

City of Altus, Oklahoma

Report on Audit of

Financial Statements

June 30, 2006

City of Altus, Oklahoma
Report on Audit of Financial Statements
June 30, 2006
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City of Altus, Oklahoma Organizational Chart

City Council

T.L. Gramling, Mayor

Jerry Don Henry

David Webb

Dean Garrett

Peggy Risinger

Bob Beers

Donald Jouett

Sid Willis

Don Johnson

Administrator

Michael R. Nettles

Clerk/Treasurer

LaJune White

Finance Director

Joe Don Dunham

Independent Auditor's Report

October 27, 2006

City Commissioners
City of Altus
Altus, Oklahoma

I 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, as of and for the year ended June 30, 2006, which collectively comprise the City of Altus' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altus' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Altus' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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. I believe that my audit provides a reasonable basis for my opinion.

As further discussed in Note V.C., the City of Altus, through the Altus Municipal Authority, has approximately \$ 6.8 million of investments in a developmental stage private company in the form of notes receivables, investments pledged as collateral to secure debt, and lease financing receivables that are at risk of loss. I was unable to adequately substantiate management's valuation assertion concerning these balances.

In my opinion, based on my audit and except for the above noted qualification, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Joseph E. Carlson, CPA

In accordance with *Government Auditing Standards*, I have also issued my report dated October 27, 2006, on my consideration of the City of Altus' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 46 through 47 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. The information in the combining statements has been subjected to the auditing procedures applied, by me, in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

City of Altus, Oklahoma
Management's Discussion and Analysis
June 30, 2006

The following discussion and analysis of the City of Altus' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 13.

Financial Highlights

- ❖ The assets of the City of Altus exceeded its liabilities at the close of the most recent fiscal year by \$ 36,590,704 (net assets). Of this amount, \$ 8,288,141 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$ 14,871,661 is invested in capital assets, net of related debt.
- ❖ The government's total net assets increased by \$ 3,931,744 for the year ended June 30, 2006. General revenues; primarily sales, franchise and other taxes; increased by \$ 1,087,542 from the prior fiscal year.
- ❖ As of the close of the current fiscal year, the City of Altus' governmental funds reported combined ending fund balances of \$ 3,535,037, an decrease of (\$ 286,597) in comparison with the prior year ending fund balances. The focus of the governmental funds, in contrast to the government-wide fund statements is to provide current information on inflows, outflows, and balances of spendable resources.
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 620,801, or 5.67 % of total general fund expenditures and the unrestricted net assets of the Altus Municipal Authority was \$ 8,035,339.
- ❖ The City of Altus' total debt increased by \$ 884,004, during the current fiscal year. The key factors in this increase were the issuance of new debt to finance the retirement of interim construction indebtedness and provide additional funds for construction.
- ❖ The budgeted ending fund balance was \$ 544,309 and the actual ending fund balance was \$ 1,169,549.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the City of Altus itself (known as the primary government), but also the legally separate authorities (Altus Municipal Authority) for which the City of Altus is financially accountable. Financial information for the Altus Municipal Authority component units is blended with the primary government itself.

The government-wide financial statements can be found on pages 13–15 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 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 is considered to be a major fund. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16–18 of this report.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for electricity, water, sewer, and sanitation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its workers' compensation, and to pay for the City's group health and life insurance activities. Because this service predominantly benefits governmental rather than business-type functions, its operations have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Altus Municipal Authority. The presented internal service funds are in the proprietary fund financial statements in the combining statements elsewhere in the report.

The basic proprietary fund financial statements can be found on pages 19–22 of this report.

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

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

The fiduciary fund financial statements can be found on page 23 of the report.

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

The notes to the financial statements can be found on pages 24–45 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 45–46 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental fund. Combining statements and schedules can be found on pages 48–56 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$ 36,590,704 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (\$ 14,871,661) 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 and cash available for additional fixed asset activity. The City uses these capital assets to provide services to citizens; consequently, these

assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Altus
Net Assets
June 30, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 4,379,906	\$ 4,947,643	\$ 9,954,114	\$ 7,132,973	\$ 14,334,020	\$ 12,080,616
Capital and other	8,988,896	8,216,042	38,079,992	38,810,939	47,068,888	47,026,981
Other non-current assets			13,464,191	13,966,191	13,464,191	13,966,191
Total assets	<u>13,368,802</u>	<u>13,163,685</u>	<u>61,498,297</u>	<u>59,910,103</u>	<u>74,867,099</u>	<u>73,073,788</u>
Current liabilities	1,056,165	1,186,293	4,356,473	3,935,594	5,412,638	5,121,887
Long-term liabilities	814,553	762,149	32,049,204	31,763,792	32,863,757	32,525,941
Total liabilities	<u>1,870,718</u>	<u>1,948,442</u>	<u>36,405,677</u>	<u>35,699,386</u>	<u>38,276,395</u>	<u>37,647,828</u>
Net assets:						
Invested in capital assets, net of related debt	8,911,350	8,102,095	5,960,311	7,041,899	14,871,661	15,143,994
Restricted	2,333,932	2,195,917	11,096,970	9,369,576	13,430,902	11,565,493
Unrestricted	252,802	917,231	8,035,339	7,799,242	8,288,141	8,716,473
Total net assets	<u>\$ 11,498,084</u>	<u>\$ 11,215,243</u>	<u>\$ 25,092,620</u>	<u>\$ 24,210,717</u>	<u>\$ 36,590,704</u>	<u>\$ 35,425,960</u>

An additional portion of the City's net assets (\$ 13,430,902) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 8,288,141) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$ 1,164,744 during the current fiscal year. This increase represents the excess of overall revenues over expenses.

Governmental activities. For the year ended June 30, 2006, governmental activities increased the City's net assets by \$ 282,841. The key element of this increase in net assets was the improvement in sales tax revenues offset by larger expenditures for public safety.

City of Altus
Statement of Activities
June 30, 2006 and 2005

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 1,023,743	\$ 948,137	\$ 22,418,102	\$ 19,038,503	\$ 23,441,845	\$ 19,986,640
Grants/contributions	539,680	1,978,627	95,000	38,278	634,680	2,016,905
General revenues	8,208,602	7,746,297	975,965	506,378	9,184,567	8,252,675
Total revenues	<u>9,772,025</u>	<u>10,673,061</u>	<u>23,489,067</u>	<u>19,583,159</u>	<u>33,261,092</u>	<u>30,256,220</u>
Expenses:						
General government/ administration	2,766,900	2,410,311			2,766,900	2,410,311
Public safety	5,751,636	5,229,917			5,751,636	5,229,917
Public works and maintenance	1,445,474	1,561,027			1,445,474	1,561,027
Parks and recreation	1,202,714	1,135,482			1,202,714	1,135,482
Utilities			17,623,066	14,084,188	17,623,066	14,084,188
Sanitation			699,911	690,497	699,911	690,497
Airport	487,435	408,832			487,435	408,832
Wastewater			817,604	910,574	817,604	910,574
Landfill			525,083	545,038	525,083	545,038
Economic development	313,731	352,464	456,911	158,004	770,642	510,468
Other	5,883	5,407			5,883	5,407
Total liabilities	<u>11,973,773</u>	<u>11,103,440</u>	<u>20,122,575</u>	<u>16,388,301</u>	<u>32,096,348</u>	<u>27,491,741</u>
Increase (decrease) in net assets before transfers	(2,201,748)	(430,379)	3,366,492	3,194,858	1,164,744	2,764,479
Transfers, net	<u>2,484,589</u>	<u>2,120,045</u>	<u>(2,484,589)</u>	<u>(2,120,045)</u>		
Increase (decrease) in net assets	282,841	1,689,666	881,903	1,074,813	1,164,744	2,764,479
Net assets, beginning	<u>11,215,243</u>	<u>9,525,577</u>	<u>24,210,717</u>	<u>23,135,904</u>	<u>35,425,960</u>	<u>32,661,481</u>
Net assets, ending	<u>\$ 11,498,084</u>	<u>\$ 11,215,243</u>	<u>\$ 25,092,620</u>	<u>\$ 24,210,717</u>	<u>\$ 36,590,704</u>	<u>\$ 35,425,960</u>

The following table provides a comparison of the revenues and expenses relative to the major functional areas of the governmental activities

City of Altus				
Governmental Activities				
<u>June 30, 2006 and 2005</u>				
	<u>Program Revenues</u>		<u>Cost of Service</u>	
	2006	2005	2006	2005
General government and administration	\$ 95,475	\$ 458,261	\$ (2,671,425)	\$ (1,952,050)
Public safety	510,602	515,538	(5,241,034)	(4,714,399)
Public works and maintenance	165,009	672,952	(1,280,465)	(888,075)
Parks and recreation	112,963	193,245	(1,089,751)	(942,217)
Economic development	276,476		(37,255)	(352,464)
Airport	402,898	1,086,768	(84,537)	677,936
Interest on long-term debt			(5,883)	(5,407)
Total revenues	<u>\$ 1,563,423</u>	<u>\$ 2,926,764</u>	<u>\$ (10,410,350)</u>	<u>\$ (8,176,676)</u>

Business-type activities. Business-type activities increased the City's net assets by \$ 881,903. The key element of this increase was the improvement in overall revenues.

