b>					
Notes Payable	\$ 605,391	\$ 847,192	\$ 252,988	\$ 1,199,595	377,934
Capital lease payable	113,848	-	54,644	59,204	26,717
Contracts payable	362,872	401,713	20,572	744,013	22,818
Total Business-Type Activities	<u>1,082,111</u>	<u>1,248,905</u>	<u>328,204</u>	<u>2,002,812</u>	<u>427,469</u>
Total Long-Term Debt	<u>\$ 1,157,276</u>	<u>\$ 1,248,905</u>	<u>\$ 345,341</u>	<u>\$ 2,060,840</u>	<u>\$ 445,404</u>

**Reconciliation to Statement of Net Assets:**

**Governmental Activities:**

Due within one year	\$ 17,935
Due in more than one year	40,093
Total Governmental Activities Long-term liabilities	<u>\$ 58,028</u>

**Business-Type Activities:**

Due within one year	\$ 427,469
Due in more than one year	1,575,343
Total Business-Type Activities Long-term liabilities	<u>\$ 2,002,812</u>

*Governmental Activities:*

At June 30, 2011, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Lease Obligations Payable

Lease obligation for purchase of fire truck, payable in 120 monthly installments of \$1,684, interest of 4.56%.	\$ 58,028
Total Capital Leases Payable	<u>\$ 58,028</u>
Current portion	17,935
Noncurrent portion	40,093
Total Capital Leases Payable	<u>\$ 58,028</u>

*Business-Type Activities:*

Long-term debt commitments payable from net revenues generated by the utility resources or other resources pledged to City's business-type activities at June 30, 2011, includes the following:

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Line of Credit Commitment

Line of credit payable to the Walters Bank and Trust, total amount available of \$300,000, drawdown amount of \$45,000, interest rate of 3.2% on outstanding balance, no structured repayment plan in place, balance payable in March 2012. Line of credit is secured by \$1,000,000 certificate of deposit.

	\$ 216,972
Total Line of Credit Obligation	<u>\$ 216,972</u>
Current portion	216,972
Noncurrent portion	-
Total Line of Credit Obligation	<u>\$ 216,972</u>

Long-Term Note Commitments

OWRB Promissory Note dated April 29, 1992, original amount \$1,200,000, due in quarterly installments, final installment due August 2012, floating interest rate to be determined by OWRB on a quarterly basis, note is secured by a pledge of net utility revenues, certain sales tax revenues, and a mortgage on the facilities.

\$ 130,350

OWRB Promissory Note dated December 23, 2009, original amount \$1,326,407, due in semi-annual principal installments each March 15 and September 15, final installment due September 2030, interest rate of 2.21%. The note is secured by a pledge of net utility revenues, certain sales tax revenues, and a mortgage on the facilities.

814,687

Note payable to Walters Bank and Trust, original amount of \$32,015, payable in monthly installments of \$651 with a 7.0% interest rate, final payment due June 2012.

5,987

Note payable to Walters Bank and Trust, original amount of \$41,420, payable in monthly installments of \$1,248 with a 5.5% interest rate, final payment due September 2013.

31,599

Total Notes Payable	<u>\$ 982,623</u>
Current portion	160,962
Noncurrent portion	821,661
Total Notes Payable	<u>\$ 982,623</u>

Capital Lease Obligations Payable

Lease obligation for purchase of copier machine, payable in 36 monthly installments of \$214, interest of 1%.

\$ 1,917

Lease obligation for purchase of dumpsters, original amount of \$54,055, payable in monthly installments of \$1,019 with a 4.96% interest rate, final payment due September 2013.

25,937

Lease obligation for purchase of polycarts, original amount of \$66,248, payable in monthly installments of \$1,249 with a 4.96% interest rate, final payment due September 2013.

