

City of Altus, Oklahoma

Report on Audit of

Financial Statements

June 30, 2007

City of Altus, Oklahoma
Report on Audit of Financial Statements
June 30, 2007
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City of Altus, Oklahoma Organizational Chart

City Council

T.L. Gramling, Mayor

David Brown

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

Joseph E. Carlson, CPA

Independent Auditor's Report

November 9, 2007

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, 2007, 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 9, 2007, 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.

Joseph E. Carlson, CPA

The management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 45 through 46 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.

Joseph E. Carlson

Joseph E. Carlson, CPA

City of Altus, Oklahoma
Management's Discussion and Analysis
June 30, 2007

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, 2007. 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 \$ 34,906,599 (net assets). Of this amount, \$ 12,591,053 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$ 11,009,720 is invested in capital assets, net of related debt.
- ❖ The government's total net assets increased by \$ 1,804,871 for the year ended June 30, 2007. General revenues; primarily sales, franchise and other taxes; increased by \$ 284,683 from the prior fiscal year. Utility revenues increased by \$ 1,282,657 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 \$ 3,722,157, an increase of \$ 187,120 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 \$ 362,972, or 3.24 % of total general fund expenditures and the unrestricted net assets of the Altus Municipal Authority was \$ 12,164,119.
- ❖ The City of Altus' total debt increased by \$ 122,770, during the current fiscal year. The key factors in this increase were the issuance of new debt to finance the acquisition of vehicles and equipment offset by the current year's payments on principal.
- ❖ The budgeted ending fund balance for the General Fund was \$ 546,470 and the actual ending fund balance was \$ 434,956.

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, includes the City's electric, water, wastewater, and sanitation utility operations, as the Altus Municipal Authority.

The government-wide financial statements include not only the City of Altus itself (known as the primary government), but also the legally separate authorities (Altus Municipal Authority) for which the City of Altus is financially accountable. Financial information for the Altus Municipal Authority component unit 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 which is 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 24–44 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 47–55 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 \$ 34,906,599 at the close of the most recent fiscal year.

A large portion of the City's net assets (\$ 11,009,720) 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, 2007 and 2006

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current assets	\$ 5,053,184	\$ 4,379,906	\$ 12,539,164	\$ 9,954,114	\$ 17,592,348	\$ 14,334,020
Capital and other	6,800,514	5,962,173	36,265,432	37,594,715	43,065,946	43,556,888
Other non-current assets		23,024	12,559,460	13,464,191	12,559,460	13,487,215
Total assets	<u>11,853,698</u>	<u>10,365,103</u>	<u>61,364,056</u>	<u>61,013,020</u>	<u>73,217,754</u>	<u>71,378,123</u>
Current liabilities	965,019	1,056,165	4,487,265	4,356,473	5,452,284	5,412,638
Long-term liabilities	1,007,990	814,553	31,850,881	32,049,204	32,858,871	32,863,757
Total liabilities	<u>1,973,009</u>	<u>1,870,718</u>	<u>36,338,146</u>	<u>36,405,677</u>	<u>38,311,155</u>	<u>38,276,395</u>
Net assets:						
Invested in capital assets, net of related debt	6,635,058	5,907,651	4,374,662	5,475,034	11,009,720	11,382,685
Restricted	2,818,697	2,333,932	8,487,129	11,096,970	11,305,826	13,430,902
Unrestricted	426,934	252,802	12,164,119	8,035,339	12,591,053	8,288,141
Total net assets	<u>\$ 9,880,689</u>	<u>\$ 8,494,385</u>	<u>\$ 25,025,910</u>	<u>\$ 24,607,343</u>	<u>\$ 34,906,599</u>	<u>\$ 33,101,728</u>

An additional portion of the City's net assets (\$ 10,589,619) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 13,307,260) may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year, the government's net assets increased by \$ 1,804,871. This increase represents the excess of overall revenues over expenses.

Governmental activities. For the year ended June 30, 2007, governmental activities increased the City's net assets by \$ 1,386,304. The key element of this increase in net assets was a modest increase in general revenues combined with a reduction in expenditures.

