

THE CITY OF ALTUS, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Altus, 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 Altus, Oklahoma (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2013, 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, budgetary comparison information, and the retirement benefit funding 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, 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's financial statements as a whole. The Schedule of Changes in Fund Balances – Non-Major Governmental Funds and the Debt Service Coverage Schedule, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were 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 by us 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, based on our audit, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Arledge & Associates, P.C.

Edmond, Oklahoma
July 2, 2013

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

Our discussion and analysis of the City of Altus' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31,927,441 (net assets). Of this amount, \$12,879,206 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the City's total net assets increased by \$1,175,420. This is attributed to electric department net operating revenue.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,350,221, an increase of \$597,758 in comparison with the prior year. Approximately \$528,743 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$525,167, or 4% of total general fund expenditures.
- For budgetary reporting purposes, the General Fund reported revenues over estimates of \$237,920 or 2%, while expenditures were under final appropriations by \$281,298 or 2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Altus (the "City") and its component units using the integrated approach as prescribed by GASB Statements No. 14, 34, and 39. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

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

Fund Financial Statements

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

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

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

The City maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other thirteen governmental funds are combined into a single, aggregated presentation.

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

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

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

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

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

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

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Employee retirement funding data is also included.

The nonmajor governmental funds referred to earlier are presented immediately following the required supplementary. Debt service coverage information follows that report.

About the City

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

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council of the City of Altus is fiscally responsible. These activities are operated within separate legal entities that are reported together to make up the City's financial reporting entity.

The City's financial reporting entity includes the City of Altus and one active blended component unit. The activities of the previously reported discretely presented component unit, Altus Great Plains Recreation, Inc. were transferred to the City in fiscal 2012 and are now reported within the general fund.

Primary Government:

- **The City of Altus** – governmental activities of the City include general government, public safety, public works, culture and recreation and community and economic development. The business-type activities of the City include the City's electric, water, wastewater, landfill, and sanitation utility operations, as the Altus Municipal Authority.

Blended Component Units:

- **Altus Municipal Authority** – serves all the citizens of the City and is governed by a board comprised of the City's elected commissioners. The Altus Municipal Authority is a public trust created January 10, 1066 and amended July 18, 1989, to finance, develop, and operate any and all public works projects of any type or description including, but not limited to, those of water, sewer, electric, and solid waste facilities. The rates for user charges and bond issuance authorizations require a two-thirds approval of the City Commission and the AMA trustees. The legal liability for the general obligation portion of AMA's debt remains with the City. AMA is reported as an enterprise fund type. Separate financial statements have not been prepared for the Altus Municipal Authority.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The presentation includes financial statements that communicate the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** (a government-wide presentation)
- **The City's Funds** (a presentation of the City's major and aggregate non-major funds)

The City's various government-wide and fund financial statements are presented throughout this annual report and are accompanied by:

- **Management's Discussion and Analysis** – provides useful analysis that facilitates a better understanding of the City's financial condition and changes therein.
- **Footnotes** – elaborates on the City's accounting principles used in the preparation of the financial statements and further explain financial statement elements.
- **Supplemental Schedules** – provides additional information about specified elements of the financial statements, such as budgetary comparison information, and long-term debt service coverage.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady over the past year?" 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. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the City's net assets and changes in them from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, in the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, general administration, streets, and culture. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's electric, water, wastewater, and sanitation activities are reported here.
- Discretely-presented component units – These account for activities of the City's reporting entity that do not meet the criteria for blending, specifically the Altus Great Plains Recreation, Inc. was previously included as a discretely-presented component unit. However, the City no longer has any entities in this category.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many 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.

Governmental funds -- Most 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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps determine 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 - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows. In fact, the City's enterprise funds are essentially the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows.

Fiduciary funds - When the City is responsible for assets that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or others parties, these activities are reported as fiduciary funds, such as the Flex Benefit Plan Fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance operations.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$31,927,441 at the close of the most recent fiscal year.

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

**Table 1
Net Assets**

	Governmental Activities		% Inc. (Dec.)	Business-type Activities		% Inc. (Dec.)	Total Primary Government		% Inc. (Dec.)
	Restated			Restated			Restated		
	2012	2011		2012	2011		2012	2011	
Current and other assets	\$ 6,414,082	\$ 6,029,005	6%	\$ 18,899,511	\$ 16,561,637	14%	\$ 25,313,593	\$ 22,590,642	12%
Capital assets	8,568,891	9,070,887	-6%	45,039,165	47,445,267	-5%	53,608,056	56,516,154	-5%
Total assets	14,982,973	15,099,892	-1%	63,938,676	64,006,904	0%	78,921,649	79,106,796	0%
Long-term debt outstanding	1,570,344	1,106,493	42%	36,342,475	37,624,472	-3%	37,912,819	38,730,965	-2%
Other liabilities	806,888	1,496,125	-46%	8,274,501	8,127,685	2%	9,081,389	9,623,810	-6%
Total liabilities	2,377,232	2,602,618	-9%	44,616,976	45,752,157	-2%	46,994,208	48,354,775	-3%
Net assets:									
Invested in capital assets, net of debt	8,568,891	9,067,251	-5%	6,052,700	8,189,917	-26%	14,621,591	17,257,168	-15%
Restricted	2,726,397	685,551	298%	1,700,247	9,707,509	-82%	4,426,644	10,393,060	-57%
Unrestricted	1,310,453	2,744,472	52%	11,568,753	357,321	3138%	12,879,206	3,101,793	315%
Total net assets	\$ 12,605,741	\$ 12,497,274	1%	\$ 19,321,700	\$ 18,254,747	6%	\$ 31,927,441	\$ 30,752,021	4%

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2012, this investment in capital assets, net of related debt amounted to \$14,621,591. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net assets, \$4,426,644, also represents resources that are subject to external restrictions on how they may be used, for example, capital improvements and debt service. The remaining balance of unrestricted net assets, \$12,879,206, may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

Changes in Net Assets

For the year ended June 30, 2012, net assets of the primary government changed as follows:

**Table 2
Changes in Net Assets**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total Primary Government		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues:									
Program revenues:									
Charges for services	\$ 3,667,272	\$ 1,108,417	231%	\$ 29,000,148	\$ 26,555,919	9%	\$ 32,667,420	\$ 27,664,336	18%
Operating grants and contributions	916,969	630,043	46%	-	145,238	-	916,969	775,281	18%
Capital grants and contributions	199,883	320,722	-38%	-	-	-	199,883	320,722	-38%
General revenues:									
Sales and use taxes	9,872,915	9,646,365	2%	-	-	-	9,872,915	9,646,365	2%
Other taxes	987,381	963,217	3%	-	-	-	987,381	963,217	3%
Other general revenue	148,878	154,686	-4%	415,063	461,291	-10%	563,941	615,977	-8%
Total revenues	15,793,298	12,823,450	23%	29,415,211	27,162,448	8%	45,208,509	39,985,898	13%
Program expenses:									
General government	7,277,323	2,474,191	194%	3,413,687	2,296,341	49%	10,691,010	4,770,532	124%
Public safety	7,364,043	7,764,201	-5%	-	-	-	7,364,043	7,764,201	-5%
Public works	1,560,491	2,866,573	-46%	-	-	-	1,560,491	2,866,573	-46%
Cultural and recreation	1,412,763	1,610,655	-12%	-	-	-	1,412,763	1,610,655	-12%
Economic development	39,364	30,307	30%	-	359,772	-100%	39,364	390,079	-90%
Electric	-	-	-	12,323,560	15,079,213	-18%	12,323,560	15,079,213	-18%
Water/wastewater	-	-	-	5,677,406	5,121,962	11%	5,677,406	5,121,962	11%
Sanitation	-	-	-	1,410,036	1,555,512	-9%	1,410,036	1,555,512	-9%
Other	-	-	-	3,554,416	11,056,324	-68%	3,554,416	11,056,324	-68%
Total expenses	17,653,984	14,745,927	20%	26,379,105	35,469,124	-26%	44,033,089	50,215,051	-12%
Excess (deficiency) before transfers	(1,860,686)	(1,922,477)	3%	3,036,106	(8,306,676)	-137%	1,175,420	(10,229,153)	-111%
Transfers	1,969,153	164,476	-1097%	(1,969,153)	(164,476)	1097%	-	-	-
Increase (decrease) in net assets	108,467	(1,758,001)	106%	1,066,953	(8,471,152)	-113%	1,175,420	(10,229,153)	-111%
Net Assets, Beginning, restated	12,497,274	13,181,541	-5%	18,254,747	27,799,633	-34%	30,752,021	40,981,174	-25%
Net Assets, Ending	\$ 12,605,741	\$ 11,423,540	10%	\$ 19,321,700	\$ 19,328,481	0%	\$ 31,927,441	\$ 30,752,021	4%

Explanations of significant changes displayed in Table 2 are as follows:

For fiscal 2012, the internal service fund is reported in governmental activities. This accounts for the significant increase in charges for services. In addition, the emergency fund is included as an account of the general fund and, therefore, included in governmental activities. The reclassification of the emergency fund resulted in restatement of beginning fund balances for both the governmental and business-type activities.