City of Altus				
Business-Type Activities				
<u>June 30, 2006 and 2005</u>				
	<u>Program Revenues</u>		<u>Cost of Service</u>	
	2006	2005	2006	2005
Sanitation	\$ 1,213,789	\$ 1,116,853	\$ 513,878	\$ 426,356
Water	3,345,535	2,822,618	(196,244)	(190,724)
Electric	16,427,997	13,607,832	2,346,710	2,575,264
Wastewater	1,015,372	953,013	197,768	42,439
Landfill	510,409	538,187	(14,674)	(6,851)
Economic development			(456,911)	(158,004)
Total	<u>\$ 22,513,102</u>	<u>\$ 19,038,503</u>	<u>\$ 2,390,527</u>	<u>\$ 2,688,480</u>

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,535,037, a decrease of (\$ 286,597) for the fiscal year. A portion of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for capital improvements, or 2) to pay debt service.

The general fund is the chief operating fund of the City. As of the end of the current fiscal year, unreserved fund balance of the general fund was \$ 620,801.

The fund balance of the City's general fund increased by \$ 59,549 during the current fiscal year. The key factor in this increase was improved sales tax revenues.

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

Unrestricted net assets of the Altus Municipal Authority as of the end of the fiscal year amounted to \$ 8,035,339. Net assets increased by \$ 881,903 for the fiscal year. Operating revenues increased by \$ 3,338,903 over the previous year primarily due to increased electric sales revenues while operating expenses increased by \$ 3,768,946 primarily as the result of increases in purchased power costs.

General Fund Budgetary Highlights

There were slight differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$ 9,057,662 were \$ 561,351 more than the estimated revenues in the budget of \$ 8,496,331. Actual expenditures of \$ 10,668,192 were \$ 603,741 less than the \$ 11,271,933 approved in budget appropriations. After net transfers of \$ 2,146,753, the City added \$ 536,223 to its carry forward funds.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$ 47,068,888 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

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

- Continued construction of a water treatment plant
- Purchased a dozer for the landfill
- Navajoe Gateway construction
- Auditorium and library construction projects

City of Altus
Capital Assets
June 30, 2006 and 2005

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 783,322	\$ 783,322	\$ 649,662	\$ 620,662	\$ 1,432,984	\$ 1,403,984
Construction in progress	442,382	500,384	11,165,539	10,719,312	11,607,921	11,219,696
Buildings and improvements	4,653,043	4,343,825	168,800	50,227	4,821,843	4,394,052
Machinery and equipment	1,617,156	1,278,203	669,161	770,770	2,286,317	2,048,973
Infrastructure	1,492,993	1,310,308			1,492,993	1,310,308
Intangible water rights			16,157,206	16,773,399	16,157,206	16,773,399
Utility property			9,269,624	9,876,569	9,269,624	9,876,569
Capital assets, net	<u>\$ 8,988,896</u>	<u>\$ 8,216,042</u>	<u>\$ 38,079,992</u>	<u>\$ 38,810,939</u>	<u>\$ 47,068,888</u>	<u>\$ 47,026,981</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 33–34 of this report.

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$ 25,111,246.

City of Altus
Outstanding Debt
June 30, 2006 and 2005

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Capital lease obligations	\$ 77,546	\$ 113,947	\$ 226,554	\$ 335,371	\$ 304,100	\$ 449,318
Accrued compensated absences	374,112	324,112	141,061	124,659	515,173	448,771
Contract obligation payable			11,459,205	11,709,765	11,459,205	11,709,765
Notes payable			12,832,768	11,619,388	12,832,768	11,619,388
Total debt	<u>\$ 451,658</u>	<u>\$ 438,059</u>	<u>\$ 24,659,588</u>	<u>\$ 23,789,183</u>	<u>\$ 25,111,246</u>	<u>\$ 24,227,242</u>

The City's total debt increased by \$ 884,004 during the current fiscal year. The key factor in this increase was the issuance of additional debt to finance the payment of an interim construction loan and for funds for continued construction.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 35–39 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic factors play a large role in developing the budget for the City. The City of Altus faces some of the same economic challenges as the other cities in Oklahoma. Fiscal Year 2005-2006 presented a number of challenges which directly affect likely revenues and expenditures for the FY 06-07 budget. Some of these were striking increases in purchased power and the cost to operate our new water treatment plant, as well as gasoline, diesel and natural gas costs.

The fiscal year 2006-2007 budget focuses on priorities established by our elected officials and trustees as recommended by city leadership. General fund revenues and expenditures in the FY 2006-2007 budget have slight increases. Enterprise fund departments will see increases in expenses due to expected increases in operational costs such as the energy and operating supplies. As a result of these expected increases, the budget includes increases in electricity, water, sewer, sanitation and landfill rates.

The personnel services expense includes appropriations for the City's medical insurance, workers' compensation, cost of living allocations and step increases, as well as other personnel benefits. The City has realized a slight reduction in mandated contributions to the retirement fund. We also allocated anticipated increases as a result of negotiations of new contracts with the police and fire departments collective bargaining units.

The City of Altus has included revenue and expenditures for several capital improvements projects for FY 2006-2007. Some of these projects include improvements to the S.W. Wastewater Treatment Plan, Phase IV of Navajoe Gateway, and the continuation of the Hotel/Motel improvements at the City Library, Auditorium and Pool, a CDBG grant for the demolition of dilapidated structures and Street and Curb reconstruction. The City of Altus is also budgeting for an impressive number of pieces of equipment for purchase as capital outlay items to include 23 new patrol units, several new pickups, a side loader truck, and relocation of waterlines on North Park Lane.

All of these factors were considered in preparing the City's budget for the 2006 fiscal year.

Requests for Information

This financial report is designed to provide my citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Altus, 300 E. Commerce, Altus, Oklahoma 73521.

City of Altus, Oklahoma
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,047,694	\$ (200,943)	\$ 846,751
Investments	1,967,826	1,192,414	3,160,240
Receivables, net of allowance for uncollectibles:			
Accounts	98,183	3,428,748	3,526,931
Taxes	836,078		836,078
Accrued interest	9,089	60,397	69,486
Other		2,083,649	2,083,649
Court fines	195,177		195,177
Due from other governments	324,808		324,808
Internal balances	(200,000)	200,000	
Prepaid expenses	6,750		6,750
Inventory	94,301		94,301
Restricted assets:		652,496	652,496
Cash and cash equivalents		1,831,132	1,831,132
Investments		706,221	706,221
Total current assets	4,379,906	9,954,114	14,334,020
Noncurrent assets:			
Restricted assets			
Cash and cash equivalents		1,219,432	1,219,432
Investments		9,412,956	9,412,956
Note receivable accrued interest		70,269	70,269
Industrial development lease financing receivables		2,678,985	2,678,985
Debt issuance costs, net of accumulated amortization		82,549	82,549
Capital assets, net of accumulated depreciation	8,988,896	38,079,992	47,068,888
Total noncurrent assets	8,988,896	51,544,183	60,533,079
Total assets	13,368,802	61,498,297	74,867,099
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	570,426	1,928,988	2,499,414
Accrued interest		163,668	163,668
Customer deposits	2,140	706,221	708,361
Current portion of long-term obligations	252,944	1,557,596	1,810,540
Short term claims	230,655		230,655
Total current liabilities	1,056,165	4,356,473	5,412,638

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

City of Altus, Oklahoma
Statement of Net Assets
June 30, 2006
(continued)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Noncurrent liabilities:			
Capital lease obligations	\$ 53,788	\$ 112,104	\$ 165,892
Notes payable		12,145,592	12,145,592
Accrued compensated absences	144,926	126,955	271,881
Long-term claims	392,000		392,000
Unearned revenue	223,839		223,839
Landfill closure and postclosure cost		1,346,058	1,346,058
Other long-term liabilities		18,318,495	18,318,495
Total noncurrent liabilities	<u>814,553</u>	<u>32,049,204</u>	<u>32,863,757</u>
Total liabilities	<u>1,870,718</u>	<u>36,405,677</u>	<u>38,276,395</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,911,350	5,960,311	14,871,661
Restricted for:			
Capital projects	734,619	7,682,334	8,416,953
Debt service		1,394,636	1,394,636
Economic development	953,672	2,020,000	2,973,672
Public works	645,641		645,641
Unrestricted	252,802	8,035,339	8,288,141
Total net assets	<u>\$ 11,498,084</u>	<u>\$ 25,092,620</u>	<u>\$ 36,590,704</u>

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

City of Altus, Oklahoma
Statement of Activities
Year Ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,766,900	\$ 45,475	\$ 50,000	
Public safety	5,751,636	350,462	160,140	
Public works	1,445,474	111,945	53,064	
Parks and recreation	1,202,714	112,963		
Airport	487,435	402,898		
Economic development	313,731		276,476	
Interest on long term debt	5,883			
Total governmental activities	11,973,773	1,023,743	539,680	\$ 0
Business-type activities:				
Electric	14,081,287	16,427,997		
Water	2,852,862	3,250,535	95,000	
Wastewater	817,604	1,015,372		
Sanitation	699,911	1,213,789		
Landfill	525,083	510,409		
Economic development	456,911			
Interest expense and fiscal charges	688,917			
Total business-type activities	20,122,575	22,418,102	95,000	0
Total primary government	\$ 32,096,348	\$ 23,441,845	\$ 634,680	\$ 0