City of Altus
Statement of Activities
Years Ended June 30, 2007 and 2006

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	\$ 1,025,065	\$ 1,023,743	\$ 23,700,759	\$ 22,418,102	\$ 24,725,824	\$ 23,441,845
Grants/contributions	524,635	539,680	8,237	95,000	532,872	634,680
General revenues	8,237,772	8,208,602	606,868	975,965	8,844,640	9,184,567
Total revenues	9,787,472	9,772,025	24,315,864	23,489,067	34,103,336	33,261,092
Expenses:						
General government/ administration	2,631,022	2,766,900			2,631,022	2,766,900
Public safety	5,209,181	5,751,636			5,209,181	5,751,636
Public works and maintenance	1,297,180	1,445,474			1,297,180	1,445,474
Parks and recreation	1,461,366	1,202,714			1,461,366	1,202,714
Utilities			17,359,354	17,623,066	17,359,354	17,623,066
Sanitation			676,046	699,911	676,046	699,911
Airport	526,157	487,435			526,157	487,435
Wastewater			749,530	817,604	749,530	817,604
Landfill			591,818	525,083	591,818	525,083
Economic development	493,292	313,731	1,275,621	456,911	1,768,913	770,642
Other	27,898	5,883			27,898	5,883
Total liabilities	11,646,096	11,973,773	20,652,369	20,122,575	32,298,465	32,096,348
Increase (decrease) in net assets before transfers	(1,858,624)	(2,201,748)	3,663,495	3,366,492	1,804,871	1,164,744
Transfers, net	3,244,928	2,484,589	(3,244,928)	(2,484,589)		
Increase (decrease) in net assets	1,386,304	282,841	418,567	881,903	1,804,871	1,164,744
Net assets, beginning	8,494,385	8,211,544	24,607,343	23,725,440	33,101,728	31,936,984
Net assets, ending	\$ 9,880,689	\$ 8,494,385	\$ 25,025,910	\$ 24,607,343	\$ 34,906,599	\$ 33,101,728

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
Years Ended June 30, 2007 and 2006

	Program Revenues		Cost of Service	
	2007	2006	2007	2006
General government and administration	\$ 109,675	\$ 95,475	\$ (2,521,347)	\$ (2,671,425)
Public safety	538,260	510,602	(4,670,921)	(5,241,034)
Public works and maintenance	142,936	165,009	(1,154,244)	(1,280,465)
Parks and recreation	165,707	112,963	(1,295,659)	(1,089,751)
Economic development	200,000	276,476	(293,292)	(37,255)
Airport	393,122	402,898	(133,035)	(84,537)
Interest and fiscal charges			(27,898)	(5,883)
Total revenues	<u>\$ 1,549,700</u>	<u>\$ 1,563,423</u>	<u>\$ (10,096,396)</u>	<u>\$ (10,410,350)</u>

Business-type activities. Business-type activities increased the City's net assets by \$ 418,567. The key element of this increase was the improvement in overall revenues.

City of Altus
Business-Type Activities
Years Ended June 30, 2007 and 2006

	Program Revenues		Cost of Service	
	2007	2006	2007	2006
Sanitation	\$ 1,308,832	\$ 1,213,789	\$ 632,786	\$ 513,878
Water	3,347,950	3,345,535	252,669	(196,244)
Electric	17,313,284	16,427,997	3,608,820	2,346,710
Wastewater	1,095,772	1,015,372	346,242	197,768
Landfill	643,158	510,409	51,340	(14,674)
Economic development			(1,275,621)	(456,911)
Interest and fiscal charges			(559,609)	(688,917)
Total	<u>\$ 23,708,996</u>	<u>\$ 22,513,102</u>	<u>\$ 3,056,627</u>	<u>\$ 1,701,610</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 \$ 3,722,157, an increase of \$ 187,120 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 \$ 362,972.

The fund balance of the City's general fund decreased by (\$ 257,829) during the current fiscal year. The key factor in this decrease was increases in capital outlays.

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 \$ 12,164,119. Net assets increased by \$ 418,567 for the fiscal year. Operating revenues increased by \$ 1,191,557 over the previous year primarily due to increased electric sales revenues while operating expenses increased by \$ 2,653,447, primarily as the result of increases in depreciation 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 \$ 9,049,200 were \$ 320,744 less than the estimated revenues in the budget of \$ 9,369,944. Actual expenditures of \$ 11,414,714 were \$ 1,105,302 less than the \$ 12,520,016 approved in budget appropriations. After net transfers of \$ 1,297,030, the City decreased its carry forward funds by \$ 257,829.