31,350

Total Capital Leases Payable	<u>\$ 59,204</u>
Current portion	26,717
Noncurrent portion	32,487
Total Capital Leases Payable	<u>\$ 59,204</u>

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Notes Payable

Contract payable to the Waurika Project Master Conservancy District, original amount of \$122,989, for use of water facility, payable in 50 annual installments of \$5,155, final maturity in November 2026. Contract is secured by water revenues of the WPWA.	\$	58,993
Contract payable to the Waurika Project Master Conservancy District, original amount of \$401,713, for use of water facility, payable in 50 annual installments of \$7,746, final maturity in October 2035. Contract is secured by water revenues of the WPWA.		393,967
Contract payable to the Waurika Project Master Conservancy District, original amount of \$498,862 for use of water conveyance facility, Payable in 50 annual installments of \$20,422, final maturity in March 2031. Contract is secured by water revenues of the WPWA.		<u>291,053</u>
<b>Total Contracts Payable</b>	<b>\$</b>	<b><u>744,013</u></b>
		Current portion 22,818
		Noncurrent portion <u>721,195</u>
<b>Total Contracts Payable</b>	<b>\$</b>	<b><u>744,013</u></b>

The assets acquired through capital leases are as follows:

Assets:	
Machinery and equipment	\$356,450
Less: accumulated depreciation	<u>82,394</u>
Total net assets	<u>\$274,056</u>

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

Year Ended June 30,	Governmental	
	Capital Lease Obligations	
	Principal	Interest
2012	\$17,935	\$2,274
2013	18,770	1,439
2014	19,645	565
2015	<u>1,678</u>	<u>6</u>
Total	<u>\$58,028</u>	<u>\$4,284</u>

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Year Ended June 30,	Business-Type							
	Notes Payable		Contracts		Capital Lease		Line of Credit	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$160,962	\$28,206	\$22,818	\$29,633	\$26,717	\$1,047	\$216,972	\$6,943
2013	68,573	22,710	23,254	28,759	26,168	469	-	-
2014	37,661	20,343	24,160	27,853	6,319	25	-	-
2015	34,908	19,388	25,038	26,912	-	-	-	-
2016	35,861	18,442	26,028	25,935	-	-	-	-
2017-2021	194,525	77,092	145,860	113,636	-	-	-	-
2022-2026	222,551	49,255	176,069	82,834	-	-	-	-
2027-2031	227,582	17,409	191,698	46,202	-	-	-	-
2032-2036	-	-	109,088	10,209	-	-	-	-
<b>Total</b>	<b>\$982,623</b>	<b>\$252,845</b>	<b>\$744,013</b>	<b>\$391,973</b>	<b>\$59,204</b>	<b>\$1,541</b>	<b>\$216,972</b>	<b>\$6,943</b>

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

Business-Type Activities:

Administration	\$ 8,302
Electric	1,414
Water	27,197
Sewer	9,292
Sanitation	3,988
<b>Total Interest Expense</b>	<b>\$ 50,193</b>

**Pledge of Future Revenues**

**Sales Tax and Utility Net Revenues Pledge** - The City has pledged one cent (or 33.3%) of future sales tax revenues and net utility revenues to repay the \$1,200,000 Series 1992 and it has pledged three cents (or 100%) of future sales tax revenue and utility revenues to repay the \$1,326,407 Series 2009 OWRB Promissory Notes. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and net utility revenues and are payable through 2031.

The total principal and interest payable for the remainder of the life of the Series 1992 note is \$135,429. Pledged sales taxes (one cent) received in the current year were \$146,959 and net utility revenue (not including investment income), were \$907,461. Debt service payments of \$105,938 for the current fiscal year were 10% of both pledged sales taxes and net utility revenues of \$1,054,420.

The total principal and interest payable for the remainder of the life of the Series 2009 OWRB Promissory Note is \$1,059,865. Pledged sales taxes (three cents) received in the current year were \$440,877 and net utility revenues (not including investment income) were \$907,461. Debt service payments of \$35,820 for the current fiscal year were 2.7% of both pledged sales taxes and net utility revenues of \$1,348,338.