General revenues:

 Taxes:

 Sales and use

 Franchise

 Other

 Investment income

 Miscellaneous

Transfers - internal activity

 Total general revenues and transfers

 Change in net assets

NET ASSETS, beginning

NET ASSETS, ending

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

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,671,425) (5,241,034) (1,280,465) (1,089,751) (84,537) (37,255) (5,883) <u>(10,410,350)</u>	\$ 2,346,710 492,673 197,768 513,878 (14,674) (456,911) (688,917) <u>2,390,527</u> <u>2,390,527</u>	\$ (2,671,425) (5,241,034) (1,280,465) (1,089,751) (84,537) (37,255) (5,883) <u>(10,410,350)</u> 2,346,710 492,673 197,768 513,878 (14,674) (456,911) (688,917) <u>2,390,527</u> <u>(8,019,823)</u>
6,902,379 372,208 503,555 81,577 348,883 2,484,589 <u>10,693,191</u> 282,841 <u>11,215,243</u>	107,386 598,651 269,928 (2,484,589) (1,508,624) 881,903 <u>24,210,717</u>	6,902,379 372,208 610,941 680,228 618,811 0 <u>9,184,567</u> 1,164,744 <u>35,425,960</u>
<u>\$ 11,498,084</u>	<u>\$ 25,092,620</u>	<u>\$ 36,590,704</u>

City of Altus, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 36,868	\$ 754,694	\$ 791,562
Investments		1,967,826	1,967,826
Receivables:			
Accounts, net of allowance for uncollectibles	40,616	57,567	98,183
Taxes	836,078		836,078
Accrued interest		8,842	8,842
Court fines	195,177		195,177
Due from other governments	241,391	83,665	325,056
Prepaid items	6,750		6,750
Inventory	65,234	29,067	94,301
Total assets	\$ 1,422,114	\$ 2,901,661	\$ 4,323,775
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 303,350	\$ 59,409	\$ 362,759
Due to other funds	200,000		200,000
Refundable deposits	2,140		2,140
Unearned revenue	223,839		223,839
Total liabilities	729,329	59,409	788,738
Fund balances:			
Reserved for:			
Prepaid items, inventory and encumbrances	71,984	61,769	133,753
Unreserved, reported in:			
General fund	620,801		620,801
Capital projects		1,766,625	1,766,625
Special revenue funds		1,013,858	1,013,858
Total fund balances	692,785	2,842,252	3,535,037
Total liabilities and fund balances	\$ 1,422,114	\$ 2,901,661	
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.			
			8,988,896
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:			
Capital lease obligations			
			(77,548)
Accrued compensated absences			
			(374,112)
Internal service funds are used by management to charge costs to certain activities that benefit multiple funds, such as self-insurance costs, to individual funds. The assets and liabilities are reported in governmental activities			
			(574,189)
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 11,498,084

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

City of Altus, Oklahoma
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 7,447,260	\$ 133,465	\$ 7,580,725
Licenses and permits	105,821		105,821
Intergovernmental	330,966	250,484	581,450
Fines and forfeitures	340,143		340,143
Charges for services	191,187	572,733	763,920
Other	76,147	222,628	298,775
Interest	1,466	78,333	79,799
Rental	36,645	0	36,645
Total revenues	<u>8,529,635</u>	<u>1,257,643</u>	<u>9,787,278</u>
EXPENDITURES			
Current:			
General government	2,630,577		2,630,577
Public safety	5,043,783	428,560	5,472,343
Public works	1,107,516		1,107,516
Culture and recreation	1,075,494	11,448	1,086,942
Airport		462,297	462,297
Economic development	267,379	41,275	308,654
Debt service:			
Principal	31,243	7,333	38,576
Interest	3,184	2,699	5,883
Capital outlay	457,753	957,923	1,415,676
Total expenditures	<u>10,616,929</u>	<u>1,911,535</u>	<u>12,528,464</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,087,294)</u>	<u>(653,892)</u>	<u>(2,741,186)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	4,708,207	387,479	5,095,686
Transfers (out)	<u>(2,561,454)</u>	<u>(79,643)</u>	<u>(2,641,097)</u>
Total other financing sources (uses)	<u>2,146,753</u>	<u>307,836</u>	<u>2,454,589</u>
Net change in fund balances	59,459	(346,056)	(286,597)
FUND BALANCES, beginning	<u>633,326</u>	<u>3,188,308</u>	<u>3,821,634</u>
FUND BALANCES, ending	<u>\$ 692,785</u>	<u>\$ 2,842,252</u>	<u>\$ 3,535,037</u>

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

City of Altus, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balances – total governmental funds	\$ (286,597)
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.	
Capital outlay expenditures	1,312,183
Depreciation expense	(539,330)
	772,853
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. While changes in long-term debt liabilities for worker's compensation and accrued compensated absences do not use current funds.	
Principal payments on capital lease obligations	36,401
Accrued compensated absences	(109,799)
Other long term asset decreases - due from other governments	(158,774)
Operations of internal service funds	28,757
	(203,415)
Change in net assets of governmental activities	\$ 282,841

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

City of Altus, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2006

	Business-Type Activities Altus Municipal Authority	Governmental Activities – Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ (200,943)	\$ 256,135
Investments	1,192,414	
Receivables:		
Accounts, net of allowance for uncollectibles	3,428,748	
Accrued interest	60,397	
Other	2,083,649	
Due from other funds	773,734	
Inventory	652,496	
Restricted assets		
Cash and investments	1,831,132	
Investments	706,221	
Total current assets	10,527,848	256,135
Noncurrent assets:		
Restricted Assets:		
Cash and cash equivalents	1,219,432	
Investments	9,412,956	
Total restricted assets	10,632,388	
Notes receivable accrued interest	70,269	
Industrial development lease financing receivables	2,678,985	
Debt issuance costs, net of accumulated amortization	82,549	
Capital assets, net of accumulated depreciation	38,079,992	
Total noncurrent assets	51,544,183	0
Total assets	62,072,031	256,135
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,928,988	
Accrued interest payable	163,668	
Due to other funds	573,734	
Customer deposits	706,221	
Current portion of:		
Claims liability		438,324
Capital lease obligations	114,449	
Deferred gain - contract refinancing	381,686	
Contract obligation payable	360,180	
Notes payable	687,175	
Compensated absences	14,106	
Total current liabilities	4,930,207	438,324
Noncurrent liabilities:		
Notes payable	12,145,592	
Accrued compensated absences	126,955	
Capital lease obligations	112,104	
Landfill closure and postclosure cost	1,346,058	
Contract obligation payable	11,099,025	
Deferred gain - contract refinancing	7,219,470	
Claims liability		392,000
Total noncurrent liabilities	32,049,204	392,000
Total liabilities	36,979,411	830,324

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

City of Altus, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2006
(continued)

	Business-Type Activities	Governmental Activities –
	Altus Municipal Authority	Internal Service Funds
NET ASSETS		
Invested in capital assets, net of related debt	5,960,311	
Restricted:		
Debt service	1,394,636	
Capital improvements	7,682,334	
Economic development	2,020,000	
Unrestricted	8,035,339	(574,189)
Total net assets	\$ 25,092,620	\$ (574,189)

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

City of Altus, Oklahoma
Statement of Revenues, Expenses, and Changes in
Fund Net Assets – Proprietary Funds
Year Ended June 30, 2006

	Business-Type Activities <u>Altus Municipal Authority</u>	Governmental Activities – Internal Service Funds <u> </u>
OPERATING REVENUES		
Charges for services:		
Electric	\$ 16,132,294	
Water	3,190,626	
Wastewater	998,203	
Sanitation	1,199,092	
Landfill	499,381	
Other and internal service fund charges for services	134,569	\$ 2,315,316
Penalties/late charges	263,937	
Miscellaneous	36,999	
Rental	70,387	
Total operating revenues	<u>22,525,488</u>	<u>2,315,316</u>
OPERATING EXPENSES		
Electric	13,350,449	
Water	1,911,535	
Wastewater	648,437	
Sanitation	635,720	
Landfill	466,483	
Administration	629,091	108,268
Claims expense		2,410,369
Economic development	456,911	
Depreciation and amortization	1,335,032	
Total operating expenses	<u>19,433,658</u>	<u>2,518,637</u>
Net operating income (loss)	3,091,830	(203,321)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	95,000	
Miscellaneous	269,928	200,299
Investment income	598,651	1,779
Interest expense and fiscal charges	(688,917)	
Total nonoperating revenues (expenses)	<u>274,662</u>	<u>202,078</u>
Income (loss) before contributions and transfers	3,366,492	(1,243)
OPERATING TRANSFERS		
Transfers in	247,273	30,000
Transfers (out)	(2,731,862)	
Total operating transfers	<u>(2,484,589)</u>	<u>30,000</u>
Change in net assets	881,903	28,757
NET ASSETS, beginning	24,210,717	(602,946)
NET ASSETS, ending	<u>\$ 25,092,620</u>	<u>\$ (574,189)</u>

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

City of Altus, Oklahoma
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2006