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, 2007, amount to \$ 43,065,946 (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
- Purchase of police vehicles and equipment
- Purchase of a motor grader
- Purchase of a spade truck

City of Altus
 Capital Assets, net of accumulated depreciation
June 30, 2007 and 2006

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,317,403	\$ 1,317,403	\$ 652,881	\$ 652,881	\$ 1,970,284	\$ 1,970,284
Construction in progress	17,080	442,381	10,935,068	10,881,666	10,952,148	11,324,047
Buildings and improvements	3,952,240	4,067,453	7,248,090	7,459,487	11,200,330	11,526,940
Machinery and equipment	975,973		264,267		1,240,240	
Infrastructure	537,818	134,926			537,818	134,926
Intangible water rights			15,510,917	16,157,206	15,510,917	16,157,206
Utility property			1,654,209	1,850,394	1,654,209	1,850,394
Capital assets, net	<u>\$ 6,800,514</u>	<u>\$ 5,962,163</u>	<u>\$ 36,265,432</u>	<u>\$ 37,001,634</u>	<u>\$ 43,065,946</u>	<u>\$ 42,963,797</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 \$ 25,290,645.

City of Altus
 Outstanding Debt
June 30, 2007 and 2006

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Capital lease obligations	\$ 111,237	\$ 134,175	\$ 114,593	\$ 226,554	\$ 225,830	\$ 360,729
Accrued compensated absences	402,382	374,112	105,720	141,061	508,102	515,173
Contract obligation payable			11,144,105	11,459,205	11,144,105	11,459,205
Notes payable			13,412,608	12,832,768	13,412,608	12,832,768
Total debt	<u>\$ 513,619</u>	<u>\$ 508,287</u>	<u>\$ 24,777,026</u>	<u>\$ 24,659,588</u>	<u>\$ 25,290,645</u>	<u>\$ 25,167,875</u>

During the current fiscal year, the City's total debt increased by \$ 122,770. The key factor in this increase was the issuance of additional debt of \$ 1,450,000 to finance the acquisition of equipment offset by the pay down of previously issued indebtedness.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 35–38 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. The fiscal year 2007-2008 budget is very comparable to the fiscal year 2006-2007. The Enterprise fund is budgeted slightly higher than last year due to fluctuations in the revenue received for utilities and the cost

of providing those utilities. The General fund is slightly less for fiscal year 2007-2008 than it was in fiscal year 2006-2007. This was done to keep our budget estimates as conservative as practical.

The fiscal year 2007-2008 budget focuses on priorities established by our elected officials and trustees as recommended by city leadership. The City leadership was for the most part able to keep operating expenses as close to or less than the 2006-2007 budget. However, significant increases did occur and will continue for energy costs. These costs include gasoline, diesel, and natural gas.

Personnel services are an area of major change from prior years. 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 budget for fiscal year 2007-2008 not only reflects a 3% Cost of Living Adjustment, it reflects a change in health insurance for City employees, their families, and retirees. It also reflects an increase in departmental charges for workers' compensation to help this fund become self sufficient. The fiscal year 2007-2008 budget reflects changes to entry level salaries comparable to what was done in the police and fire departments.

The City of Altus has included revenue and expenditures for several capital improvement projects for FY 2007-2008. Some of these projects include modifications at the new water plant, Phase IV of Navajoe Gateway, and the completion of the Hotel/Motel improvements at the City Library and Auditorium, Park Lane improvements to include the relocation of water lines on North Park Lane, Airport taxi way renovations and Street and Curb reconstruction. The City of Altus is, also, budgeting for several new pieces of equipment and CDBG grant projects for fiscal year 2007-2008 budget.

All of these factors were considered in preparing the City's budget for the 2007-2008 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, 220 E. Commerce, Altus, Oklahoma 73521.

City of Altus, Oklahoma
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 902,963	\$ 415,432	\$ 1,318,395
Investments	2,815,000	3,922,914	6,737,914
Receivables, net of allowance for uncollectibles:			
Accounts	79,650	3,672,817	3,752,467
Taxes	866,797		866,797
Accrued interest	27,552	60,397	87,949
Other		1,201,219	1,201,219
Court fines	195,118		195,118
Due from other governments	65,053		65,053
Internal balances			
Prepaid expenses	6,750		6,750
Inventory	94,301	652,496	746,797
Restricted assets:			
Cash and cash equivalents		1,897,682	1,897,682
Investments		716,207	716,207
Total current assets	<u>5,053,184</u>	<u>12,539,164</u>	<u>17,592,348</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents		1,055,127	1,055,127
Investments		8,692,000	8,692,000
Note receivable accrued interest		70,269	70,269
Industrial development lease financing receivables		2,663,859	2,663,859
Debt issuance costs, net of accumulated amortization		78,205	78,205
Capital assets, net of accumulated depreciation	6,800,514	36,265,432	43,065,946
Total noncurrent assets	<u>6,800,514</u>	<u>48,824,892</u>	<u>55,625,406</u>
Total assets	<u>11,853,698</u>	<u>61,364,056</u>	<u>73,217,754</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	609,203	1,879,832	2,489,035
Accrued interest		165,738	165,738
Customer deposits	8,850	717,451	726,301
Current portion of long-term obligations	99,318	1,724,244	1,823,562
Short term claims	247,648		247,648
Total current liabilities	<u>965,019</u>	<u>4,487,265</u>	<u>5,452,284</u>