A significant decrease in expenditures in the electric department and other business-type expenses accounts for the significant improvement in the Excess (deficiency) before transfers for business-type activities.

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

**Table 3
Net Revenue (Expense) of Governmental Activities**

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
General government	\$ 7,277,323	\$ 2,474,191	194%	\$ (4,025,915)	\$ (2,334,668)	-72%
Public safety	7,364,043	7,764,201	-5%	(6,477,310)	(6,530,195)	1%
Streets	1,560,491	2,866,573	-46%	(1,301,672)	(2,381,573)	45%
Culture, parks and recreation	1,412,763	1,610,655	-12%	(1,128,637)	(1,410,002)	20%
Community/economic development	39,364	30,307	30%	70,674	(30,307)	333%
Total	\$ 17,653,984	\$ 14,745,927	20%	\$ (12,862,860)	\$ (12,686,745)	-1%

Business-type Activities

**Table 4
Net Revenue (Expense) of Business-Type Activities**

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
Administrative services	\$ 3,413,687	\$ 2,656,113	29%	\$ (3,413,687)	\$ (2,265,620)	51%
Electric	12,323,560	15,079,213	-18%	7,909,255	3,718,565	113%
Water/wastewater	5,677,406	5,121,962	11%	(11,609)	(170,837)	-93%
Sanitation/landfill	1,410,036	1,555,512	-9%	581,453	229,815	153%
Other	3,554,416	11,056,324	-68%	(2,444,369)	(10,279,890)	-76%
Total	\$ 26,379,105	\$ 35,469,124	-26%	\$ 2,621,043	\$ (8,767,967)	-130%

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

The City's business-type activities include utility services for water, wastewater, and sanitation.

In reviewing the business-type activities net (expense)/revenue, the following highlights should be noted: ended June 30, 2012.

- Internal service funds were reclassified to governmental fund types for fiscal 2012.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$5,350,221 or a 13% increase from 2011. The enterprise fund reported net assets of \$19,321,700 or a 6% increase from 2011.

Other fund highlights include:

- For the year ended June 30, 2012, the General Fund's total fund balance increased by \$853,229 or 48%.

General Fund Budgetary Highlights

- For budgetary reporting purposes, the General Fund reported revenues over estimates by \$237,920 or 2%, while expenditures were under final appropriations by \$281,298 or 2%.

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had \$53,608,056 million invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. This represents a net decrease of \$2.5 million or 4.5% over last year.

See Note 5 to the financial statements for more detail information on the City's capital assets and changes therein.

Long- Term Debt

At year-end, the City had \$38 million in long-term debt outstanding which represents an \$882,505 or 2.4% increase from the prior year. The increase is due to the issuance of a \$4 million Revenue Bond and \$400,000 loan from the Oklahoma Municipal Power Authority (OMPA).

See Note 7 to the financial statements for more detail information on the City's long-term debt and changes therein.

**CITY OF ALTUS, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2012**

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2013 revenue and expense budgets. The city expects increases in revenues and decreases in expenditures. Revenues are expected to increase due to the City obtaining funding for the City's share on a federal road project and for a new aerial fire engine. The City has also budgeted service rate increases for utilities while expecting the taxes to remain at the same level they were for FY 11-12.

When setting the fiscal year 2013 expenditure budget, the City's officials anticipated decreases in operating budgets due to reducing employee positions, placing a hiring freeze on future vacated positions and reducing the overall operating expenditures due to cost control measures put in place by management and the governing board. The fiscal year 2013 budget includes expenses for continued repairs at the water treatment plant, upgrade to water distribution lines and repair of the equipment at the waste water treatment facilities. Also in the budget is funding for \$1.3 million to be placed into reserves as well as an additional \$1.3 million to replace reserves that were used to close out the prior year. All other capital purchases were placed on hold while expenditures were scaled back to what was considered necessary to maintain services.

Requests for Information

This report is designed to provide our citizens, taxpayers, customers and creditors with an understanding of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact:

Mr. James Wilson, Finance Director
City of Altus
220 E. Commerce
Altus, Oklahoma 73521

You may also visit our website at www.cityofaltus.org for more budgetary and contact information.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

**CITY OF ALTUS, OKLAHOMA
STATEMENT OF NET ASSETS**

June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 3,344,569	\$ 14,047,703	\$ 17,392,272
Investments	-	1,000,000	1,000,000
Accrued interest receivable	110	-	110
Accounts receivable, net of allowance	1,841,343	3,313,348	5,154,691
Internal balances	1,146,234	(1,146,234)	-
Inventory	81,826	1,278,797	1,360,623
Capital assets:			
Non-depreciable	1,217,403	1,304,662	2,522,065
Depreciable, net of depreciation	7,351,488	43,734,503	51,085,991
Unamortized debt issuance costs	-	405,897	405,897
Total Assets	14,982,973	63,938,676	78,921,649
LIABILITIES:			
Accounts payable and accrued liabilities	757,819	2,490,557	3,248,376
Meter deposit liability	-	854,590	854,590
Deferred revenue	49,069	4,929,354	4,978,423
Long-term liabilities:			
Due within one year	607,635	3,441,944	4,049,579
Due in more than one year	962,709	32,900,531	33,863,240
Total liabilities	2,377,232	44,616,976	46,994,208
NET ASSETS:			
Invested in capital assets, net of related debt	8,568,891	6,052,700	14,621,591
Restricted	2,726,397	1,700,247	4,426,644
Unrestricted	1,310,453	11,568,753	12,879,206
Total net assets	\$ 12,605,741	\$ 19,321,700	\$ 31,927,441

See accompanying notes to the basic financial statements.

CITY OF ALTUS, OKLAHOMA
STATEMENT OF ACTIVITIES
For the fiscal year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government and administration	\$ 7,277,323	\$ 3,251,408	\$ -	\$ -	\$ (4,025,915)	\$ -	\$ (4,025,915)
Public safety	7,364,043	132,738	657,277	96,718	(6,477,310)	-	(6,477,310)
Public works	1,560,491	-	252,819	-	(1,307,672)	-	(1,307,672)
Culture and recreation	1,412,763	283,126	-	-	(1,129,637)	-	(1,129,637)
Economic development	39,364	-	6,873	103,165	70,674	-	70,674
Total governmental activities	17,653,984	3,667,272	916,969	199,883	(12,869,860)	-	(12,869,860)
Business-type activities:							
Administrative services	3,413,687	-	-	-	-	(3,413,687)	(3,413,687)
Electric	12,323,560	20,232,815	-	-	-	7,909,255	7,909,255
Water/wastewater	5,677,406	5,665,797	-	-	-	(11,609)	(11,609)
Sanitation/landfill	1,410,036	1,991,489	-	-	-	581,453	581,453
Other	3,554,416	1,110,047	-	-	-	(2,444,369)	(2,444,369)
Total business-type activities	26,379,105	29,000,148	-	-	-	2,621,043	2,621,043
Total primary government	\$ 44,033,089	\$ 32,667,420	\$ 916,969	\$ 199,883	(12,869,860)	2,621,043	(10,248,817)
General revenues:							
Taxes:							
Sales and use taxes					9,872,915	-	9,872,915
Franchise and public service taxes					312,279	-	312,279
Hotel/motel taxes					269,285	-	269,285
Other					405,817	-	405,817
Investment income					13,333	415,063	428,396
Miscellaneous					135,545	-	135,545
Transfers - Internal activity					1,969,153	(1,969,153)	-
Total general revenues and transfers					12,978,327	(1,554,090)	11,424,237
Change in net assets					108,467	1,066,953	1,175,420
Net assets - beginning, restated					12,497,274	18,254,747	30,752,021
Net assets - ending					\$ 12,605,741	\$ 19,321,700	\$ 31,927,441