	Business-Type Activities Altus Municipal Authority	Governmental Activities – Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and others	\$ 22,138,887	\$ 2,515,615
Payments to suppliers	(15,289,854)	
Claims and judgments paid		(2,539,982)
Payments to employees	(2,882,831)	
Net cash provided (used) by operating activities	3,966,202	(24,367)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous revenues	269,928	
Operating transfers in (out)	(2,484,589)	30,000
Net cash provided (used) by noncapital financing activities	(2,214,661)	30,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt issuances	11,137,625	
Principal paid on long-term debt	(10,283,622)	
Interest expense and fiscal charges	(688,917)	
(Increase) decrease in restricted assets	(890,384)	
(Acquisition) disposition of capital assets	(1,312,184)	
Net cash provided (used) by capital and related financing activities	(2,037,482)	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	598,651	1,779
Net cash provided (used) by investing activities	598,651	1,779
Net increase (decrease) in cash and cash equivalents	312,710	7,412
CASH AND CASH EQUIVALENTS, beginning	2,509,893	248,723
CASH AND CASH EQUIVALENTS, ending	\$ 2,822,603	\$ 256,135
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 3,091,830	\$ (3,022)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,335,032	
Changes in assets and liabilities:		
(Increase) decrease in receivables	(386,601)	
(Increase) decrease in interfund balances	(200,000)	
Increase (decrease) in accounts payable	124,301	
Increase (decrease) in accrued expenses	1,640	(21,345)
Total adjustments	874,372	(21,345)
Net cash provided (used) by operating activities	\$ 3,966,202	\$ (24,367)

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

City of Altus, Oklahoma
Statement of Fiduciary Assets and Liabilities - Agency Fund
June 30, 2006

	Agency Fund
	Flex Benefit Plan
ASSETS	
Cash and cash equivalents	\$ 22,995
Total assets	\$ 22,995
LIABILITIES	
Refundable deposits	\$ 22,995
Total liabilities	\$ 22,995

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

City of Altus, Oklahoma
Notes to Financial Statements
June 30, 2006

I. Organization

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

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Blended component unit.

Altus Municipal Airport (AMA) was 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 current City Council serves as its entire governing body (trustees) of the AMA. Any issuance of debt would require a two-thirds approval of the City Council and the AMA trustees. AMA is reported as an enterprise fund.

Separate financial statements have not been prepared for the component unit.

Related Organizations.

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

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

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

Altus/Southwest Area Economic Development Corporation is a non-stock, non-profit corporation acting as an instrumentality of the City and surrounding areas for the purpose of assisting in promoting economic growth by seeking business to locate in the City and/or surrounding areas. The City's Mayor serves as the Board Chairman.

Jackson County Industrial Authority, a Title 60 Public Trust, was created July 15, 1966, to promote, acquire, construct, extend, lease, maintain, and operate facilities used in securing

and developing industry in the Jackson County limits. Jackson County is the beneficiary of this trust.

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

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

The City reports one major governmental fund:

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

The City reports the following major proprietary funds:

The Altus Municipal Authority (AMA) accounts for the operation of a public trust that provides electric, water, wastewater, sanitation, and economic development services to the public.

Additionally, the City reports the following fund types:

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

Fiduciary fund includes the flex benefit plan account for employee withholdings under the City's section 125 plan (Flex Benefit Plan).

Finally, included in the aggregated governmental fund totals under the caption Nonmajor Governmental Funds are the following Special Revenue and Capital Projects funds:

The Street and Alley Fund accounts for the operation and maintenance of local streets and thoroughfares.

The Emergency 911 Fund accounts for the operations and maintenance of the City's 911 emergency services.

The Park Development Fund accounts for monies from subdivision developers to be used for park development.

The Donation Fund accounts for donations received to be used for specific projects.

The Cemetery Perpetual Fund accounts for a portion of cemetery revenue restricted by State Law for cemetery capital improvements.

The Airport Fund accounts for the operating revenues and expenditures of the municipal airport.

The Hotel/Motel Tax Fund accounts for a 5% tax to be used in economic development and promotion of tourism.

Capital Improvement Fund accounts for transfers from other funds and grant monies to be used for major capital improvements.

The Veterans Bypass Fund accounts for loan monies and sales tax restricted for use in street improvements.

The ODOC Grant Fund accounts for grant monies received for Oklahoma Department of Commerce grant projects.

The Landfill Improvement Fund accounts for monies set aside for use in landfill improvements.

The Economic Development Construction Fund accounts for loan monies and sales tax restricted for use in economic development projects.

The Drainage Improvement Fund accounts for monies set aside for drainage improvement projects.

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality. A copy of the City of Altus' investment policy may be obtained by contacting the City of Altus, 300 East Commerce, Altus, OK 73521

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

2. Receivables and payables

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

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectible amounts.

3. Restricted assets

Certain proceeds of the Altus Municipal Authority's enterprise fund promissory notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable loan covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

4. Capital assets

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

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

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

In the governmental fund financial statements, capital assets acquired during the current fiscal period are accounted for as capital outlay expenditures.

5. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, as determined by management and contracts with employee groups. All vacation pay is reported as accrued liabilities when incurred in the government-wide, proprietary, fiduciary, and component unit fund financial statements. Accumulated sick leave is paid to employees only upon retirement at a rate of one day's pay for every three days accumulated sick leave, up to a maximum of 30 days. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term obligations

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

7. Fund equity

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

8. Inventories

Inventory is valued at average cost and consists of gasoline stored for use in the City vehicles, material and supplies used for vehicle maintenance, and office and janitorial supplies. The cost is allocated to the various user departments based upon their consumption. The consumption method of accounting treatment is utilized by the City's governmental fund types. Proprietary fund inventories are recorded at the lower of cost or market on a first-in-first-out basis.

III. Reconciliation of government-wide and fund financial statements

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

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

Capital leases payable	\$ (77,548)
Accrued compensated absences	<u>(374,112)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (451,660)</u></u>

Another element is the fund deficit of the internal service funds of \$(574,189).

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

Capital assets, net	\$ 8,988,896
Net adjustment to increase fund balance - total governmental fund to arrive at net assets - governmental activities	<u><u>\$ 8,988,896</u></u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay expenditures	\$ 1,312,183
Depreciation expense	(539,330)
Net adjustment to increase net changes in fund balance - total governmental fund to arrive at changes in net assets of governmental activities	<u><u>\$ 772,853</u></u>

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

Principal repayments:	
Capital lease obligations, net of issuances	\$ 36,401
Operations of internal service funds	28,757
Increase in compensated absences	(109,799)
Decreases in other assets - long-term	<u>(158,774)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (203,415)</u>

IV. Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted for all governmental funds and the Altus Municipal Authority.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city administrator so that a budget may be prepared. The city council meets with the city administrator and city financial officer to review the needs estimates and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council in June.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service.

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

V. Detailed notes on all funds

A. Deposits and investments

Deposits

The City's carrying amount of deposits was \$ 2,677,883 as of June 30, 2006. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City requires that all deposits be collateralized by either FDIC insurance or pledged collateral.

Investments

As of June 30, 2006, the City had investments primarily in certificates of deposits with maturities of less than three years diversified over several financial institutions and fully collateralized.

Interest Rate Risk. The City of Altus' formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City of Altus' policy limit investments to the following: a) obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state; c) negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association, or a state licensed branch of a foreign bank; d) prime bankers' acceptances which are eligible for purchase by the Federal Reserve System; e) Prime commercial paper; f) Investment grade obligations of state and local governments, including certain highly rated obligations of state-beneficiary public trusts, g) repurchase agreements; h) money market funds regulated by the Securities and Exchange Commission and which investments consist of those items and those restrictions specified in the investment policy of the City of Altus, Oklahoma.

Concentration of Credit Risk. The City places the following limit on the amount it may invest in any one issuer. With exception of U.S. Treasury securities and authorized money market mutual funds, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

B. Receivables

Receivables as of June 30, 2006, for the City of Altus' individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Business-Type Activities	Total
Receivables:				
Taxes	\$ 836,078			\$ 836,078
Accounts	40,616	\$ 57,567	\$ 3,971,308	4,069,491
Other			2,083,649	2,083,649
Court fines	195,177			195,177
Due from other governments	241,143	83,665		408,473
Accrued interest	247	8,842	60,397	69,486
Gross receivables	<u>1,313,261</u>	<u>150,074</u>	<u>6,115,354</u>	<u>7,662,354</u>
Less: Allowance for uncollectibles			(542,560)	(542,560)
Net total receivables	<u>\$ 1,313,261</u>	<u>\$ 150,074</u>	<u>\$ 5,572,794</u>	<u>\$ 7,119,794</u>