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

City of Altus, Oklahoma
Statement of Net Assets
June 30, 2007
(continued)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Noncurrent liabilities:			
Capital lease obligations	\$ 66,138		\$ 66,138
Notes payable		\$ 12,549,824	12,549,824
Accrued compensated absences	348,164	91,614	439,778
Long-term claims	392,000		392,000
Unearned revenue	201,688		201,688
Landfill closure and postclosure cost		1,578,630	1,578,630
Other long-term liabilities		17,630,813	17,630,813
Total noncurrent liabilities	<u>1,007,990</u>	<u>31,850,881</u>	<u>32,858,871</u>
Total liabilities	<u>1,973,009</u>	<u>36,338,146</u>	<u>38,311,155</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,635,058	4,374,662	11,009,720
Restricted for:			
Capital projects	970,236	4,575,781	5,546,017
Debt service		1,993,922	1,993,922
Economic development	1,008,414	1,201,219	2,209,633
Public works	840,047		840,047
Other		716,207	716,207
Unrestricted	<u>426,934</u>	<u>12,164,119</u>	<u>12,591,053</u>
Total net assets	<u>\$ 9,880,689</u>	<u>\$ 25,025,910</u>	<u>\$ 34,906,599</u>

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

City of Altus, Oklahoma
Statement of Activities
Year Ended June 30, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,631,022	\$ 105,025	\$ 4,650	
Public safety	5,209,181	363,815	104,445	\$ 70,000
Public works	1,297,180	14,325	6,467	122,144
Parks, recreation and cemetery	1,461,366	165,707		
Airport	526,157	376,193		16,929
Economic development	493,292		200,000	
Interest on long term debt	27,898			
Total governmental activities	11,646,096	1,025,065	315,562	209,073
Business-type activities:				
Electric	13,704,464	17,310,047	3,237	
Water	3,095,281	3,342,950	5,000	
Wastewater	749,530	1,095,772		
Sanitation	676,046	1,308,832		
Landfill	591,818	643,158		
Economic development	1,275,621			
Interest expense and fiscal charges	559,609			
Total business-type activities	20,652,369	23,700,759	8,237	0
Total primary government	\$ 32,298,465	\$ 24,725,824	\$ 323,799	\$ 209,073

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, restated

NET ASSETS, ending

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

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (2,521,347)		\$ (2,521,347)
(4,670,921)		(4,670,921)
(1,154,244)		(1,154,244)
(1,295,659)		(1,295,659)
(133,035)		(133,035)
(293,292)		(293,292)
(27,898)		(27,898)
<u>(10,096,396)</u>		<u>(10,096,396)</u>
	\$ 3,608,820	3,608,820
	252,669	252,669
	346,242	346,242
	632,786	632,786
	51,340	51,340
	(1,275,621)	(1,275,621)
	(559,609)	(559,609)
0	<u>3,056,627</u>	<u>3,056,627</u>
<u>(10,096,396)</u>	<u>3,056,627</u>	<u>(7,039,769)</u>
7,305,022		7,305,022
575,250		575,250
61,570		61,570
138,161	578,735	716,896
157,769	28,133	185,902
3,244,928	(3,244,928)	0
<u>11,482,700</u>	<u>(2,638,060)</u>	<u>8,844,640</u>
1,386,304	418,567	1,804,871
8,494,385	<u>24,607,343</u>	<u>33,101,728</u>
<u>\$ 9,880,689</u>	<u>\$ 25,025,910</u>	<u>\$ 34,906,599</u>