**Utility Net Revenues Pledge** - The City has pledged future net water utility revenues to repay the \$1,023,564 Waurika Project Master Conservancy District contracts payable. Proceeds from the contracts provided financing for capital assets. The contracts are payable from net water revenues and are payable through 2035. The total principal and interest payable for the remainder of the life of these contracts is \$1,135,986. Net water utility revenues were \$221,427. Debt service payments of \$44,831 for the current fiscal year were 20.2% of net water utility revenues.

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**5. Sales Tax Revenue**

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

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

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

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

**Reconciliation to Fund Financial Statements:**

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

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	WPWA	\$ 440,877	Sales tax transfer
General Fund	WPWA	220,861	Write-off interfund balances
General Fund	WPWA	3,370	To reimburse expenses
General Fund	WPWA	166	Purchase of capital assets
Cemetery Fund	Cemetery Permanent	189	Transfer of interest income
WPWA	Cemetery Fund	23,800	Operational subsidy
WPWA	General Fund	516,800	Operational subsidy
WPWA	General Fund	38,275	Write-off interfund balances
WPWA	General Fund	440,877	Sales tax transfer
WPWA	General Fund	10,172	To reimburse expenses
WPWA	Capital Outlay Fund	15,785	Operational subsidy
Total		<u>\$ 1,711,172</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,045,898	\$ (665,297)	\$ 380,601
Proprietary Funds	665,274	(1,208,046)	(542,772)
	<u>\$ 1,711,172</u>	<u>\$ (1,873,343)</u>	<u>(162,171)</u>

**Reconciliation to Statement of Activities:**

Governmental activity capital assets bought by Business-type activities	<u>162,171</u>
	<u>-</u>

**7. Risk Management**

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

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

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

**8. Retirement Plan Participation**

The City participates in two employee retirement plans:

*Oklahoma State Firefighters Pension System*

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

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2009	\$13,639	\$13,639
2010	15,039	15,039
2011	14,632	14,632

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

*Principal Mutual Life Defined Contribution Plan*

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

Contributions for the last three years were as follows:

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
2009	\$39,620	\$55,473
2010	36,868	58,045
2011	36,014	55,926

**9. Commitments and Contingencies**

*Compensated Absences:*

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011, is summarized as follows:

- City – Accrued compensated absences \$118,582
- WPWA – Accrued compensated absences \$165,745

*Commitments:*

The City has an outstanding construction contract related to the Pool House Renovation Project totaling \$9,760 at June 30, 2011.

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*Litigation:*

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

*Federal and State Award Programs:*

The City of Walters participates in various federal or state grant/loan programs from year to year. In 2011, the City's involvement in federal and state award programs was not material. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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**REQUIRED SUPPLEMENTAL INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$ 179,297	\$ 179,297	\$ 192,904	\$ 13,607
<b>Resources (Inflows):</b>				
Taxes	516,747	535,697	491,921	(43,776)
Intergovernmental	401,753	382,803	149,383	(233,420)
Charges for services	73,984	73,984	84,721	10,737
Fines and forfeitures	13,960	13,960	8,385	(5,575)
Licenses and permits	2,918	2,918	5,091	2,173
Investment Income	31	31	10	(21)
Miscellaneous	44,711	44,711	24,834	(19,877)
Transfers In	545,180	545,180	712,206	167,026
<b>Total Resources (Inflows)</b>	<u>1,599,284</u>	<u>1,599,284</u>	<u>1,476,551</u>	<u>(122,733)</u>
<b>Amounts available for appropriation</b>	<u>1,778,581</u>	<u>1,778,581</u>	<u>1,669,455</u>	<u>(109,126)</u>
<b>Charges to Appropriations (Outflows):</b>				
Police	248,229	248,230	236,090	12,140
Fire	258,306	256,373	219,863	36,510
Streets	456,955	456,955	404,116	52,839
Parks	301,223	270,698	103,607	167,091
General government	86,804	86,804	83,675	3,129
Library	48,893	48,892	46,438	2,454
Airport	112,340	112,340	50,921	61,419
Golf course	115,870	146,396	145,393	1,003
Transfer out	149,961	149,961	146,959	3,002
<b>Total Charges to Appropriations</b>	<u>1,778,581</u>	<u>1,776,649</u>	<u>1,437,062</u>	<u>339,587</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ -</u>	<u>\$ 1,932</u>	<u>\$ 232,393</u>	<u>\$ 230,461</u>
<b>Reconciliation:</b>				
Write-off of due from other funds			(220,861)	
			<u>\$ 11,532</u>	