C. Restricted assets

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

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2006, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 783,322			\$ 783,322
Construction in progress	500,384	\$ 442,381	\$ (500,383)	442,382
Total capital assets, not being depreciated	<u>1,283,706</u>	<u>442,381</u>	<u>(500,383)</u>	<u>1,225,704</u>
Capital assets, being depreciated				
Buildings and improvements	8,996,426	574,157		9,570,583
Machinery and equipment	4,656,855	588,743		5,245,598
Infrastructure	1,330,262	207,286		1,537,548
Total capital assets, being depreciated	<u>14,983,543</u>	<u>1,370,186</u>	<u>0</u>	<u>16,353,729</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,652,601)	(264,939)		(4,917,540)
Machinery and equipment	(3,378,652)	(249,790)		(3,628,442)
Infrastructure	(19,954)	(24,601)		(44,555)
Total accumulated depreciation	<u>(8,051,207)</u>	<u>(539,330)</u>	<u>0</u>	<u>(8,590,537)</u>
Total capital assets, being depreciated, net	<u>6,932,336</u>	<u>830,856</u>	<u>0</u>	<u>7,763,192</u>
Governmental activities capital assets, net	<u>\$ 8,216,042</u>	<u>\$ 1,273,237</u>	<u>\$ (500,383)</u>	<u>\$ 8,988,896</u>

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

Governmental activities:	
General government	\$ 188,743
Community and economic development	5,046
Public works and maintenance	75,001
Culture and recreation	115,609
Public safety	129,793
Airport	25,138
Total depreciation expense - governmental activities	<u>\$ 539,330</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Altus Municipal Authority				
Capital assets, not being depreciated				
Land	\$ 620,662	\$ 29,000		649,662
Construction in progress	10,719,311	446,228		11,165,539
Total capital assets, not being depreciated	<u>11,339,973</u>	<u>475,228</u>	<u>0</u>	<u>11,815,201</u>
Capital assets, being depreciated				
Buildings and improvements	542,296			542,296
Machinery and equipment	3,961,262	124,512		4,085,774
Water rights	24,647,726			24,647,726
Utility property	28,065,219			28,065,219
Total capital assets, being depreciated	<u>57,216,503</u>	<u>124,512</u>	<u>0</u>	<u>57,341,015</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	(364,171)	(9,325)		(373,496)
Machinery and equipment	(3,190,492)	(226,121)		(3,416,613)
Water rights	(7,874,327)	(616,193)		(8,490,520)
Utility property	(18,316,547)	(479,048)		(18,795,595)
Total accumulated depreciation and amortization	<u>(29,745,537)</u>	<u>(1,330,687)</u>	<u>0</u>	<u>(31,076,224)</u>
Total capital assets, being depreciated, net	<u>27,470,966</u>	<u>(1,206,175)</u>	<u>0</u>	<u>26,264,791</u>
Business-type activities capital assets, net	<u>\$ 38,810,939</u>	<u>\$ (730,947)</u>	<u>\$ 0</u>	<u>\$ 38,079,992</u>

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

Business-type activities:	
Sanitation	\$ 40,988
Water	842,408
Electric	264,035
Wastewater	142,063
Landfill	41,193
Total depreciation expense - business-type activities	<u>\$ 1,330,687</u>

E. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2006, cash and investments included \$ 792,000 available for refund of customer deposits, while the identified liability to customers was \$ 706,220.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2006, \$ 2,140 was being held that was subject to refund.

F. Long-term debt

Long-term liabilities of the City of Altus as of June 30, 2006, are summarized as follows:

Governmental activities

Capital lease obligations:

\$ 49,857 Capital lease for a tractor dated, July 1, 2004, with an interest rate of 4.25%, monthly payments of \$ 924 and a final maturity of June 30, 2009.	\$ 28,041
\$ 17,683 Capital lease for a tractor dated, April 14, 2005, with an interest rate of 8.5%, monthly payments of \$ 363 and a final maturity of April 14, 2010.	13,937
\$ 40,824 Capital lease for a tractor dated, June 9, 2005, with an interest rate of 5.25%, monthly payments of \$ 772 and a final maturity of May 6, 2010.	40,052
\$ 7,016 Capital lease for a mower dated, October 25, 2004, with an interest rate of 3.258%, monthly payments of \$ 225 and a final maturity of October 1, 2007.	<u>2,849</u>
Total capital lease obligations	<u>77,546</u>

Accrued Compensated Absences:

Accrued compensated absences reported in the governmental activities are comprised of accrued vacation leave.	<u>374,112</u>
Total Governmental activities	<u>\$ 451,658</u>

Business-type activities

Notes payable:

2005 Series Promissory Note, original issue amount of \$ 6,775,000 dated September 15, 2005 issued by Altus Municipal Authority, secured by utility revenues with an initial interest rate of 3.27%, final maturity October 1, 2025	\$ 6,675,900
CDGB Note, original issue amount of \$ 235,183, dated October 2, 1998, issued by Altus Municipal Authority, secured by available utility revenues, with a 0% interest rate, final maturity September 1, 2018.	149,954
2005 DWSRF Promissory Note, original issue amount of \$ 4,033,700 dated September 15, 2005 issued by Altus Municipal Authority, secured by available utility revenues with a 0% interest rate and a .50% administrative fee, final maturity September 15, 2025	3,932,857
2004 Series Revenue Note, original issue amount of \$ 600,000, dated December 22, 2004, issued by Altus Municipal Authority, secured by available utility revenues, with an interest rate of 3.85%, final maturity of September 1, 2012.	500,261

2003 Note, original issue amount of \$ 2,015,000, dated September 30, 2003, issued by Altus Municipal Authority, secured by available utility revenues, with an interest rate of 3.85%, final maturity of September 1, 2012. 1,573,796

Total Notes Payable 12,832,768

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. 11,459,205

Total Contract Obligation Payable 11,459,205

Capital Lease Obligations:

\$ 7,016 Capital lease for a mower, dated August 27, 2004, with an interest rate of 3.258%, monthly payments of \$ 225 and a final maturity of August 1, 2007. 2,291

\$ 446,009 Capital lease for a basket truck, fire engine and side loader dated December 15, 2004, with an interest rate of 3.654% annual payments of \$ 118,314 and a final maturity of December 15, 2007. 224,263

Total Capital Lease Obligation 226,554

Accrued Compensated Absences:

Accrued compensated absences reported in the business-type activities are comprised of accrued vacation leave. 141,061

Total Business Type Activities \$ 24,659,588

Primary Government

Long-term liabilities transactions for the year ended June 30, 2006, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital lease obligations	\$ 113,947		\$ (36,401)	\$ 77,546	\$ 23,758
Accrued compensated absences	324,112	\$ 338,985	(288,985)	374,112	229,186
Total governmental activities	<u>438,059</u>	<u>338,985</u>	<u>(325,386)</u>	<u>451,658</u>	<u>252,944</u>
Business-type activities					
Notes payable	11,619,388	11,137,625	(9,924,245)	12,832,768	697,175
Capital lease obligations	335,371		(108,817)	226,554	114,450
Contract obligations payable	11,709,765		(250,560)	11,459,205	315,101
Accrued compensated absences	124,659	47,566	(31,164)	141,061	14,106
Total business-type activities	<u>23,789,183</u>	<u>11,185,191</u>	<u>(10,314,786)</u>	<u>24,659,588</u>	<u>1,140,832</u>
Total primary government	<u>\$ 24,227,242</u>	<u>\$ 11,524,176</u>	<u>\$ (10,640,172)</u>	<u>\$ 25,111,246</u>	<u>\$ 1,393,776</u>

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

Year Ending June, 30	Governmental Activities	
	Principal	Interest
2007	\$ 23,758	\$ 3,977
2008	22,971	2,630
2009	20,291	1,408
2010	10,526	356
Totals	<u>\$ 77,546</u>	<u>\$ 8,371</u>

Year Ending June, 30	Business-Type Activities					
	Notes Payable		Contract Obligation Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 697,175	\$ 294,257	\$ 315,101	\$ 617,305	\$ 114,450	\$ 8,229
2008	717,234	275,393	351,075	600,333	112,104	4,171
2009	743,180	259,415	369,988	581,520		
2010	764,923	239,914	389,919	561,489		
2011	792,575	217,616	410,924	540,484		
2012-2016	3,209,814	809,190	2,411,500	2,345,540		
2017-2021	3,027,087	500,287	3,134,891	1,622,149		
2022-2026	2,931,980	136,874	4,075,807	681,759		
Totals	<u>\$ 12,883,968</u>	<u>\$ 2,732,946</u>	<u>\$ 11,459,205</u>	<u>\$ 7,550,579</u>	<u>\$ 226,554</u>	<u>\$ 12,400</u>

Landfill closure and post-closure liability

Federal and state 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 for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of those costs as an operating expense of the Altus Municipal Authority each fiscal year. The amount of the current period expense is based upon the amount of landfill capacity used as of each fiscal year-end.

The \$ 1,346,058 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2006, represents the cumulative amount of such cost reported to date based on the use of approximately 73.16 % 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 \$ 493,766 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 2006. The City expects to close the landfill in 2009. Actual costs may be more or less at that time than are currently estimated.

The City has qualified under the State of Oklahoma Department of Environmental Quality (DEQ) financial assurance test relating to these future closure and post-closure costs, whereby the City's overall financial condition and other submitted information serves as evidence of the City's ability to pay for the closure and post-closure care costs when the landfill is actually closed.

Deferred Gain – Contract Refinancing

In August 1981, the Altus Municipal Authority entered into a contract with the Mountain Park Master Conservancy District for facilities related to secure a reliable water supply source for the future use of the City. As part of the contract agreement, \$ 22,601,376, of the total project cost of \$ 34,196,071 was assumed by the Altus municipal Authority through a contractual obligation to the Conservation District.