City of Altus, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ (512,115)	\$ 1,022,564	\$ 510,449
Investments	65,000	2,250,000	2,315,000
Receivables:			
Accounts, net of allowance for uncollectibles	6,965	37,365	44,330
Taxes	883,849	18,268	902,117
Accrued interest		25,764	25,764
Court fines	195,118		195,118
Due from other governments	12,521	52,533	65,054
Prepaid items	6,750		6,750
Inventory	65,234	29,067	94,301
Total assets	\$ 723,322	\$ 3,435,561	\$ 4,158,883
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 23,609	\$ 148,360	\$ 171,969
Refundable deposits	8,850		8,850
Unearned revenue	201,688		201,688
Compensated absences	54,219		54,219
Total liabilities	288,366	148,360	436,726
Fund balances:			
Reserved for:			
Prepaid items, inventory and encumbrances	71,984	29,067	101,051
Unreserved, reported in:			
General fund	362,972		362,972
Capital projects		2,091,254	2,091,254
Special revenue funds		1,166,880	1,166,880
Total fund balances	434,956	3,287,201	3,722,157
Total liabilities and fund balances	\$ 723,322	\$ 3,435,561	
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.			
			6,800,514
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:			
Capital lease obligations			(111,237)
Accrued compensated absences			(348,164)
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			
			(182,581)
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 9,880,689

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, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 7,731,943	\$ 149,856	\$ 7,881,799
Licenses and permits	105,025		105,025
Intergovernmental	383,562	336,405	719,967
Fines and forfeitures	357,795		357,795
Charges for services	164,263	528,862	693,125
Other	72,916	98,157	171,073
Interest	5,405	114,674	120,079
Rental	28,291	0	28,291
Total revenues	<u>8,849,200</u>	<u>1,227,954</u>	<u>10,077,154</u>
EXPENDITURES			
Current:			
General government	2,229,982		2,229,982
Public safety	4,682,487	401,871	5,084,358
Public works	1,415,892	79,633	1,495,525
Culture and recreation	1,300,127	50,059	1,350,186
Airport		501,982	501,982
Economic development	488,441		488,441
Debt service:			
Principal	5,364	11,953	17,317
Interest	13,869	6,407	20,276
Capital outlay	1,078,554	278,470	1,357,024
Total expenditures	<u>11,214,716</u>	<u>1,330,375</u>	<u>12,545,091</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,365,516)</u>	<u>(102,421)</u>	<u>(2,467,937)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of debt issuance		16,569	16,569
Transfers in	3,524,849	702,651	4,227,500
Transfers (out)	(1,417,162)	(171,850)	(1,589,012)
Total other financing sources (uses)	<u>2,107,687</u>	<u>547,370</u>	<u>2,655,057</u>
Net change in fund balances	(257,829)	444,949	187,120
FUND BALANCES, beginning	<u>692,785</u>	<u>2,842,252</u>	<u>3,535,037</u>
FUND BALANCES, ending	<u>\$ 434,956</u>	<u>\$ 3,287,201</u>	<u>\$ 3,722,157</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, 2007

Net change in fund balances – total governmental funds	\$	187,120
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		1,390,509
Depreciation expense		(518,673)
		871,836
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		39,507
Accrued compensated absences		(103,767)
Operations of internal service funds		391,608
		327,348
Change in net assets of governmental activities	\$	1,386,304

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

City of Altus, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2007

	Business-Type Activities	Governmental Activities –
	Altus Municipal Authority	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 415,432	\$ 392,514
Investments	3,922,914	500,000
Receivables:		
Accounts, net of allowance for uncollectibles	3,672,817	
Accrued interest	60,397	1,788
Other	1,201,219	
Due from other funds	573,734	
Inventory	652,496	
Restricted assets		
Cash and investments	1,897,682	
Investments	716,207	
Total current assets	<u>13,112,898</u>	<u>894,302</u>
Noncurrent assets:		
Restricted Assets:		
Cash and cash equivalents	1,055,127	
Investments	8,692,000	
Total restricted assets	<u>9,747,127</u>	
Notes receivable accrued interest	70,269	
Industrial development lease financing receivables	2,663,859	
Debt issuance costs, net of accumulated	78,205	
Capital assets, net of accumulated depreciation	36,265,432	
Total noncurrent assets	<u>48,824,892</u>	<u>0</u>
Total assets	<u>61,937,790</u>	<u>894,302</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,879,832	
Accrued interest payable	165,738	
Due to other funds	573,734	
Customer deposits	717,451	
Current portion of:		
Claims liability		684,883
Capital lease obligations	114,593	
Deferred gain - contract refinancing	381,686	
Contract obligation payable	351,075	
Notes payable - current portion	862,784	
Compensated absences	14,106	
Total current liabilities	<u>5,060,999</u>	<u>684,883</u>
Noncurrent liabilities:		
Notes payable	12,549,824	
Accrued compensated absences	91,614	
Landfill closure and postclosure cost	1,578,630	
Contract obligation payable	10,793,029	
Deferred gain - contract refinancing	6,837,784	
Claims liability		392,000
Total noncurrent liabilities	<u>31,850,881</u>	<u>392,000</u>
Total liabilities	<u>36,911,880</u>	<u>1,076,883</u>