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011, (Cont.)**

**Footnotes to Budgetary Comparison Schedules:**

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

Resources - Budgetary Comparison Schedule	\$ 1,476,551
Cemetery General Fund revenue	<u>69,652</u>
Revenue - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 1,546,203</u>
Charges to appropriations - Budgetary Comparison Schedule	\$ 1,437,062
Write-off of due from other funds	220,861
Cemetery General Fund expenditures	<u>63,333</u>
Expenditures - Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 1,721,256</u>

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**SUPPLEMENTAL INFORMATION**

**CITY OF WALTERS, OKLAHOMA**  
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**Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – June 30, 2011**

	<b>Cemetery Permanent Fund</b>	<b>Capital Outlay Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,849	\$ 4,422	\$ 11,271
Investments	126,500	-	126,500
Due from other funds	2,128	-	2,128
Total assets	135,477	4,422	139,899
 <b>LIABILITIES AND FUND BALANCES</b>			
Total liabilities	-	-	-
Fund balances:			
Restricted for:			
Cemetery	135,477	-	135,477
Debt service	-	4,422	4,422
Total fund balances	135,477	4,422	139,899
Total liabilities and fund balances	\$ 135,477	\$ 4,422	\$ 139,899

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds**  
**(Modified Cash Basis) – Year Ended June 30, 2011**

	<b>Cemetery Permanent Fund</b>	<b>Capital Outlay Fund</b>	<b>Total-Other Governmental Funds</b>
<b>REVENUES</b>			
Charges for services	\$ 5,057	\$ -	\$ 5,057
Investment income	50	15	65
Miscellaneous	3,500	-	3,500
Total revenues	8,607	15	8,622
<b>EXPENDITURES</b>			
Current:			
Debt Service:			
Principal	-	14,291	14,291
Interest and other charges	-	2,550	2,550
Capital Outlay	9,999	-	9,999
Total Expenditures	9,999	16,841	26,840
Excess (deficiency) of revenues over expenditures	(1,392)	(16,826)	(18,218)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	15,785	15,785
Transfers out	(189)	-	(189)
Total other financing sources and uses	(189)	15,785	15,596
Net change in fund balances	(1,581)	(1,041)	(2,622)
Fund balances - beginning	137,058	5,463	142,521
Fund balances - ending	\$ 135,477	\$ 4,422	\$ 139,899

CITY OF WALTERS, OKLAHOMA  
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**Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2011**

	<b>General Fund</b>	<b>Cemetery General</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,893	\$ 6,451	\$ 18,344
Total assets	11,893	6,451	18,344
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	-	2,128	2,128
Due to other governments	361	-	361
Total liabilities	361	2,128	2,489
 Fund balances:			
Assigned	-	4,323	4,323
Unassigned	11,532	-	11,532
Total fund balances	11,532	4,323	15,855
Total liabilities and fund balances	\$ 11,893	\$ 6,451	\$ 18,344