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

**CITY OF ALTUS, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 435,958	\$ 2,414,361	\$ 2,850,319
Receivables:			
Accrued interest receivable	-	110	110
Accounts receivable, net of allowance	1,753,980	87,363	1,841,343
Due from other funds	1,659,123	390,099	2,049,222
Inventory	17,269	64,557	81,826
Total assets	\$ 3,866,330	\$ 2,956,490	\$ 6,822,820
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 339,965	\$ 176,717	\$ 516,682
Refundable deposits	3,860	-	3,860
Due to other funds	884,988	18,000	902,988
Deferred revenue	-	49,069	49,069
Total liabilities	1,228,813	243,786	1,472,599
Fund Balances:			
Nonspendable	17,269	64,557	81,826
Restricted	-	2,644,571	2,644,571
Committed	2,095,081	-	2,095,081
Unassigned	525,167	3,576	528,743
Total fund balances	2,637,517	2,712,704	5,350,221
Total liabilities and fund balances	\$ 3,866,330	\$ 2,956,490	\$ 6,822,820
Reconciliation to the Statement of Net Assets:			
Fund balances of governmental funds			\$ 5,350,221
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$12,401,244			8,568,891
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:			
Accrued compensated absences			(981,281)
Internal service funds are used by management to charge costs of certain activities that benefit multiple funds, such as self-insurance costs, to individual funds. The assets and liabilities of certain of these internal service funds are reported in governmental activities in the Statement of Net Assets:			
Internal service funds' net assets			(332,090)
Net assets of governmental activities			\$ 12,605,741

See accompanying notes to the basic financial statements.

CITY OF ALTUS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For fiscal year ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 10,416,751	\$ 443,545	\$ 10,860,296
Intergovernmental	1,043,501	82,020	1,125,521
Charges for services	393,753	479,082	872,835
Fines and forfeitures	209,261	-	209,261
Licenses and permits	85,483	-	85,483
Investment income	4,911	7,601	12,512
Miscellaneous	75,894	59,651	135,545
Total Revenues	<u>12,229,554</u>	<u>1,071,899</u>	<u>13,301,453</u>
Expenditures:			
Current:			
General government and administration	3,203,620	20,841	3,224,461
Community and economic development	-	39,364	39,364
Public works and maintenance	1,327,120	31,576	1,358,696
Parks and recreation	1,291,771	-	1,291,771
Public safety	6,572,038	473,084	7,045,122
Airport	-	577,355	577,355
Capital outlay	465,380	449,364	914,744
Debt service:			
Principal retirement	3,636	-	3,636
Interest and fiscal charges	-	-	-
Total Expenditures	<u>12,863,565</u>	<u>1,591,584</u>	<u>14,455,149</u>
Excess (deficiency) of revenues over expenditures	(634,011)	(519,685)	(1,153,696)
Other Financing Sources (Uses):			
Transfers in	6,353,506	643,725	6,997,231
Transfers out	(4,866,266)	(379,511)	(5,245,777)
Total Other Financing Sources (Uses)	<u>1,487,240</u>	<u>264,214</u>	<u>1,751,454</u>
Net change in fund balances	853,229	(255,471)	597,758
Fund balances - beginning (restated)	1,784,288	2,968,175	4,752,463
Fund balances - ending	<u>\$ 2,637,517</u>	<u>\$ 2,712,704</u>	<u>\$ 5,350,221</u>

(Continued)

See accompanying notes to the basic financial statements.

CITY OF ALTUS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For fiscal year ended June 30, 2012
(Continued)

Net change in fund balances - total governmental funds \$ 597,758

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	290,358
Depreciation expense	(792,354)
	(501,996)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred revenue	(247,747)
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Capital lease 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:

Capital lease obligation principal payments	3,636
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued compensated absences, net change	(85,715)
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Internal service fund activity is reported as a proprietary fund in the fund financial statements, but certain net revenues are reported in governmental activities on the Statement of Activities

Total change in net assets for internal service funds	342,531
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Change in net assets of governmental activities	\$ 108,467
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See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF ALTUS, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Altus Municipal Authority	Internal Service Funds
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 20,836	\$ 494,250
Cash and cash equivalents, restricted	14,026,867	-
Investments, restricted	1,000,000	-
Accounts receivable, net of allowance \$1,857,809	3,313,348	-
Due from other funds	902,988	-
Inventory	1,278,797	-
Total current assets	20,542,836	494,250
Noncurrent Assets:		
Land and construction in progress	1,304,662	-
Other capital assets, net	43,734,503	-
Unamortized debt issuance costs	405,897	-
Total noncurrent assets	45,445,062	-
Total Assets	65,987,898	494,250
LIABILITIES:		
Current Liabilities:		
Accounts payable and accrued liabilities	2,099,917	237,277
Accrued interest payable	390,640	-
Due to other funds	2,049,222	-
Meter deposit liability	854,590	-
Current portion:		
Accrued compensated absences	41,975	-
Claims liability	-	429,881
Contract obligation payable	465,885	-
Capital lease obligations	309,624	-
Notes payable	2,624,460	-
Total current liabilities	8,836,313	667,158
Noncurrent Liabilities:		
Accrued compensated absences	307,817	-
Claims liability	-	159,182
Landfill closure and postclosure cost	1,935,572	-
Contract obligation payable	8,573,849	-
Capital lease obligations	1,033,759	-
Deferred gain on refunding	4,929,354	-
Notes payable	21,049,534	-
Total noncurrent liabilities	37,829,885	159,182
Total liabilities	46,666,198	826,340
NET ASSETS:		
Invested in capital assets, net of related debt	6,052,700	-
Restricted for debt service	1,700,247	-
Unrestricted	11,568,753	(332,090)
Total net assets	\$ 19,321,700	\$ (332,090)

See accompanying notes to the basic financial statements.

CITY OF ALTUS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the fiscal year ended June 30, 2012

	Altus Municipal Authority	Internal Service Funds
Operating Revenues:		
Charges for service	\$ 28,943,896	\$ 2,692,490
Total operating revenues	<u>28,943,896</u>	<u>2,692,490</u>
Operating Expenses:		
General government and claims	-	2,614,760
Public Works Operations	20,272,474	-
Landfill closure expense	271,459	-
Depreciation and amortization	2,234,958	-
Total operating expenses	<u>22,778,891</u>	<u>2,614,760</u>
Operating income (loss)	<u>6,165,005</u>	<u>77,730</u>
Non-Operating Revenues (Expenses):		
Investment income	415,063	821
Interest expense and fiscal charges	(1,180,534)	-
Payments to school - MAPS	(2,419,680)	-
Other non-operating revenue (expense)	56,252	46,281
Net non-operating revenues (expenses)	<u>(3,128,899)</u>	<u>47,102</u>
Income (loss) before transfers	<u>3,036,106</u>	<u>124,832</u>
Transfers in	4,688,849	217,699
Transfers out	(6,658,002)	-
Change in net assets	<u>1,066,953</u>	<u>342,531</u>
Total net assets - beginning, restated	<u>18,254,747</u>	<u>(674,621)</u>
Total net assets - ending	<u>\$ 19,321,700</u>	<u>\$ (332,090)</u>

See accompanying notes to the basic financial statements.

CITY OF ALTUS, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the fiscal year ended June 30, 2012

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and others	\$ 29,513,120	\$ 2,738,771
Payments to suppliers	(16,457,156)	-
Payments to employees	(3,969,960)	-
Other receipts (payments)	23,417	-
Claims and judgments paid	-	(2,761,085)
Net cash provided by operating activities	<u>9,109,421</u>	<u>(22,314)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	4,688,849	217,699
Transfers to other funds	(6,658,002)	-
Payment to schools- MAPS	(2,419,680)	-
Net cash provided by (used in) noncapital financing activities	<u>(4,388,833)</u>	<u>217,699</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from notes issued	4,865,500	-
Capital assets purchased	(225,744)	-
Principal paid on capital debt	(3,081,374)	-
Principal paid on contract obligation	(450,225)	-
Payment of capital lease obligations	(442,528)	-
Payment of note issuance costs	(64,000)	-
Interest and fiscal charges paid on capital debt	(1,914,157)	-
Net cash provided by (used in) capital and related financing activities	<u>(1,312,528)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	415,063	821
Net cash provided by (used in) investing activities	<u>415,063</u>	<u>821</u>
Net increase (decrease) in cash and cash equivalents	3,823,123	196,206
Balances - beginning of year	10,224,580	298,044
Balances - end of year	<u>\$ 14,047,703</u>	<u>\$ 494,250</u>
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents	\$ 20,836	\$ 494,250
Restricted cash and cash equivalents	14,026,867	-
Total cash and cash equivalents, end of year	<u>\$ 14,047,703</u>	<u>\$ 494,250</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 6,165,005	\$ 77,730
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,234,958	-
Amortization expense	73,009	-
Landfill closure expense	271,459	-
Other non-operating revenues	56,252	46,281
Change in assets and liabilities:		
Receivables, net	512,972	-
Due from other funds	(128,613)	-
Inventory	(172,336)	-
Accounts payable and accrued liabilities	(1,583,605)	(146,325)
Due to other funds	1,659,123	-
Accrued compensated absences	21,197	-
Net cash provided by operating activities	<u>\$ 9,109,421</u>	<u>\$ (22,314)</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS - FIDUCIARY FUNDS

CITY OF ALTUS, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Flex Benefit Plan
ASSETS:	
Cash and cash equivalents	\$ 41,831
Total assets	<u>\$ 41,831</u>
LIABILITIES:	
Balances held for others	\$ 41,831
Total liabilities	<u>\$ 41,831</u>

See accompanying notes to the basic financial statements.