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

Statement of Net Assets – Proprietary Funds
June 30, 2007
(continued)

	Business-Type Activities	Governmental Activities –
	Altus Municipal Authority	Internal Service Funds
NET ASSETS		
Invested in capital assets, net of related debt	4,374,662	
Restricted:		
Debt service	1,993,922	
Capital improvements	4,575,781	
Economic development	1,201,219	
Other	716,207	
Unrestricted	12,164,119	(182,581)
Total net assets	\$ 25,025,910	\$ (182,581)

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, 2007

	<u>Business-Type Activities Altus Municipal Authority</u>	<u>Governmental Activities – Internal Service Funds</u>
OPERATING REVENUES		
Charges for services:		
Electric	\$ 16,905,809	
Water	3,342,950	
Wastewater	1,095,772	
Sanitation	1,308,832	
Landfill	643,158	
Other and internal service fund charges for services	122,982	\$ 2,136,950
Penalties/late charges	281,256	
Miscellaneous	13,436	
Rental	2,850	
Total operating revenues	<u>23,717,045</u>	<u>2,136,950</u>
OPERATING EXPENSES		
Electric	12,666,027	
Water	2,195,696	
Wastewater	592,460	
Sanitation	634,637	
Landfill	314,980	
Administration	752,855	91,421
Claims expense		2,286,385
Economic development	875,621	
Depreciation and amortization	1,664,829	
Total operating expenses	<u>19,697,105</u>	<u>2,377,806</u>
Net operating income (loss)	<u>4,019,940</u>	<u>(240,856)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	8,237	
Miscellaneous	11,847	8,093
Investment income	578,735	18,081
Interest expense and fiscal charges	(955,264)	
Total nonoperating revenues (expenses)	<u>(356,445)</u>	<u>26,174</u>
Income (loss) before transfers	3,663,495	(214,682)
OPERATING TRANSFERS		
Transfers in	1,211,802	606,290
Transfers (out)	(4,456,730)	
Total operating transfers	<u>(3,244,928)</u>	<u>606,290</u>
Change in net assets	418,567	391,608
NET ASSETS, beginning, restated	24,607,343	(574,189)
NET ASSETS, ending	<u>\$ 25,025,910</u>	<u>\$ (182,581)</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, 2007

	<u>Business-Type Activities Altus Municipal Authority</u>	<u>Governmental Activities – Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and others	\$ 23,472,976	\$ 2,602,386
Payments to suppliers	(14,917,693)	
Claims and judgments paid		(2,590,378)
Payments to employees	(2,962,886)	
Net cash provided (used) by operating activities	<u>5,592,453</u>	<u>12,008</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous revenues	20,084	
Operating transfers in (out)	(3,244,928)	606,290
Net cash provided (used) by noncapital financing activities	<u>(3,224,844)</u>	<u>606,290</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt issuances	1,450,000	
Principal paid on long-term debt	(1,297,221)	
Interest expense and fiscal charges	(955,264)	
(Increase) decrease in investments	897,556	
(Acquisition) disposition of capital assets	(691,710)	
Net cash provided (used) by capital and related financing activities	<u>(596,639)</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	578,735	18,081
(Increase) in investments	1,063,720	(500,000)
Net cash provided (used) by investing activities	<u>1,642,455</u>	<u>(481,919)</u>
Net increase (decrease) in cash and cash equivalents	3,413,425	136,379
CASH AND CASH EQUIVALENTS, beginning	<u>2,822,603</u>	<u>256,135</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 6,236,028</u>	<u>\$ 392,514</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 4,019,940	\$ (232,763)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,664,829	
Changes in assets and liabilities:		
(Increase) decrease in receivables	(244,069)	
(Increase) decrease in interfund balances	200,000	
Increase (decrease) in accounts payable	37,607	
Increase (decrease) in accrued expenses	(85,854)	16,993
Total adjustments	<u>1,572,513</u>	<u>16,993</u>
Net cash provided (used) by operating activities	<u>\$ 5,592,453</u>	<u>\$ (215,770)</u>

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, 2007

	Agency Fund
	Flex Benefit Plan
ASSETS	
Cash and cash equivalents	\$ 25,991
Total assets	\$ 25,991
LIABILITIES	
Refundable deposits	\$ 25,991
Total liabilities	\$ 25,991

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

City of Altus, Oklahoma
Notes to Financial Statements
June 30, 2007

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 Authority (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 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 five member group of elected members. Support comes primarily from the Cities of Altus, Snyder, and Frederick.