**CITY OF WALTERS, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Cemetery General</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes	\$ 491,921	\$ -	\$ 491,921
Intergovernmental	149,383	-	149,383
Charges for services	84,721	36,088	120,809
Fines and forfeitures	8,385	-	8,385
Licenses and permits	5,091	-	5,091
Investment income	10	1,500	1,510
Miscellaneous	24,034	8,075	32,109
Total revenues	<u>763,545</u>	<u>45,663</u>	<u>809,208</u>
<b>EXPENDITURES</b>			
Current:			
General government	83,675	-	83,675
Public Safety	452,585	-	452,585
Highway and streets	390,437	-	390,437
Culture and recreation	239,579	-	239,579
Cemetery	-	63,333	63,333
Airport	50,921	-	50,921
Capital Outlay	66,168	-	66,168
Debt Service:			
Principal	2,846	-	2,846
Interest and other charges	522	-	522
Total Expenditures	<u>1,286,733</u>	<u>63,333</u>	<u>1,350,066</u>
Excess (deficiency) of revenues over expenditures	<u>(523,188)</u>	<u>(17,670)</u>	<u>(540,858)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Gain on sale of capital asset	800	-	800
Transfers in	1,006,124	23,989	1,030,113
Transfers out	(665,108)	-	(665,108)
Total other financing sources and uses	<u>341,816</u>	<u>23,989</u>	<u>365,805</u>
Net change in fund balances	(181,372)	6,319	(175,053)
Fund balances (deficit) - beginning	192,904	(1,996)	190,908
Fund balances - ending	<u>\$ 11,532</u>	<u>\$ 4,323</u>	<u>\$ 15,855</u>

**CITY OF WALTERS, OKLAHOMA  
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**WPWA Proprietary Fund Accounts - Combining Schedule of Net Assets (Modified Cash Basis) –  
June 30, 2011**

	<u>WPWA Operating Account</u>	<u>OWRB Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 19,566	\$ 95	\$ 19,661
Investments	17,000	-	17,000
Restricted:			
Restricted cash and cash equivalents	152,029	-	152,029
Restricted investments	70,000	-	70,000
Total current assets	<u>258,595</u>	<u>95</u>	<u>258,690</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	84,454	-	84,454
Water rights	401,713	-	401,713
Other capital assets, net of accumulated depreciation	5,411,636	-	5,411,636
Unamortized note issue costs	47,203	-	47,203
Total non-current assets	<u>5,945,006</u>	<u>-</u>	<u>5,945,006</u>
Total assets	<u>6,203,601</u>	<u>95</u>	<u>6,203,696</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other governments	3,952	-	3,952
Deposits subject to refund	93,883	-	93,883
Capital lease payable	26,717	-	26,717
Contracts payable	22,818	-	22,818
Notes payable	377,934	-	377,934
Total current liabilities	<u>525,304</u>	<u>-</u>	<u>525,304</u>
Non-current liabilities:			
Capital lease payable	32,487	-	32,487
Contracts payable	721,195	-	721,195
Notes payable	821,661	-	821,661
Total non-current liabilities	<u>1,575,343</u>	<u>-</u>	<u>1,575,343</u>
Total liabilities	<u>2,100,647</u>	<u>-</u>	<u>2,100,647</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,894,991	-	3,894,991
Restricted for debt service	125,229	-	125,229
Unrestricted	82,734	95	82,829
Total net assets	<u>\$ 4,102,954</u>	<u>\$ 95</u>	<u>\$ 4,103,049</u>

**CITY OF WALTERS, OKLAHOMA**  
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**WPWA Proprietary Fund Accounts - Combining Statement of Revenues, Expenditures and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011**

	<u>WPWA Operating Account</u>	<u>OWRB Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Electric charges	\$ 2,046,587	-	\$ 2,046,587
Water charges	485,758	-	485,758
Sewer charges	224,650	-	224,650
Sanitation charges	316,991	-	316,991
Miscellaneous	33,872	-	33,872
Total operating revenues	<u>3,107,858</u>	<u>-</u>	<u>3,107,858</u>
<b>OPERATING EXPENSES</b>			
Electric	1,308,281	-	1,308,281
Water	264,331	-	264,331
Sewer	47,776	-	47,776
Sanitation	163,516	-	163,516
General government	416,493	-	416,493
Depreciation	239,159	-	239,159
Amortization expense	2,501	-	2,501
Total Operating Expenses	<u>2,442,057</u>	<u>-</u>	<u>2,442,057</u>
Operating income	<u>665,801</u>	<u>-</u>	<u>665,801</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	61,859	-	61,859
Insurance proceeds	16,976	-	16,976
Grant revenue	15,927	-	15,927
Miscellaneous revenue	18,263	-	18,263
Interest expense	(50,193)	-	(50,193)
Total non-operating revenue (expenses)	<u>62,832</u>	<u>-</u>	<u>62,832</u>
Income before transfers	<u>728,633</u>	<u>-</u>	<u>728,633</u>
Interaccount transfers in	678,924	678,924	1,357,848
Interaccount transfers out	(678,924)	(678,924)	(1,357,848)
Transfers in	665,274	-	665,274
Transfers out	(1,208,046)	-	(1,208,046)
Change in net assets	185,861	-	185,861
Total net assets - beginning	<u>3,917,093</u>	<u>95</u>	<u>3,917,188</u>
Total net assets - ending	<u>\$ 4,102,954</u>	<u>\$ 95</u>	<u>\$ 4,103,049</u>