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

FOOTNOTES TO BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Financial Reporting Entity

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

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statements No. 14, 34, and 39 and includes all component units for which the City is financially accountable/fiscally responsible. The City’s financial reporting entity’s primary government presentation includes the City of Altus and the certain component units as follows:

The City of Altus – governmental activities of the City include general government, public safety, public works, culture and recreation, community, and economic development. The business-type activities of the City include the City’s electric, water, wastewater, landfill, and sanitation utility operations, as the Altus Municipal Authority.

Blended Component Unit (separate legal entity for which the City Council is fiscally responsible, and for which the City Council members serve as the trustees/governing body of the entity):

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

The component unit listed above is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. 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 Authority. In accordance with state law, the City Council must approve, by two-thirds vote, all debt obligations of these public trusts prior to incurring the obligation. The Authority generally retains 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 of the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

Discretely Presented Component Units (separate legal entities for which the City Council is fiscally responsible, but appoints a separate governing body):

Altus Great Plains Recreation, Inc. – is a non-profit organization promoting programs for the City’s youth. Members of the organization’s board are elected by the members of the organization. However, the entity is financially accountable to the City of Altus because the

City provides a large share of its annual income and the organization provides services for the benefit of the City. In fiscal year 2012, assets and liabilities were transferred to the City and are now included in the general fund.

Related Organizations:

A related organization is one for which the City is not financially accountable. Such organizations include:

- **Altus/Southwest Area Economic Development Corporation**
- **Downtown Altus Redevelopment Trust Authority**
- **Mountain Park Master Conservancy District (the District)**

Related organizations are not included within the City's reporting entity financial statements.

2. Basis of Presentation and Accounting

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The presentation includes financial statements that communicate the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** (a government-wide presentation)
- **The City's Funds** (a presentation of the City's major and aggregate non-major funds)

Government-Wide Financial Statements:

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, general administration, streets, culture and recreation. Sales taxes, franchise fees, fines, state and federal grants finance most of these activities; and

Business-type activities – Services where the City charges a fee to customers to help it cover all or most of the cost of these services it provides. The City's water, sewer, and sanitation systems activities are reported here.

The statements of net assets and activities are reported on the accrual basis of accounting and economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or economic asset used.

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, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fund Financial Statements:

Governmental Funds:

Most 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 the modified accrual 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 City’s governmental funds include:

Major Funds:

- **General Fund** – accounts for all activities not accounted for in other special-purpose funds the major funding source is sales tax. It is the primary operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
- **Special Revenue Funds** – are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes. The reporting entity includes the following special revenue funds:

<u>Nonmajor Fund</u>	<u>Brief Description</u>
Park Development Fund	Accounts for monies received from subdivision developers to be used for park development.
Street and Alley Fund	Accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.
Donation Fund	Accounts for donations received to be used for specific projects.
Airport Fund	Accounts for the operating revenues and expenditures of the municipal airport.
Hotel/Motel Tax Fund	Accounts for a 5 percent tax to be used in economic development and promotion of tourism.
Emergency 911 Fund	Accounts for the City’s share of E911 customer assessment that is restricted for public safety use.
ODOC Grant Fund	Accounts for grant monies received for flood and drainage projects.
FAA Grant Fund	Accounts for grant monies received for airport projects

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Cemetery Care Fund Accounts for a portion of cemetery revenue restricted by State law for cemetery capital improvements.

ODOT Grant Fund Accounts for grant monies received for construction of industrial development access road.

- Capital Project Fund – are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project funds:

<u>Nonmajor Fund</u>	<u>Brief Description</u>
Capital Improvement Fund	Accounts for transfers from other funds and grant monies to be used for major capital improvements
Landfill Improvement Fund	Accounts for monies set aside for use in landfill improvements.
Economic Development Construction Fund	Accounts for loan monies and sales tax restricted for use in economic development projects.
Drainage Improvement Fund	Accounts for monies set aside for drainage improvement projects.

- Debt Service Fund – accounts for ad valorem taxes levied by the City for use in retiring court assessed judgments, general obligation bonds, and their related expenditures.

Aggregated Non-Major Funds are reported as Other Governmental Funds.

The governmental funds are reported on the modified accrual basis of accounting. On the modified accrual basis of accounting, revenues are recorded when earned and measurable and available to pay current financial obligations, while expenditures are recorded when incurred and normally due and payable from current financial resources. The City defines revenue availability as collected within 60 days of period end.

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 accrual basis of accounting and economic resources measurement focus at the government-wide level.

Proprietary Funds:

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds include enterprise funds and internal service funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are used to account for business-like activities provided to other funds or departments of the City. Proprietary funds are reported on the accrual basis of accounting and 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. For the enterprise funds, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The City's proprietary fund is as follows:

Enterprise Fund

- Altus Municipal Authority Fund that accounts for the activities of the public trust in providing electric, water, sewer, and sanitation services to the public.

Internal Service Funds (combined for reporting purposes)

- Workers Compensation Fund that accounts for charges to the operating funds of the City used to pay worker's compensation claims.
- Assurance Fund that accounts for charges to the operating funds of the City used to pay the expenses of the City's group health and life insurance plans.

Fiduciary Funds:

The City's fiduciary funds are used to report net assets and changes therein of assets held by the City in a trustee or fiduciary capacity. These net assets are not available for operations of the City. The City presently includes no trust or pension funds, but does include one agency fund: Flex Benefit Plan. It accounts for employee withholdings under the City's Section 125 Plan.

Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of changes in net assets. The fiduciary fund is reported on the accrual basis of accounting and economic resources measurement focus.

3. Cash and Cash Equivalents, Deposits 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 investments. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

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

Investments for the City, as well as for its component unit, are reported at fair value. Investments consist of long-term certificates of deposit, and are reported at cost.

Deposits and Investments Risks

The City of Altus primary government and blended component units are governed by the deposit and investment limitations of state law and trust indentures. The deposits and investments held at June 30, 2012 by these entities are as follows:

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Type	Fair Value	Credit Rating	Maturities in Years				
			On Demand	Less Than One	1 - 5	6 - 10	More than 10
Demand deposits	\$ 10,584,103	n/a	\$ 10,584,103	\$ -	\$ -	\$ -	\$ -
Time deposits	7,850,000	n/a	-	6,850,000	-	-	1,000,000
Total Deposits and Investments	\$ 18,434,103		\$ 10,584,103	\$ 6,850,000	\$ -	\$ -	\$ 1,000,000

Reconciliation to Financial Statements:

Cash and cash equivalents	\$ 17,392,272
Investments	1,000,000
Flex benefit fund cash and cash equivalents	41,831
	<u>\$ 18,434,103</u>

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City’s name.

The City’s policy as it relates to custodial credit risk is that all collateral pledged to secure public funds shall be valued at no more than market value. The collateralization level will be 110% of market value or principal and accrued interest. Collateral will be held by the City Clerk-Treasurer of the City of Altus or by an independent third party with whom the entity has a current custodial agreement. The City’s policy limits acceptable collateral to U.S. Treasury securities, federal mortgage debt guaranteed by the Federal Government to include: VA, FHA, GNMA, FNMA, FHLMC, and Federal Home Loan Bank Letters of Credit. In addition, collateral is limited to direct debt obligations of municipalities or counties in Oklahoma which hold an “A” rating or better. Also, as required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As of June 30, 2012, the City’s bank balances were not exposed to custodial credit risk.