In June 2005, the Mountain Park Master Conservancy District refinanced the project debt. The Authority's share of the refinanced debt was \$ 11,709,765. As a result of the refinancing, an accounting gain of \$ 8,015,425 was recorded and deferred with the Authority amortizing the gain over a twenty-one year period. The unamortized amount of this gain, as of June 30, 2006, is \$ 7,601,156, with a current year amortization of \$ 381,686 recognized as an offset to interest expense.

G. Debt issuance costs

Debt issuance costs of \$ 86,894 have been capitalized on enterprise fund revenue notes and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2006, \$ 4,435 in debt issuance costs was amortized.

H. Compensated absences

Full-time employees with at least one year of service earn vacation of ten to twenty days per year depending on years of service completed. A maximum of ten to fifteen days may be carried over from one benefit year into another, depending on years of service completed. In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation as follows:

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

I. Grants and contracts

During the year ended June 30, 2006, the City of Altus received and expended a variety of state and federal grant and contract funds to include the following:

Community Development Block Grant	\$	53,064
State and Community Highway Safety Grant		11,614
Enforcing Underage Drinking Laws Program		13,852
Water Quality Management Planning Grant		95,000
Emergency Management Performance Grant		27,301
Law Enforcement Terrorism Prevention Program		40,192
Assistance to Firefighters Grant		49,461
State Domestic Preparedness Equipment Support Program		70,005
Hazard Mitigation Grant Program		20,800
Community Expansion of Nutrition Assistance		3,391
Oklahoma Strategic Military Planning Commission Grant		200,000
Oklahoma Centennial Commemoration Grant		50,000
Total grants and contracts	\$	<u>634,680</u>

Federal expenditures totaled \$ 381,289 and State expenditures totaled \$ 253,391.

J. Interfund receivables, payables, and transfers

The financial statements reflect certain interfund payables and receivables and interfund transactions. All the interfund payables and receivables were short term in nature and were subsequently liquated. Interfund transfers represent amounts received into one fund and transferred to another fund in accordance with budgetary requirements.

K. Employee retirement systems and pension plans

The City of Altus participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Copies of the State of Oklahoma sponsored multiple-employer plans and a schedule of funding progress is available, for each, from the Plan. The State of Oklahoma is responsible for any funding deficiencies. Additionally, for other City employees not covered by the other plans, the City of Altus maintains the Oklahoma Municipal Retirement Fund.

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 605, Oklahoma City, Oklahoma 73116-7335, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2006, for employees and employer were \$ 103,354 and \$ 182,157, respectively, on covered payroll of \$ 1,401,212.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2006, for employees and employer were \$ 94,010 and \$ 174,979, respectively, on covered payroll of \$ 1,345,989.

Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma – Defined Benefit Pension Plan

Plan Description – The City maintains a defined benefit retirement plan, the City of Altus Plan and Trust, (the Plan) in the form of the Oklahoma Municipal Retirement System, Master Defined Benefit Plan, which covers 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 10 years of service. Employees who retire at age 65 with 10 years of service or age 62 with 25 years of service, are entitled to an annual retirement benefit, payable monthly in an amount equal to

2.625% of final average compensation multiplied by the number of years of credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service.

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

A participant who becomes totally and permanently disabled after completion of 10 years of service will be entitled to a disability benefit computed as a normal retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age.

Employee contributions are returned with accrued interest if their employment is terminated prior to completion of 10 years of service. A death benefit is payable after 10 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.

Funding Policy – The amount shown below as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary de/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 July 1, 2006. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.5% compounded annually, and 2) future salary de/increases based on the age of the employee.

Total actuarial accrued liability was more than net assets available for benefits by \$ 757,288 as of January 1, 2006, as follows:

Actuarial accrued liability	\$ 14,772,829
Net assets available for benefits (actuarial value)	<u>(14,015,541)</u>
Underfunded actuarial accrued liability	<u><u>\$ 757,288</u></u>

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

For the year ended June 30, 2006, employees were required to contribute 4% of annual compensation while the City contributed 7.91% for the period July 1, 2005 through December 31, 2005, and 10.05% for the period January 1, 2006 through June 30, 2006. Contributions to the Plan for the year ended June 30, 2006, for employee and employer were \$ 188,098 and \$ 408,218, respectively.

For the year ended June 30, 2006, the City's covered payroll was \$ 4,716,519 out of total payroll of \$ 5,666,580. Covered payroll refers to all compensation paid by the City of Altus to active employees covered by the Plan on which contributions are based.

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

The schedule of funding progress for the Plan for the past 9 years is as follows:

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/06	\$ 14,015,541	\$ 14,772,829	\$ 757,289	94.87 %	\$ 4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01) %
01/01/01	13,201,846	12,269,190	(932,656)	107.60 %	4,072,595	(22.90) %
01/01/00	12,648,972	11,038,739	(1,610,233)	114.59 %	3,928,129	(40.99) %
01/01/99	10,877,247	10,255,868	(621,379)	106.06 %	3,571,128	(17.40) %
01/01/98	9,310,661	9,659,833	349,172	96.39 %	3,425,858	10.19 %

Oklahoma Municipal Retirement Fund – Defined Contribution Plan

Plan Description – The City has also provided a defined contribution plan and trust known as the City of Altus Plan and Trust (the Plan) in the form of The Oklahoma Municipal Retirement Fund Defined Contribution Plan (OMRF). The plan is administered by Bank One of Oklahoma City, Oklahoma. The defined contribution plan is available to all full-time employees except those covered by other plans.

OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. Benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding Policy – Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon employment and voluntarily select their before tax percentage of contribution. By City ordinance, the City, as employer, is required to make variable contributions to the plan, based on availability of funds. As of July 2002, City contributions were 1.49% of gross salary. The employee is fully vested after 10 years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the City Commission.

Contributions to the plan for the year ended June 30, 2006, for employees and employer were \$ 49,028 and \$ 70,073, respectively, on a covered payroll of \$ 4,716,519.

Oklahoma Municipal Retirement Fund – Defined Contribution Plan – CMO Plan

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

Funding Policy – Employees are eligible to participate upon employment and voluntarily elect their percentage of contribution with a minimum contribution of 3% of compensation. The City makes contributions to the Plan based on the employment agreement with the employee. Contributions for each employee are immediately vested. The authority to establish and amend the provisions of the Plan rests with the City Council. Contributions to the Plan for the year ended June 30, 2006, for employees and employer were \$ 2,726 and \$ 9,086, respectively, on a covered payroll of \$ 90,865.

VI. Other information

A. Risk management

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

B. Commitments and contingent liabilities

At the date of this report, an uncertainty exists as to the recovery of certain Altus Municipal Authority (AMA) assets invested in the Quartz Mountain Aerospace, Inc. (formerly known as Luscombe Aircraft Corporation) (or its investors and creditors). Quartz Mountain Aerospace is a developmental stage company formed to manufacture, market, and provide support services for the single-engine Luscombe model 11B series aircraft. Beginning in 1996, the AMA has made various investments through loans, pledges, and other guarantees related to the start-up of Luscombe in an effort to promote economic development and job creation within the City. At June 30, 2006, the AMA's investment in the Quartz Mountain Aerospace, Inc. project consisted of:

Notes receivable from Luscombe & Altus/Southwest Economic Development Corporation	\$ 2,083,649
Accrued interest on notes receivable	70,269
Lease financing receivable - Luscombe	2,663,859
Investments pledged as collateral to Altus/Southwest Economic Development Corporation to secure bank notes related to Luscombe	2,020,000
Total investments or assets at risk	<u>\$ 6,837,777</u>

The repayment of the notes and related accrued interest, the release of AMA's investments pledged as collateral, and the repayment of the financing lease is dependent upon the company's start-up and its ability to become profitable.

Mountain Park Master Conservancy District – Contract Commitments

The Altus Municipal Authority (AMA) entered into a 25 year contract with the Mountain Park Master Conservancy District. Costs incurred by the City for the fiscal year ended June 30, 2006 were \$ 155,035.

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits of the granting or loaning agency to ensure compliance with specific provisions of the grant or loan. Any liability or 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.

Litigation

The City and the Municipal Authority are parties 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. This statutory taxing authority is not available to the City's public trust (AMA).

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.

Significant Subsequent Events (unaudited)

On December 12, 2006, Quartz Mountain Aerospace, Inc. remitted \$ 256,780.82 to the City of Altus and \$ 2,078,865.75 to Altus/Southwest Area Economic Development Corporation for the release of pledged money. Altus/Southwest Area Economic Development Corporation turned around and remitted the City of Altus' portion to the City for the release of those commitments.

The City of Altus has taken on a huge capital acquisition project for the FY 06-07. On February 9, 2007, the City entered into a \$ 1,450,000 lease purchase agreement with the First National Bank in Altus for the lease purchase of equipment. The terms of the lease purchase agreement specify that the City will lease purchase the equipment from First National Bank for five (5) years at 3.95% per annum. The payments are \$ 160,501 every six (6) months with the first payment due on June 28, 2007. The City is acquiring 26 new police vehicles and equipment for the Police Department, a refuse truck for the Sanitation Department, a compactor for the Landfill Department, a truck mounted tree spade for the Parks Department, a motor grader for the Street Department and other equipment as funds permit. To date, the City of Altus has acquired or has accepted bids for everything except the compactor for the refuse truck.