**CITY OF WALTERS, OKLAHOMA  
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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – For the Year Ended June 30, 2011**

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Federal Awards Expended
<b>FEDERAL AWARDS:</b>				
<b><u>FEDERAL AVIATION ADMINISTRATION:</u></b>				
Airport Improvement Grant	20.106	AIP-3-40-0103-001-2008	\$ 45,581	\$ 29,935
Airport Improvement Grant	20.106	AIP-3-40-0103-001-2010	58,292	14,963
Total Federal Aviation Administration			<u>103,873</u>	<u>44,898</u>
<b><u>U.S. DEPARTMENT OF INTERIOR:</u></b>				
Passed through the Oklahoma Tourism and Recreation Department:				
Land and Water Conservation Fund	15.916	40-01190	32,063	24,939
<b><u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u></b>				
Passed through the Oklahoma Department of Emergency Management:				
FEMA Federal Share	97.036	FEMA-1712-DR-OK	1,407	1,407
Ice Storm Damage	97.036	PA-1883PW731	6,712	6,712
Total Federal Emergency Management Agency			<u>8,119</u>	<u>8,119</u>
<b>Total Federal Awards</b>			<u>\$ 144,055</u>	<u>\$ 77,956</u>
<b>STATE AWARDS:</b>				
<b><u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u></b>				
Rural Fire Grant			\$ 4,398	\$ 4,398
<b><u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u></b>				
State Aid			9,253	9,253
<b><u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u></b>				
Passed through the Oklahoma Department of Civil Emergency Management:				
FEMA State Share		FEMA-1712-DR-OK	7,808	7,808
<b>Total State Awards</b>			<u>\$ 21,459</u>	<u>\$ 21,459</u>

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2011**

**Schedule of Debt Service Coverage Requirement – Year Ended June 30, 2011**

<b>DEBT SERVICE COVERAGE:</b>	<b>OWRB Series 1992 Promissory Note</b>	<b>OWRB Series 2009 Promissory Note</b>
<b>GROSS REVENUE AVAILABLE:</b>		
Charges for services (all utility services)	3,107,858	3,107,858
Investment income	61,859	61,859
Sales tax appropriated and transferred from the City General Fund	146,959	440,877
Total Gross Revenue Available	3,316,676	3,610,594
<b>OPERATING EXPENSES:</b>		
Total Operating Expenses	2,200,397	2,200,397
Net Revenue Available for Debt Service	\$1,116,279	\$1,410,197
Maximum Annual Debt Service on all Obligations Payable From Revenues of the System	\$220,275	\$220,275
Computed Coverage	507%	640%
Coverage Requirement	125%	125%

At June 30, 2011 the City met all coverage requirements for both the 1992 and 2009 OWRB Promissory Notes. They both have a coverage requirement of 125%, therefore the City meets their requirement.

**Schedule of Reserve Requirement**

<b>RESERVE REQUIREMENTS:</b>	<b>OWRB Series 1992 Promissory Note</b>
Required Balance:	
Balance in OWRB Reserve Account, June 30, 2011	\$120,002
Required Balance of Reserve per Note Agreement (1)	104,642
Excess of Account Balance over Required Balance	\$15,360

(1) Represents 125% of average annual principal and interest on the local note.