Investment Credit Risk – The City’s investment policy limits investments, excluding retirement trust fund investments, to the following:

- a. Direct obligations of the U. S. Government, its agencies and instrumentalities;
- b. Savings accounts at savings and loans associations, banks, and credit unions, to the extent that the amounts are fully insured by the Federal Deposit Insurance Corporation;
- c. Insured or fully collateralized negotiable certificates of deposit; or
- d. County, Municipal, or school district direct debt obligation for which an ad valorem tax may be levied.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City and retirement plan have no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s investment policy limits investment maturities as a

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means of managing its exposure to fair value losses arising from increasing interest rates. Emergency funds may be invested with maturities up to five (5) years from date of purchase. All other funds maturities will be no more than two (2) years from date of purchase.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City's investment policy requires diversification of investments and indicates that, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single financial institution.

Restricted Cash and Investments

The amounts reported as restricted assets of the Enterprise Fund on the statement of net assets are comprised of amounts held by the Altus Municipal Authority in accounts of the trustee bank for revenue notes, and other accounts with restricted uses. The restricted assets as of June 30, 2012 are as follows:

Restricted Cash and Investments:

Water Treatment Plant	\$ 141,574
MAPS	4,378,754
Oklahoma Municipal Power Association	165,428
Hotel Motel Revenue Tax	10,409
Water Treatment Plant	4,400,000
Series 2003 Sales Tax Revenue Note	234,765
Series 2005 Sales Tax Revenue Note	462,758
Series 2008 Sales Tax Revenue Note	183,115
Series 2009 Sales Tax Revenue Note	263,649
Series 2011 Sales Tax Revenue Note	3,856,360
Mountain Park Water Revenue Refunding Bond	930,055
	<u>\$ 15,026,867</u>

Reconciliation to Proprietary Statement of Net Assets:

Cash and cash equivalents, current	\$ 14,026,867
Investments, current	1,000,000
	<u>\$ 15,026,867</u>

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4. Accounts Receivable

Significant account receivable balances at June 30, 2012 were:

	Governmental Activities	Business-type Activities	Total
Accounts Receivable:			
Airport	\$ 26,137	\$ -	\$ 26,137
Fines / Penalties	296,212	-	296,212
Franchise	27,911	-	27,911
Alcoholic Beverage Tax	14,318	-	14,318
Cigarette Tax	23,304	-	23,304
Sales Tax	1,630,394	-	1,630,394
Use Tax	44,709	-	44,709
Miscellaneous Taxes	61,226	-	61,226
Other	369	-	369
Utilities	-	5,171,157	5,171,157
Gross receivables	2,124,580	5,171,157	7,295,737
Less: allowance for uncollectibles	(283,237)	(1,857,809)	(2,141,046)
Net receivables	<u>\$ 1,841,343</u>	<u>\$ 3,313,348</u>	<u>\$ 5,154,691</u>

5. Capital Assets and Depreciation

Capital Assets:

For the primary government and component units, capital assets are reported at actual or estimated historical cost, net of accumulated depreciation where applicable. Donated capital assets are reported at their fair value at date of donation. Estimated historical cost was used to value the majority of the capital assets acquired prior to June 30, 1992. The capitalization threshold is capital assets with a cost of \$2,500 or more. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
PRIMARY GOVERNMENT				
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,217,403	\$ -	\$ -	\$ 1,217,403
Construction in progress	1,748,420	-	(1,748,420)	-
Total capital assets not being depreciated	<u>2,965,823</u>	<u>-</u>	<u>(1,748,420)</u>	<u>1,217,403</u>
Other capital assets:				
Buildings and improvements	10,479,505	1,293,693	-	11,773,198
Machinery and equipment	6,478,062	44,080	-	6,522,142
Infrastructure	756,387	701,005	-	1,457,392
Total other capital assets	<u>17,713,954</u>	<u>2,038,778</u>	<u>-</u>	<u>19,752,732</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,314,359)	(259,900)	-	(6,574,259)
Machinery and equipment	(5,189,319)	(503,238)	-	(5,692,557)
Infrastructure	(105,212)	(29,216)	-	(134,428)
Total accumulated depreciation	<u>(11,608,890)</u>	<u>(792,354)</u>	<u>-</u>	<u>(12,401,244)</u>
Other capital assets, net	<u>6,105,064</u>	<u>1,246,424</u>	<u>-</u>	<u>7,351,488</u>
Governmental activities capital assets, net	<u>\$ 9,070,887</u>	<u>\$ 1,246,424</u>	<u>\$ (1,748,420)</u>	<u>\$ 8,568,891</u>
	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,304,662	\$ -	\$ -	\$ 1,304,662
Construction in progress	57,017	-	(57,017)	-
Total capital assets not being depreciated	<u>1,361,679</u>	<u>-</u>	<u>(57,017)</u>	<u>1,304,662</u>
Other capital assets:				
Buildings and improvements	31,890,208	-	-	31,890,208
Machinery and equipment	6,315,656	-	-	6,315,656
Water rights	24,647,726	-	-	24,647,726
Infrastructure	23,615,467	282,761	-	23,898,228
Total other capital assets	<u>86,469,057</u>	<u>282,761</u>	<u>-</u>	<u>86,751,818</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,610,088)	(813,440)	-	(8,423,528)
Machinery and equipment	(4,491,936)	(402,270)	-	(4,894,206)
Water rights	(11,627,677)	(642,289)	-	(12,269,966)
Infrastructure	(17,052,656)	(376,959)	-	(17,429,615)
Total accumulated depreciation	<u>(40,782,357)</u>	<u>(2,234,958)</u>	<u>-</u>	<u>(43,017,315)</u>
Other capital assets, net	<u>45,686,700</u>	<u>(1,952,197)</u>	<u>-</u>	<u>43,734,503</u>
Business-type activities capital assets, net	<u>\$ 47,048,379</u>	<u>\$ (1,952,197)</u>	<u>\$ (57,017)</u>	<u>\$ 45,039,165</u>

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Depreciation:

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

- Buildings 15-50 years
- Improvements other than buildings 5-100 years
- Infrastructure 25-100 years
- Furniture, equipment, and vehicles 2-40 years
- Water rights 40 years

Depreciation of capital assets and amortization of water rights 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	\$ 150,646
Public safety	318,921
Public works	201,795
Cultural and recreation	120,992
Economic development	-
Total depreciation expense - governmental activities	\$ 792,354

Business-type activities

Electric	\$ 241,054
Water/wastewater	1,580,711
Sanitation	56,045
Landfill	91,105
Administration/services	266,043
Total depreciation expense - business-type activities	\$ 2,234,958

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6. Internal and Interfund Balances and Transfers

Internal Balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>	
Economic Development	Enterprise Fund	\$ 390,099	Construction payable	
General Fund	Enterprise Fund	1,659,123	Cash flow needs	
Enterprise Fund	General Fund	884,988	Reimbursement	
Enterprise Fund	Debt Service Fund	18,000	Court awards	
Total		<u>\$ 2,952,210</u>		
		<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Net Internal Balances</u>
Reconciliation to Fund Financial Statements:				
	Governmental Funds	\$ 2,049,222	\$ 902,988	\$ 1,146,234
	Proprietary Funds	902,988	2,049,222	(1,146,234)
	Total	<u>\$ 2,952,210</u>	<u>\$ 2,952,210</u>	<u>\$ -</u>

Internal and Interfund Transfers:

The City's policy is to eliminate interfund transfers between funds in the statement of activities to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and then offset in the total column. Internal activities between funds and activities for the year ended June 30, 2012 were as follows:

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<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Nature of Interfund Transfer</u>
Enterprise Fund	General Fund	\$ 7,596,468	Transfer of revenue
Emergency Fund	General Fund	295,980	Stabilizing budgetary needs
Emergency Fund	Enterprise Fund	713,920	
Capital Improvement	General Fund	103,663	Capital assets
Workers' Compensation	General Fund	45,000	Internal service activity
Donation Fund	General Fund	5,235	C.A.R.E. program
Emergency 911 Fund	General Fund	94,880	Public safety needs
Enterprise Fund	ODOC Grant Fund	72,243	Transfer of revenue
Capital Improvement	Airport	2,803	Capital assets
Emergency Fund	Airport	7,005	Stabilizing budgetary needs
Enterprise Fund	Hotel/Motel Tax Fund	70,646	Transfer of revenue
Capital Improvement	Emergency 911 Fund	1,342	Capital assets
Emergency Fund	Emergency 911 Fund	3,355	Stabilizing budgetary needs
Donation Fund	Cemetery Perpetual Fund	5,126	C.A.R.E. program
Capital Improvement	Enterprise Fund	300,406	Capital assets
General Fund	Enterprise Fund	1,945,498	Debt service
Hotel/Motel Tax Fund	Enterprise Fund	337,240	Debt service
Workers' Compensation	Enterprise Fund	172,699	Internal service activity
Donation Fund	Enterprise Fund	15,500	C.A.R.E. program
Airport	Enterprise Fund	114,770	Transfer of revenue
		<u>\$ 11,903,779</u>	