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Included within these financial statements are the utility deposit fund and the emergency replacement fund.

Additionally, the City reports the following fund types:

Internal service funds 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 Parks Development Fund accounts for monies from subdivision developers to be used for park development.

The Altus 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.

The FAA Grant Fund accounts for amounts received from the FAA related to airport improvements.

The Debt Service Fund is used to account for monies received for debt payment.

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	\$ (111,237)
Accrued compensated absences	<u>(348,164)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (459,401)</u>

Another element is the fund deficit of the internal service funds of (\$182,581).

Finally, a 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	\$ 6,800,514
Net adjustment to increase fund balance - total governmental fund to arrive at net assets - governmental activities	<u>\$ 6,800,514</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	\$ 1,390,509
Depreciation expense	(518,673)
Net adjustment to increase net changes in fund balance - total governmental fund to arrive at changes in net assets of governmental activities	<u>\$ 871,836</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	\$	39,507
Operations of internal service funds		391,608
Increase in compensated absences		<u>(103,767)</u>
Net adjustment to decrease net changes in fund balances - total		
governmental funds to arrive at changes in net assets of		
governmental activities	\$	<u>327,348</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 \$ 3,216,077 as of June 30, 2007. 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, 2007, 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, 2007, 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	\$ 883,849	\$ 18,268		\$ 902,117
Accounts	6,965	37,365	\$ 4,105,900	4,150,230
Other			1,201,219	1,201,219
Court fines	195,118			195,118
Due from other governments	12,521	52,533		65,054
Accrued interest		25,764	60,397	86,161
Gross receivables	<u>1,098,453</u>	<u>133,930</u>	<u>5,367,516</u>	<u>6,599,899</u>
Less: Allowance for uncollectibles			(433,083)	(433,083)
Net total receivables	<u>\$ 1,098,453</u>	<u>\$ 133,930</u>	<u>\$ 4,934,433</u>	<u>\$ 6,166,816</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, 2007, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,317,403			\$ 1,317,403
Construction in progress	442,381		\$ (425,301)	17,080
Total capital assets, not being depreciated	<u>1,759,784</u>		<u>(425,301)</u>	<u>1,334,483</u>
Capital assets, being depreciated				
Buildings and improvements	8,995,434	130,617	(4,000)	9,122,051
Machinery and equipment	3,736,102	1,226,407	(114,101)	4,848,408
Infrastructure	179,481	425,301		604,782
Total capital assets, being depreciated	<u>12,911,017</u>	<u>1,782,325</u>	<u>(118,101)</u>	<u>14,575,241</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,927,981)	(245,830)	4,000	(5,169,811)
Machinery and equipment	(3,736,102)	(250,434)	114,101	(3,872,435)
Infrastructure	(44,555)	(22,409)		(66,964)
Total accumulated depreciation	<u>(8,708,638)</u>	<u>(518,673)</u>	<u>118,101</u>	<u>(9,109,210)</u>
Total capital assets, being depreciated, net	<u>4,202,379</u>	<u>1,263,652</u>	<u>0</u>	<u>5,466,031</u>
Governmental activities capital assets, net	<u>\$ 5,962,163</u>	<u>\$ 1,263,652</u>	<u>\$ (425,301)</u>	<u>\$ 6,800,514</u>

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

Governmental activities:	
General government	\$ 181,513
Community and economic development	4,853
Public works and maintenance	72,129
Culture and recreation	111,181
Public safety	124,822
Airport	24,175
Total depreciation expense - governmental activities	<u>\$ 518,673</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Altus Municipal Authority				
Capital assets, not being depreciated				
Land	\$ 652,881			\$ 652,881
Construction in progress	10,881,666	\$ 53,402		10,935,068
Total capital assets, not being depreciated	<u>11,534,547</u>	<u>53,402</u>		<u>11,587,949</u>
Capital assets, being depreciated				
Buildings and improvements	7,832,983	90,607		7,923,590
Machinery and equipment	3,239,840	507,107		3,746,947
Water rights	24,647,726			24,647,726
Utility property	20,822,762	40,594		20,863,356
Total capital assets, being depreciated	<u>56,543,311</u>	<u>638,308</u>		<u>57,181,619</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	(373,496)	(302,004)		(675,500)
Machinery and equipment	(3,239,840)	(242,840)		(3,482,680)
Water rights	(8,490,520)	(646,289)		(9,136,809)
Utility property	(18,972,368)	(236,779)		(19,209,147)
Total accumulated depreciation and amortization	<u>(31,076,224)</u>	<u>(1,427,912)</u>	<u>\$ 0</u>	<u>(32,504,136)</u>
Total capital assets, being depreciated, net	<u>25,467,087</u>	<u>(789,604)</u>	<u>0</u>	<u>24,677,483</u>
Business-type activities capital assets, net	<u>\$ 37,001,634</u>	<u>\$ (736,202)</u>	<u>\$ 0</u>	<u>\$ 36,265,432</u>