On February 20, 2007, the City Council voted to retain Roger Hicks and Associates to conduct a study on the feasibility of the City of Altus maintaining their self insured health plan or go to a more traditional premium based insurance plan. In subsequent meetings, the Insurance Committee decided that it would be in the best interest of the city to be in a premium based insurance plan. This is now in the process of being approved by the unions and the City Council. It is expected to go into effect with the July 1, 2007 budget.

To fully fund the City of Altus' Workers' Compensation Fund for the past two years, the City and AMA have budgeted to transfer money over and above the self imposed per employee premium into that fund. For the budget year ended June 30, 2006, an additional \$ 100,000 was transferred and for budget year ending June 30, 2007, an additional \$ 150,000 was transferred. Instead of continuing with this transfer methodology, it was decided that starting with the July 1, 2007 to June 30, 2008 budget, the City would address this concern through a self imposed premium. The City has increased this per year premium to \$ 1,953 for each employee. The premium will be evaluated each year for appropriateness.

City of Altus, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual – General Fund
Year Ended June 30, 2006

	Budget			Variance with Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 7,611,630	\$ 7,611,630	\$ 7,447,260	\$ (164,370)
Licenses and permits	93,920	93,920	105,821	11,901
Intergovernmental	163,126	239,058	330,966	91,908
Fines and forfeitures	294,603	294,603	340,143	45,540
Miscellaneous	246,100	221,100	795,361	574,261
Rental revenue	8,000	33,000	36,645	3,645
Interest	3,000	3,000	1,466	(1,534)
Total revenues	8,420,379	8,496,311	9,057,662	561,351
EXPENDITURES				
General government:				
Administration	752,361	902,542	747,112	155,430
City attorney	101,587	101,587	102,408	(821)
City clerk	148,819	148,819	136,936	11,883
Municipal court	146,611	146,611	149,632	(3,021)
Public safety:				
Police department	2,882,674	2,995,674	2,861,533	134,141
Fire department	1,933,417	1,942,477	2,047,189	(104,712)
Emergency management	212,583	212,124	190,135	21,989
Public works:				
Engineering	83,684	83,684	64,821	18,863
Code enforcement & planning	401,504	401,504	298,992	102,512
Street department	676,272	676,272	694,253	(17,981)
Culture and recreation:				
Parks and cemetery	1,803,830	1,823,920	1,956,023	(132,103)
Shared costs	2,003,299	1,836,719	1,419,158	417,561
Total expenditures	11,146,641	11,271,933	10,668,192	603,741
Excess (deficit) of revenues over expenditures	(2,726,262)	(2,775,622)	(1,610,530)	1,165,092
OTHER FINANCING SOURCES (USES)				
Transfers in	5,415,700	5,415,700	4,708,207	(707,493)
Transfers (out)	(2,729,095)	(2,729,095)	(2,561,454)	167,641
Total other financing sources (uses)	2,686,605	2,686,605	2,146,753	(539,852)
Net change in fund balances	(39,657)	(89,017)	536,223	625,240
FUND BALANCES, beginning	40,209	633,326	633,326	0
FUND BALANCES, ending	\$ 552	\$ 544,309	\$ 1,169,549	\$ 625,240

See disclaimer in accompanying Independent Auditor's Report.

City of Altus, Oklahoma
Explanation of Differences Between Revenues, Expenditures,
and Other Financing Sources (Uses) for Budgetary Funds on a
Budgetary Basis and GAAP General Fund on a GAAP Basis
Year Ended June 30, 2006

<u>BUDGETARY FUNDS</u>	<u>General Fund</u>
<u>FINANCIAL STATEMENT MAJOR FUNDS</u>	
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedule	\$ 8,405,726
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	<u>123,909</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 8,529,635</u>
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 10,668,192
Adjustments:	
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	<u>(51,263)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 10,616,929</u>

See disclaimer in accompanying Independent Auditor's Report.

City of Altus, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2006

	Special Revenue			
	Street and Alley Fund	Emergency E-911 Fund	Park Development Fund	Airport Fund
ASSETS				
Cash and cash equivalents	\$ 327,357	\$ (102)	\$ 61,774	\$ (1,668)
Investments	325,000			
Receivables:				
Accounts, net				44,001
Taxes				
Due from other governments	35,604			
Accrued interest	2,712			
Inventory				29,067
Due from other governments				
Total assets	<u>\$ 690,673</u>	<u>\$ (102)</u>	<u>\$ 61,774</u>	<u>\$ 71,400</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 45,032	\$ 11,271		\$ 2,991
Due to other funds				
Unearned revenue				
Total liabilities	<u>45,032</u>	<u>11,271</u>		<u>2,991</u>
FUND BALANCES				
Reserved for:				
Reserve for inventory				29,067
Reserve for encumbrances				19,502
Unreserved:				
Special revenue	645,641	(11,373)	\$ 61,774	19,840
Capital projects				
Undesignated				
Total fund balances	<u>645,641</u>	<u>(11,373)</u>	<u>61,774</u>	<u>68,409</u>
Total liabilities and fund balances	<u>\$ 690,673</u>	<u>\$ (102)</u>	<u>\$ 61,774</u>	<u>\$ 71,400</u>

Special Revenue			Capital Project Fund			
Donation Fund	Hotel/Motel Tax Fund	Cemetery Perpetual Care Fund	Capital Improvement Fund	Veterans Bypass Fund	ODOC Grant Fund	Landfill Improvement Fund
\$ 241,260	\$ 40,470	\$ 15,880	\$ 7,265	\$ 15,673	\$ (47,786)	\$ 37,751
	13,566		122,000	50,000		498,000
			247	29	47,814	3,626
<u>\$ 241,260</u>	<u>\$ 54,036</u>	<u>\$ 15,880</u>	<u>\$ 129,512</u>	<u>\$ 65,702</u>	<u>\$ 28</u>	<u>\$ 539,377</u>
\$ 13,200						
228,060	\$ 54,036	\$ 15,880	\$ 129,512	\$ 65,702	\$ 28	\$ 539,377
<u>241,260</u>	<u>54,036</u>	<u>15,880</u>	<u>129,512</u>	<u>65,702</u>	<u>28</u>	<u>539,377</u>
<u>\$ 241,260</u>	<u>\$ 54,036</u>	<u>\$ 15,880</u>	<u>\$ 129,512</u>	<u>\$ 65,702</u>	<u>\$ 28</u>	<u>\$ 539,377</u>

City of Altus, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2006

	<u>Capital Project Fund</u>		Total Nonmajor Governmental Funds
	<u>Economic Development Construction Fund</u>	<u>Drainage Improvement Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 33,524	\$ 23,296	\$ 754,694
Investments	917,826	55,000	1,967,826
Receivables:			
Accounts, net			57,567
Taxes			
Due from other governments			83,665
Accrued interest	2,437	38	8,842
Inventory			29,067
 Total assets	 <u>\$ 953,787</u>	 <u>\$ 78,334</u>	 <u>\$ 2,901,661</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 115		\$ 59,409
Due to other funds			
Unearned revenue			
Total liabilities	<u>\$ 115</u>		<u>\$ 59,409</u>
FUND BALANCES			
Reserved for:			
Reserve for inventory			29,067
Reserve for encumbrances			32,702
Unreserved:			
Special revenue			1,013,858
Capital projects	953,672	\$ 78,334	1,766,625
Undesignated			0
Total fund balances	<u>953,672</u>	<u>78,334</u>	<u>2,842,252</u>
Total liabilities and fund balances	<u>\$ 953,787</u>	<u>\$ 78,334</u>	<u>\$ 2,901,661</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2006

	Special Revenue			
	Street & Alley Fund	Emergency E-911 Fund	Park Development Fund	Donation Fund
REVENUES				
Taxes				
Intergovernmental	\$ 197,418			
Charges for services		\$ 145,175		
Other				\$ 109,472
Interest	15,305		\$ 699	
Total revenues	<u>212,723</u>	<u>145,175</u>	<u>699</u>	<u>109,472</u>
EXPENDITURES				
Current:				
Public safety		428,560		
Airport				
Public works				
Culture and recreation				11,448
Debt service:				
Bond principal				
Interest				
Economic development				
Capital outlay	259,760			
Total expenditures	<u>259,760</u>	<u>428,560</u>	<u>0</u>	<u>11,448</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(47,037)</u>	<u>(283,385)</u>	<u>699</u>	<u>98,024</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		283,892		27,676
Transfers (out)				
Total other financing sources (uses)	<u>0</u>	<u>283,892</u>	<u>0</u>	<u>27,676</u>
Net change in fund balances	(47,037)	507	699	125,700
FUND BALANCES, beginning	<u>692,678</u>	<u>(11,880)</u>	<u>61,075</u>	<u>115,560</u>
FUND BALANCES, ending	<u>\$ 645,641</u>	<u>\$ (11,373)</u>	<u>\$ 61,774</u>	<u>\$ 241,260</u>