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>	<u>Net Transfers</u>
<u>Reconciliation to Fund Financial Statements:</u>			
Governmental Funds	\$ (5,245,777)	\$ 6,997,231	\$ 1,751,454
Altus Municipal Authority	(6,658,002)	4,688,849	(1,969,153)
Internal Service Funds	-	217,699	217,699
Total	<u>\$(11,903,779)</u>	<u>\$ 11,903,779</u>	<u>\$ -</u>

Reconciliation to Statement of Activities:

Net Transfers	<u>\$ 1,969,153</u>
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7. Long-Term Debt

The City's long term debt consists of notes, capital lease obligations, accrued compensated absences, and contracts payable.

For the year ended June 30, 2012, the City's long-term debt balances changed as follows:

Primary Government:

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012	Due Within One Year
Governmental activities					
Capital lease obligations	3,636	-	(3,636)	-	-
Claims Liability	972,665	-	(383,602)	589,063	429,881
Compensated absences	895,566	85,715	-	981,281	177,754
Total governmental activities	<u>1,871,867</u>	<u>85,715</u>	<u>(387,238)</u>	<u>1,570,344</u>	<u>607,635</u>
Business-type activities					
Notes payable	21,889,868	4,865,500	(3,081,374)	23,673,994	2,624,460
Capital lease obligations	1,785,911	-	(442,528)	1,343,383	309,624
Contract obligations payable	9,489,960	-	(450,226)	9,039,734	465,885
Landfill closure and post-closure	1,664,113	271,459	-	1,935,572	-
Compensated absences	328,595	21,197	-	349,792	41,975
Total business-type activities	<u>35,158,447</u>	<u>5,158,156</u>	<u>(3,974,128)</u>	<u>36,342,475</u>	<u>3,441,944</u>
Total long-term debt	<u>37,030,314</u>	<u>5,243,871</u>	<u>(4,361,366)</u>	<u>37,912,819</u>	<u>4,049,579</u>

Business-type activities long-term debt payable from net revenues generated by and taxes pledged to the City's business-type activities include the following:

Note Payable:

Oklahoma Department of Commerce CDBG Note, original issue amount of \$232,183, dated October 2, 1998, issued by Altus Municipal Authority, secured by available utility revenues, with no interest, final maturity September 1, 2018. \$ 81,266

Altus Municipal Authority Utility Refunding Note, Series 2003, original issue amount of \$2,015,000, dated September 30, 2003, payable in annual installments ranging from \$190,000 to \$260,000, with interest at 3.85% due semi-annually, final maturity of September 1, 2012, secured by available utility revenues. 260,000

Oklahoma Municipal Power Association Loan, original issue amount of \$400,000, dated January 17, 2012. Debt service payments are due monthly with interest at 2.875%, final maturity March 1, 2019. 382,728

\$10,000,000 Altus Municipal Authority Sales Tax Revenue Note, Series 2008, dated December 24, 2008, due in quarterly installments of \$175,000 to \$275,000 plus interest at 4.00% beginning August 1, 2009, with final payment due November 1, 2020, secured by sales tax revenues from a special sales tax of 1.75% as approved by the voters of the City

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on August 26, 2009, proceeds to be used by the City and the Altus School District for capital improvements. 7,945,000

\$14,285,000 Altus Municipal Authority Sales Tax Revenue Note, Series 2009, dated March 25, 2009, due in quarterly installments of \$145,000 to \$385,000 plus interest at 4.25% beginning August 1, 2009, with final payment due November 1, 2020, secured by sales tax revenues from a special sales tax of 1.75%, proceeds to be used by the City and the Altus School District for capital improvements. 11,280,000

\$4,000,000 Altus Municipal Authority Sales Tax Revenue Note, Series 2011, dated March 25, 2009, due in quarterly installments of \$95,000 to \$130,000 plus interest at 2.94% beginning August 1, 2009, with final payment due November 1, 2020, secured by sales tax revenues from a special sales tax of 1.75%, proceeds to be used by the City and the Altus School District for capital improvements. 3,725,000

Total Notes Payable 23,673,994

Contract Obligation Payable:

\$ 11,709,765 contract obligation payable to the Mountain Park Master Conservancy District, due in 252 average monthly installments of \$79,284, with interest rates from 3.75% to 5.26, secured by a pledge of gross revenues of the water as approved by voters. 9,039,734

Capital Lease Obligation:

Capital lease with Caterpillar Financial Services, dated June 9, 2010, in the amount of \$330,000, with monthly payments of \$6,009, including interest at 3.50% through June 14, 2015, for the lease purchase of a scraper. 210,108

Capital lease with Oklahoma Municipal Power Authority, dated October 20, 2009, in the amount of \$1,870,467, with monthly payments of \$24,625, including interest at 5.081% through October 1, 2016, for the lease purchase of an electric substation. 1,129,862

Total capital lease obligations 1,339,970

Total business-type activities \$34,053,698

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

Year Ending June 30,	Notes Payable		Contract Obligation Payable	
	Principal	Interest	Principal	Interest
2013	\$ 2,624,459	\$ 888,357	\$ 465,885	\$ 459,570
2014	2,460,999	789,532	489,375	438,139
2015	2,567,584	691,764	508,950	415,139
2016	2,669,214	589,839	536,355	390,964
2017	2,785,893	483,743	559,845	363,610
2018 - 2022	10,565,845	793,614	3,280,770	1,356,930
2023 - 2026	-	-	3,198,554	419,985
Totals	<u>\$ 23,673,994</u>	<u>\$ 4,236,849</u>	<u>\$ 9,039,734</u>	<u>\$ 3,844,337</u>

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Capital Leases

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

The assets acquired through capital leases are as follows:

Asset:	Business-Type Activities
Equipment	\$ 1,450,000
Scraper	330,000
Electric substation	1,870,467
Total	\$ 3,650,467

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year Ending June 30,	Business-Type Activities
2013	\$ 367,610
2014	367,610
2015	367,610
2016	301,126
2017	76,457
Thereafter	-
Total required payments	1,480,413
Less: Amount representing interest	(140,443)
Total principal payments	\$ 1,339,970

Landfill Closure Liability

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

The \$1,935,572 reported as accrued landfill closure cost liability at June 30, 2012, represents the cumulative amount of such costs reported to date based on the use of 80% of the estimated capacity of the landfill. The Altus Municipal Authority will recognize the remaining estimated costs of closure and post-closure care in the amount of \$483,893 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2012. At June 30, 2012, the landfill had a remaining estimated useful life of approximately two years.

The City has qualified under the State of Oklahoma Department of Environmental Quality (DEQ) financial assurance test relating to these future closure and post-closure costs, whereby the City's overall

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financial condition and other submitted information serves as evidence of the City's ability to pay for the closure and post-closure care costs when the landfill is actually closed. As such, the city is not required to fund an escrow trust account for the costs.

8. Net Assets and Fund Balances

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.

At June 30, 2012, the City's governmental activities had total restricted net assets of \$2,726,397 of that amount \$2,713,885 was restricted by enabling legislation.

	Governmental Funds	Governmental Activities	Business-type Activities/Proprietary Funds
Statement of Activities:			
Beginning net assets as previously reported	\$ 3,678,729	\$ 11,423,540	\$ 19,328,481
Reclassify Emergency Fund to General Fund	1,073,734	1,073,734	(1,073,734)
Beginning net assets, restated	\$ 4,752,463	\$ 12,497,274	\$ 18,254,747

Fund Balance:

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54, 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.

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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 revenues in other 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.

The City’s policy for the use of 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.

The City has created a stabilization amount within the General Fund for the purpose of responding to qualified emergencies and events in order to minimize or stabilize the financial impact such emergencies have on existing resources previously budgeted for the various functions and departments of the City. At June 30, 2012, the General Fund has committed fund balance for stabilization of \$2,095,081.