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2011**

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**INTERNAL CONTROL AND COMPLIANCE**

**CITY OF WALTERS, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the City Council  
City of Walters, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Walters, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2011. The report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 11-1, 11-3, and 11-4. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

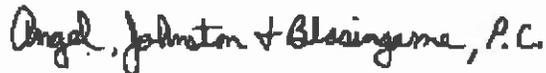
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 11-2 and 11-5.

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

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



Chickasha, Oklahoma  
December 19, 2011

**CITY OF WALTERS, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2011**

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

- 11-1. Criteria - The segregation of duties and responsibilities between different individuals for custody of assets and recordkeeping for those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition – Presently the same individual that receives cash payments is also responsible for billing and adjustments, and posts payments to subsidiary accounts receivable ledgers. In addition, only limited oversight is provided in the conduct of their daily functions for these areas: Utility and Court.

Cause – The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the utility and court billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – Management and Council should consider a formal evaluation of their risks associated with this lack of duties segregation over utility and court cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Management response – Management agrees.

- 11-2. Criteria – According to Oklahoma Statutes 11-8-113, no municipal officer or employee or any business they own 25% of shall engage in selling, buying or leasing property from the municipality. There is an exception if the city's population is not more than 2,500 and the business is the only type within 5 miles of city limits.

Condition –The City purchased goods and services from an employee's 100% owned business.

Cause – Management was not aware of the state law.

Effect – Violation of state law.

Recommendation – Consult with the city's attorney but it appears that purchasing from the employee's business should cease.

Management response – Management agrees.

- 11-3. Criteria – Utility accounts receivable should be reconciled on a monthly basis. The reconciled balance in the utility billing system should agree to the general ledger balance.

Condition – Utility accounts receivable balance is not being reconciled on a monthly basis to the general ledger balance.

Cause – A reconciliation is attempted but the difference each month is not researched.

**CITY OF WALTERS, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2011**

Effect – At year end, the general ledger utility accounts receivable balance was \$533,262, and the utility system accounts receivable balance was \$532,352. These balances should agree. Without sufficient reconciliation procedures in place, the risk of errors and fraud significantly increases and may not be detected timely.

Recommendation – Management should implement procedures for someone that is independent of the utility billing process to reconcile beginning and ending accounts receivable balance on a monthly basis by using monthly billing reports, daily collection records, penalties, deposits applied, and adjustment authorization forms.

Management response – Management agrees.

- 11-4. Criteria – Meter deposits payable should be reconciled on a monthly basis to the meter deposit listing. The reconciled balance in the utility billing system should agree to the general ledger balance. The reconciled balance should also be compared to bank balances to ensure adequate cash is available.

Condition – Meter deposits payable is not being reconciled on a monthly basis to ensure all deposit collections, refunds, and deposits applied are properly accounted for in the accounting system.

Cause – A lack of proper procedures and controls.

Effect – The deposit listing report balance at year end was \$98,084, the general ledger balance was \$93,883. These balances should agree. The bank balances totaled \$96,800. Without sufficient reconciliation procedures in place, the risk of errors and fraud significantly increases and may not be detected timely.

Recommendation – Management should implement procedures for staff to reconcile beginning and ending meter deposits payable on a monthly basis by using monthly deposits collected, deposits applied, and refunds issued.

Management response – Management agrees.

- 11-5. Criteria – The City pay policy only addresses the 40 hour work week for all employees which totals 2,080 hours per year.

Condition – Firefighters and police officers are being paid according to the amount agreed to when hired. This assumes total annual hours of 2,340.

Cause – Not following city policy for fire and police employees.

Effect – Overtime is not being calculated correctly. Also, the police payroll appears to violate the FLSA which requires payment of overtime for any work over 42.5 hours per week.

Recommendation – Adopt a policy that reflects the agreed to pay arrangements or follow the existing city policy that pays overtime for hours worked in excess of 40 hours per week.

Management response – Management agrees.