Special Revenue			Capital Project Funds		
Cemetery Perpetual Fund	Airport Fund	Hotel Motel Tax Fund	Capital Improvement Fund	Veterans Bypass Fund	ODOC Grant Fund
		\$ 133,465			\$ 53,066
\$ 9,400	\$ 418,158				
<u>9,400</u>	<u>418,158</u>	<u>133,465</u>	<u>\$ 3,322</u>	<u>\$ 1,824</u>	<u>53,066</u>
	462,297				
	7,333				
	2,699				
10,812		41,275			53,064
<u>10,812</u>	<u>472,329</u>	<u>41,275</u>	<u>0</u>	<u>0</u>	<u>53,064</u>
(1,412)	(54,171)	92,190	3,322	1,824	2
	75,911	(79,643)			
<u>0</u>	<u>75,911</u>	<u>(79,643)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(1,412)	21,740	12,547	3,322	1,824	2
<u>17,292</u>	<u>46,669</u>	<u>41,489</u>	<u>126,190</u>	<u>63,878</u>	<u>26</u>
<u>\$ 15,880</u>	<u>\$ 68,409</u>	<u>\$ 54,036</u>	<u>\$ 129,512</u>	<u>\$ 65,702</u>	<u>\$ 28</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2006

(continued)

	Capital Project Funds			Total Nonmajor Governmental Funds
	Landfill Improvement Fund	Economic Development Construction Fund	Drainage Improvement Fund	
REVENUES				
Taxes				\$ 133,465
Intergovernmental				250,484
Charges for services				572,733
Other		\$ 100,000	\$ 13,156	222,628
Interest	\$ 18,805	36,214	2,164	78,333
Total revenues	<u>18,805</u>	<u>136,214</u>	<u>15,320</u>	<u>1,257,643</u>
EXPENDITURES				
Current:				
Public safety				428,560
Airport				462,297
Public works				0
Culture and recreation				11,448
Debt service:				0
Bond principal				7,333
Interest				2,699
Economic development				41,275
Capital outlay	244,970	389,317		957,923
Total expenditures	<u>244,970</u>	<u>389,317</u>	<u>0</u>	<u>1,911,535</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(226,165)</u>	<u>(253,103)</u>	<u>15,320</u>	<u>(653,892)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				387,479
Transfers (out)				(79,643)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>307,836</u>
Net change in fund balances	<u>(226,165)</u>	<u>(253,103)</u>	<u>15,320</u>	<u>(346,056)</u>
FUND BALANCES, beginning	<u>765,542</u>	<u>1,206,775</u>	<u>63,014</u>	<u>3,188,308</u>
FUND BALANCES, ending	<u>\$ 539,377</u>	<u>\$ 953,672</u>	<u>\$ 78,334</u>	<u>\$ 2,842,252</u>

City of Altus, Oklahoma
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	<u>Worker's Compensation Fund</u>	<u>Assurance Fund</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 382,349	\$ (126,214)	\$ 256,135
Total current assets	<u>382,349</u>	<u>\$ (126,214)</u>	<u>256,135</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation			
Total noncurrent assets	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>382,349</u>	<u>(126,214)</u>	<u>256,135</u>
LIABILITIES			
Current liabilities:			
Claims liability	230,655	207,669	438,324
Total current liabilities	<u>230,655</u>	<u>207,669</u>	<u>438,324</u>
Noncurrent liabilities:			
Claims liability	392,000		392,000
Total noncurrent liabilities	<u>392,000</u>	<u>0</u>	<u>392,000</u>
Total liabilities	<u>622,655</u>	<u>207,669</u>	<u>830,324</u>
NET ASSETS			
Unrestricted	(240,306)	(333,883)	(574,189)
Total net assets	<u>\$ (240,306)</u>	<u>\$ (333,883)</u>	<u>\$ (574,189)</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenses and Changes In Net Assets
Internal Service Funds
June 30, 2006

	Worker's Compensation Fund	Assurance Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 461,899	\$ 1,853,417	\$ 2,315,316
Total operating revenues	<u>461,899</u>	<u>1,853,417</u>	<u>2,315,316</u>
OPERATING EXPENSES			
Administration expense	38,511	69,757	108,268
Claims expense	311,188	2,099,181	2,410,369
Total operating expenses	<u>349,699</u>	<u>2,168,938</u>	<u>2,518,637</u>
Excess (deficiency) of revenues over (under) expenditures	<u>112,200</u>	<u>(315,521)</u>	<u>(203,321)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	1,431	348	1,779
Miscellaneous	49,690	150,609	200,299
Net non-operating revenues (expenses)	<u>51,121</u>	<u>150,957</u>	<u>202,078</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds		30,000	30,000
Transfers to other funds			
Total other financing sources (uses)	<u>0</u>	<u>30,000</u>	<u>30,000</u>
Change in Net Assets	163,321	(134,564)	28,757
NET ASSETS, beginning	<u>(403,627)</u>	<u>(199,319)</u>	<u>(602,946)</u>
NET ASSETS, ending	<u>\$ (240,306)</u>	<u>(333,883)</u>	<u>(574,189)</u>

City of Altus, Oklahoma
Combining Statement of Cash Flows
Internal Service Funds
June 30, 2006

	Worker's Compensation Fund	Assurance Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from charges to other funds	\$ 461,889	\$ 1,853,417	\$ 2,315,306
Receipts from others	49,700	150,609	200,309
Claims and judgments paid	(371,044)	(2,168,938)	(2,539,982)
Net cash provided (used in) operating activities	<u>140,545</u>	<u>(164,912)</u>	<u>(24,367)</u>
CASH FLOWS FROM NONCAPITAL INVESTING ACTIVITIES			
Transfers in		30,000	30,000
Net cash provided by noncapital investing activities		<u>30,000</u>	<u>30,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	1,431	348	1,779
Net cash provided by investing activities	<u>1,431</u>	<u>348</u>	<u>1,779</u>
Net increase (decrease) in cash and cash equivalents	141,976	(134,564)	7,412
CASH AND CASH EQUIVALENTS, beginning	<u>240,373</u>	<u>8,350</u>	<u>248,723</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 382,349</u>	<u>(126,214)</u>	<u>\$ 256,135</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating Income (Loss)	\$ 112,200	\$ (315,521)	\$ (203,321)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Other non-operating revenue	49,690	150,609	200,299
Increase (decrease) in accounts payable and accrued liabilities			
Increase (decrease) in estimated liability for claims	(21,345)		(21,345)
Net cash provided by (used in) operating activities	<u>\$ 140,545</u>	<u>\$ (164,912)</u>	<u>\$ (24,367)</u>

City of Altus
Schedule of Funding Progress

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/06	\$ 14,015,541	\$ 14,772,829	\$ 757,289	94.87 %	\$ 4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01) %
01/01/01	13,201,846	12,269,190	(932,656)	107.60 %	4,072,595	(22.90) %
01/01/00	12,648,972	11,038,739	(1,610,233)	114.59 %	3,928,129	(40.99) %
01/01/99	10,877,247	10,255,868	(621,379)	106.06 %	3,571,128	(17.40) %
01/01/98	9,310,661	9,659,833	349,172	96.39 %	3,425,858	10.19 %

See disclaimer in accompanying Independent Auditor's Report

City of Altus, Oklahoma
Schedule of Debt Service Coverage –
Altus Municipal Authority
Year Ended June 30, 2006

	<u>Mountain Park Contract Obligation</u>	<u>Bank of Oklahoma Note</u>	<u>OWRB Note</u>
GROSS REVENUES AVAILABLE FOR DEBT SERVICE			
Water system revenue	\$ 3,190,626		
Utility system revenue		\$ 22,525,488	\$ 22,525,488
Investment income	472,845	472,845	472,845
Total gross revenues available	<u>3,663,471</u>	<u>22,998,333</u>	<u>22,998,333</u>
EXPENSES			
Operating	1,911,535	19,433,658	19,433,658
Less:			
Depreciation and amortization	<u>(842,408)</u>	<u>(1,335,032)</u>	<u>(1,335,032)</u>
Net revenues available for debt service	<u>\$ 2,594,344</u>	<u>\$ 4,899,707</u>	<u>\$ 4,899,707</u>
Debt service requirements:			
Maximum annual debt service	<u>\$ 930,055</u>	<u>\$ 268,520</u>	<u>\$ 1,135,945</u>
Computed coverage	<u>279%</u>	<u>1825%</u>	<u>431%</u>
Coverage requirement	<u>110%</u>	<u>125%</u>	<u>125%</u>

Note: Revenues and expenses include only amounts related to operations which have outstanding OWRB Note and Mountain Park Contract obligation debt. Operating expenses exclude depreciation, amortization and other non-cash items, in accordance with the terms of the applicable note indentures.

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

October 27, 2006

City Commission
City of Altus
Altus, Oklahoma

I 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, as of and for the year ended June 30, 2006, and have issued my report thereon dated October 27, 2006. I did not audit management's discussion and analysis, the budgetary comparison schedules, which are required supplementary information, and the introductory section, and combining nonmajor fund financial statements listed under supplementary information, and, therefore, expressed no opinion on it. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Altus' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of the City of Altus in a separate letter dated October 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Altus' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Joseph E. Carlson, CPA

This report is intended solely for the information and use of the city commissioners and the management of the City of Altus and is not intended to be and should not be used by anyone other than these specified parties.