	General Fund	Other Governmental Funds	Total
Fund Balance:			
Nonspendable inventory	\$ 17,269	\$ 64,557	\$ 81,826
Restricted for:			
Park development	-	(45,788)	(45,788)
Street development	-	230,332	230,332
Donor requirements	-	79,735	79,735
Grant programs	-	67	67
Airport operations	-	(163,771)	(163,771)
Economic development	-	1,057,307	1,057,307
General government programs	-	(242,892)	(242,892)
Capital improvements	-	1,734,338	1,734,338
Cemetery improvements	-	13,238	13,238
Debt service	-	(17,995)	(17,995)
	-	2,644,571	2,644,571
Committed to:			
Emergency Reserve	2,095,081	-	2,095,081
Unassigned	525,167	3,576	528,743
Total fund balance	\$ 2,637,517	\$ 2,712,704	\$ 5,350,221

9. Revenues

Program Revenues:

Revenues that are derived directly from each activity or from parties outside of the City’s taxpayers are reported as program revenues within the Statement of Activities. The City has the following program revenues in each activity:

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- Public Safety – Fire, Police, Ambulance – ambulance fees, fire run charges, officer’s training charges for services, police sentinel charges for services, restricted operating grants, 911 revenue, and restricted capital grants.
- Public Works – Commercial vehicle and gasoline excise tax shared by the State.
- Culture and recreation – lake fees, pool fees, library fees, hunting and fishing permits, softball fees, and operating grants.
- General Government – license and permits, fines and forfeitures, cemetery revenue, impact fees, operating grants and capital grants.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Sales Tax Revenue:

Sales tax revenue represents a 3.75 cents tax on each dollar of taxable sales which is collected by the Oklahoma Tax Commission and remitted to the City. Sales tax revenue is recorded as follows:

Initially the 3.75 cents is recorded in the General Fund. Then 1.75 cent tax is transferred as needed to Capital Improvements and Economic Development Construction Funds for the following projects: (1) 50% is used for (a) city hall construction and senior citizen center, (b) fire station renovation, and (c) economic development purposes; and (2) the remaining 50% is used for the construction of a high school, which was approved by the majority of voters in August 2008.

10. 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 – Covered through an insurance provider with a \$10,000 deductible.
- Physical Property – Covered through an insurance provider with a \$10,000 deductible on most items.
- Workers’ Compensation – Workers’ compensation was covered through self-insurance using a third party processor to process claims from July 2011 through December 2011. Effective January 2012, the City converted to a policy held with an insurance provider.
- Employee’s Group Medical –Covered through purchase insurance.

Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

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	Workers' Compensation
Claim liability, June 30, 2011	\$ 972,665
Claims and changes in estimates	(50,119)
Claims payments	(333,483)
Claim liability, June 30, 2012	\$ 589,063

Note: Detailed data prior to June 30, 2011 is not available.

11. Retirement Plan Participation

The City of Altus participates in five employee pension systems:

1. Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma – a defined benefit plan.
2. Oklahoma Municipal Retirement Fund (OMRF) – a defined contribution plan.
3. Oklahoma Municipal Retirement Fund – a defined contribution plan – CMO Plan.
4. Oklahoma Police Pension and Retirement System (OPPRS) - a statewide cost-sharing plan
5. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan

Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma

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

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

A participant who becomes totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and

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service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age.

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

Funding Policy – The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan. The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2012. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases based on the age of the employee.

The total actuarial liability exceeded the net assets available for benefits by \$4,685,431 at January 1, 2012, as follows:

Actuarial accrued liability	20,496,632
Net assets available for benefits (actuarial value)	<u>(15,811,201)</u>
Unfunded actuarial accrued liability	<u><u>4,685,431</u></u>

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

For the year ended June 30, 2012, employees were required to contribute 4% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City's contribution rate, for the year ended June 30, 2012, was 13.80%. Contributions to the Plan for payroll for the year ended June 30, 2012, for employees and employer were \$226,321 and \$734,261, respectively. For the year ended June 30, 2012, the City's covered payroll was \$5,684,027. Covered payroll refers to all compensation paid by the City of Altus to active employees covered by the Plan on which contributions are based.

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Oklahoma Municipal Retirement Fund

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

Funding Policy – Benefits depend on solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate after six months of employment and voluntarily select their before-tax percentage-of-contribution up to 15% of compensation. By City ordinance, the City, as the employer, is required to make variable contributions to the Plan based on availability of funds. As of July 2002, City contributions were 1.49% of gross salary. The employee is fully vested after ten years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the Plan rests with the City Commission.

For the year ended June 30, 2012, the following amounts related to actual contributions to the Plan:

Employees' contributions made	\$ 77,221
Employer (City) contributions made	\$ 83,613

Oklahoma Municipal Retirement Fund – Defined Contribution Plan – CMO Plan

Plan Description – In addition to the above plans, the City provided a defined contribution plan in the form of the Oklahoma Municipal Retirement Fund Customized Manager Option Plan (OMRF – CMO Plan). The CMO – Plan is available to any person who is in the position of City Administrator.

Funding Policy – Employees are eligible to participate upon employment and voluntarily elect their percentage of contribution with a minimum contribution of 3% of compensation. The City makes contributions to the CMO – Plan based on the employment agreement with the employee and employer contributions are immediately vested. The authority to establish and amend the provisions of the CMO – Plan rests with the City Commission.

For the year ended June 30, 2012, the following amounts related to actual contributions to the Plan:

Employees' contributions made	\$ 1,269
Employer (City) contributions made	\$ 2,538

Oklahoma Firefighter's and Police Pension and Retirement Systems

The City of Altus, as the employer, participates in two statewide cost-sharing multiple employer defined benefit plans on behalf of the firefighters and police officers. The systems are funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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	<u>Oklahoma Police Pension and Retirement System</u>	<u>Oklahoma Firefighter's Pension and Retirement System</u>
Obtaining separately issued financial statements	Police Pension and Retirement 1001 N.W. 63rd St., Suite 605 Oklahoma City, OK 73116-7335	Oklahoma Firefighter's Pension and Retirement System 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time officers, employed by a participating municipality, not less than 21 years of age or more than 45 years of age when hired	All full-time or voluntary firefighters of a participating municipality hired before age 45.
Authority establishing contribution obligations and benefits	State Statute	State Statute
Employee's contribution rate (percent of covered payroll)	8%	8%
City's contribution rate (percent of covered payroll)	13%	13%
State obligation	State appropriation to fund the unfunded actuarial accrued liability	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years	10 years
Eligibility and benefits for distribution (full-time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	-	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited service with additional option to participate in Louisiana Plan.	Yes, 20 years credited service with continued service for a maximum of 30 or more years.
Provisions for:		
Cost of living adjustments (normal retirement)	Yes	Yes, if vested by May 1983
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

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Retirement Plan Contributions – OFPRS and OPFRS Cost-Sharing Plans

Oklahoma Police Pension and Retirement System			Oklahoma Firefighter's Pension and Retirement System		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2010	\$ 240,503	100%	2010	\$ 207,545	100%
2011	253,014	100%	2011	210,417	100%
2012	245,454	100%	2012	218,408	100%

12. Commitments and Contingencies

Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the City. While the outcome of the above noted proceedings 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.

Grant Programs

The City of Altus participates in various federal or state grant/loan programs from year to year. In 2012, the City's involvement in federal and state award programs is relatively 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. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

13. Material Non-Compliance

In the General Fund, the City had expenditures exceeding appropriations at the legal level of control in the following departments and for the following amounts:

General Fund – Police - \$47,809
General Fund – Fire - \$433,941

State law prohibits negative fund balance. The following funds had negative fund balance at June 30, 2012:

Airport	\$ (99,214)
Emergency 911	(242,892)
Parks Development	(45,788)
Debt Service	(17,995)

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REQUIRED SUPPLEMENTARY INFORMATION

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

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budget basis)	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 1,694,807	\$ 1,694,807	\$ 1,694,807	\$ -
Resources (Inflows):				
Taxes and assessments	10,278,893	10,278,894	10,414,490	135,596
Fees, licenses and permits	124,000	124,000	85,483	(38,517)
Charges for services	275,313	264,988	316,117	51,129
Fines and forfeitures	278,992	287,716	259,101	(28,615)
Interest earned	3,050	3,050	3,824	774
Other sources	98,300	98,300	88,298	(10,002)
Intergovernmental	250,000	250,000	377,555	127,555
Total Resources (Inflows)	<u>11,308,548</u>	<u>11,306,948</u>	<u>11,544,868</u>	<u>237,920</u>
Amounts available for appropriation	<u>13,003,355</u>	<u>13,001,755</u>	<u>13,239,675</u>	<u>237,920</u>
Charges to Appropriations (Outflows):				
General Government and Administration	4,015,313	4,043,095	3,709,779	333,316
Community Development	-	-	-	-
Public Works and Maintenance	1,290,622	1,261,408	1,059,477	-
Parks and Recreation	1,958,200	1,877,985	1,659,587	218,398
Public Safety	6,168,389	6,162,682	6,635,029	(472,347)
Total Charges to Appropriations	<u>13,432,524</u>	<u>13,345,170</u>	<u>13,063,872</u>	<u>281,298</u>
Other financing sources (uses)				
Transfers from other funds	7,021,085	7,021,085	6,353,506	(667,579)
Transfers to other funds	(4,987,312)	(4,987,312)	(4,866,266)	121,046
Total other financing sources (uses)	<u>2,033,773</u>	<u>2,033,773</u>	<u>1,487,240</u>	<u>(546,533)</u>
Ending Budgetary Fund Balance	<u>\$ 1,604,604</u>	<u>\$ 1,690,358</u>	<u>\$ 1,663,043</u>	<u>\$ (27,315)</u>

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules and budgetary fund balance amounts are reported on a non-GAAP basis that report revenues on a cash basis, and expenditures in the period the invoice is received, except for payroll expenditures that are recorded when paid. In addition, obligations that are required to be funded from ending budgetary fund balances are subtracted from total ending budgetary fund balances to arrive at the unreserved budgetary fund balance. This presentation of unreserved fund balances on a budgetary basis is used to demonstrate compliance with Article 10, § 26 of the Oklahoma State Constitution.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require the approval of the City Manager. All supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.
3. The budgetary basis differs from the modified accrual (GAAP) basis as shown in the schedule below:

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	Fund Balance June 30, 2012
Budget to GAAP Reconciliation:	
Fund Balance - GAAP Basis	\$ (2,637,517)
Increases (Decreases):	
Revenues:	
Accounts receivable	(1,753,980)
On-behalf payments	657,277
Expenditures:	
Accrued payroll	(220,892)
Encumbrances	193,128
Other items	3,860
Accounts of the General Fund:	
Emergency Fund	2,095,081
Fund Balance - Budgetary Basis	\$ (1,663,043)

4. In the General Fund, the City had expenditures exceeding appropriations at the legal level of control in the following departments and for the following amounts:

General Fund – Police - \$47,809
General Fund – Fire - \$433,941

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Schedule of Funding Progress – Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	EAN	Unfunded AAL (UAAL) (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2012	\$ 15,811,201	\$ 20,496,632	EAN	\$ (4,685,431)	77.1%	\$ 5,544,553	84.5%
January 1, 2011	15,325,690	19,675,946	EAN	(4,350,256)	77.9%	5,868,590	74.1%
January 1, 2010	14,220,590	18,406,843	EAN	(4,186,253)	77.3%	5,864,211	71.4%
January 1, 2009	13,706,405	17,128,211	EAN	(3,421,806)	80.0%	5,365,391	63.8%
January 1, 2008	14,409,141	15,996,679	EAN	(1,587,538)	90.1%	4,904,734	32.4%
January 1, 2007	13,891,579	15,156,045	EAN	(1,264,466)	91.7%	4,722,591	26.8%
January 1, 2006	14,015,541	14,772,829	EAN	(757,288)	94.9%	4,368,011	17.3%
January 1, 2005	13,491,412	14,452,756	EAN	(961,344)	93.3%	4,708,511	20.4%
January 1, 2004	13,019,257	13,275,713	EAN	(256,456)	98.1%	4,230,289	6.1%
January 1, 2003	12,593,195	12,759,189	EAN	(165,994)	98.7%	4,083,685	4.1%

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OTHER SUPPLEMENTARY INFORMATION

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Schedule of Changes in Fund Balances – General Fund Accounts and Non-Major Governmental Funds

<u>Fund</u>	<u>Fund Balance 7/1/2011</u>	<u>Changes in Fund Balance</u>	<u>Fund Balance 6/30/2012</u>
General Fund Accounts:			
General Fund	\$ 710,554	\$ (168,118)	\$ 542,436
Emergency Fund	1,073,734	1,021,347	2,095,081
Total General Fund Accounts	<u>\$ 1,784,288</u>	<u>\$ 853,229</u>	<u>\$ 2,637,517</u>
Special Revenue Funds:			
ODOC Grant Fund	\$ 59	\$ 8	\$ 67
Altus Donation Fund	66,211	13,524	79,735
Airport Fund	106,590	(205,804)	(99,214)
Hotel/Motel Tax Fund	136,534	(57,377)	79,157
Street & Alley Fund	85,239	145,093	230,332
Emergency E-911 Fund	(6,593)	(236,299)	(242,892)
Parks Development Fund	64,076	(109,864)	(45,788)
Capital Project:			
Capital Improvement Fund	605,142	340,641	945,783
Economic Development Construction Fund	1,107,607	(129,457)	978,150
Landfill Improvement Fund	679,692	-	679,692
Cemetery Perpetual Fund	14,755	2,059	16,814
Drainage Improvement Fund	108,863	-	108,863
Debt Service	-	(17,995)	(17,995)
Total Non Major Special Revenue	<u>\$ 2,968,175</u>	<u>\$ (255,471)</u>	<u>\$ 2,712,704</u>

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Debt Service Coverage Schedule - Year Ended June 30, 2012

DEBT SERVICE COVERAGE:

	<u>Utility Refunding Revenue Note Series 2003</u>
GROSS REVENUE AVAILABLE:	
Charges for services (all utility revenues)	\$ 28,943,896
Investment income	415,063
Total Gross Revenue Available	<u>29,358,959</u>
OPERATING EXPENSES:	
Total Operating Expenses	<u>20,272,474</u>
Net Revenue Available for Debt Service	<u>\$ 9,086,485</u>
Maximum Annual Debt Service on all Obligations Payable From Revenues of the System	<u>\$ 4,034,011</u>
Computed Coverage	<u>225%</u>
Coverage Requirement	<u>125%</u>

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INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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.

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 as items 2012-1 and 2012-2.

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

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

Arledge & Associates, P.C.

Edmond, Oklahoma
July 2, 2013

CITY OF ALTUS, OKLAHOMA

**SUMMARY SCHEDULE OF AUDIT FINDINGS
Year Ended June 30, 2012**

Finding 2012-01 Expenditures in Excess of Budgeted Appropriations

Criteria: Oklahoma State law requires that municipal expenditures not exceed the legally appropriated amounts.

Condition: Expenditures in the police and fire departments within the general fund exceed budgeted appropriations by \$47,809 and \$433,941, respectively.

Cause and Effect: Expenditures were approved during the year without the necessary related budget amendments resulting in budget overruns.

Recommendation: We recommend management review budget-to-actual expenditures at or near the end of each year and propose budget amendments as needed. In addition, when contemplating large expenditures, we recommend the necessary budget amendment be presented at the time of request for approval of the acquisition.

City Response: We will implement the actions recommended above.

Finding 2012-02 Negative Fund Balances

Criteria: Oklahoma State law prohibits negative fund balances.

Condition: The following funds had negative fund balances at June 30, 2012:

Airport	\$ (99,214)
Emergency 911	(242,892)
Parks Development	(45,788)
Debt Service	(17,995)

Cause and Effect: Transfers from the general fund were not made to these funds during the course of the year.

Recommendation: We recommend transfers be made from the general fund to increase the fund balances to a positive number.

City Response: All transfers made routinely by City staff, but without a clear understanding of their origins and purposes were halted during the year until a review could be completed. We will implement the actions recommended above.

CITY OF ALTUS, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

Finding 2011-01 Collateralization of Deposits

Criteria: The City's investment policy states, "All collateral pledged to secure public funds shall be valued at no more than market value. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest."

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

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

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

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

Current Status: Resolved.

Finding 2011-02 Daily Deposit of Receipts

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

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

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

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

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

CITY OF ALTUS, OKLAHOMA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)
Year Ended June 30, 2011**

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

Current Status: Resolved for all material purposes.

Finding 2011-03 Airport Fuel Sales

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

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

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

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

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

Current Status: Resolved for all material purposes.