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

Business-type activities:	
Sanitation	\$ 41,409
Water	899,585
Electric	285,582
Wastewater	157,070
Landfill	44,266
Total depreciation expense - business-type activities	<u>\$ 1,427,912</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, 2007, cash and investments included \$ 917,545 available for refund of customer deposits, while the identified liability to customers was \$ 717,450.

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, 2007, \$ 8,850 was being held that was subject to refund.

F. Long-term debt

Long-term liabilities of the City of Altus as of June 30, 2007, 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.	\$ 21,220
\$ 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.	10,927
\$ 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.	24,993
\$ 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.	882
\$ 59,508 Capital lease for parks and recreation equipment dated March 16, 2006, with an interest rate of 6.643%, monthly payment of \$ 1,830 and a maturity of March 16, 2009.	36,864
\$ 16,569 Capital lease for cemetery equipment dated May 24, 2007, with an interest rate of 9.25%, monthly payment of \$ 346 and a maturity date of May 22, 2012.	<u>16,351</u>
Total capital lease obligations	<u>111,237</u>

Accrued Compensated Absences:

Accrued compensated absences reported in the governmental activities are comprised of accrued vacation leave.	<u>402,382</u>
Total Governmental activities	<u>\$ 513,619</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.	\$ 6,469,500
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.	138,345
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.	3,731,172

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. 392,933

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. 1,372,329

2007 Lease Purchase, original issue amount of \$ 1,450,000, dated February 9, 2007 by Altus Municipal Authority secured by equipment, with an interest rate of 3.95%, final maturity of December 28, 2011. 1,328.329

Total Notes Payable 13,412,608

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. 11,144,105

Total Contract Obligation Payable 11,144,105

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. 449

\$ 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. 114,144

Total Capital Lease Obligation 114,593

Accrued Compensated Absences:

Accrued compensated absences reported in the business-type activities are comprised of accrued vacation leave. 105,720

Total Business-Type Activities \$ 24,777,026

Primary Government

Long-term liabilities transactions for the year ended June 30, 2007, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital lease obligations	\$ 134,175	\$ 16,569	\$ (39,507)	\$ 111,237	\$ 45,853
Accrued compensated absences	374,112	419,493	(391,223)	402,382	391,223
Total governmental activities	<u>508,287</u>	<u>436,062</u>	<u>(430,730)</u>	<u>513,619</u>	<u>437,076</u>
Business-type activities					
Notes payable	12,832,768	1,450,000	(870,160)	13,412,608	862,784
Capital lease obligations	226,554		(111,961)	114,593	114,593
Contract obligations payable	11,459,205		(315,100)	11,144,105	351,075
Accrued compensated absences	141,061	116,609	(151,950)	105,720	14,106
Total business-type activities	<u>24,659,588</u>	<u>1,566,609</u>	<u>(1,449,171)</u>	<u>24,777,026</u>	<u>1,342,558</u>
Total primary government	<u>\$ 25,167,875</u>	<u>\$ 2,002,671</u>	<u>\$ (1,879,901)</u>	<u>\$ 25,290,645</u>	<u>\$ 1,779,634</u>

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

Year Ending June, 30	Governmental Activities	
	Capital Lease Obligations	
	Principal	Interest
2008	\$ 45,853	\$ 5,858
2009	43,045	3,027
2010	15,070	1,196
2011	3,630	520
2012	3,639	170
Totals	<u>\$ 111,237</u>	<u>\$ 10,771</u>

Year Ending June, 30	Business-Type Activities					
	Notes Payable		Contract Obligation Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 862,784	\$ 136,682	\$ 351,075	\$ 600,333	\$ 114,593	\$ 2,103
2009	1,030,082	112,217	369,988	581,420		
2010	1,063,322	86,997	389,919	561,489		
2011	1,102,931	60,817	410,924	540,484		
2012	951,435	33,860	433,060	518,348		
2013-2017	2,923,770	62,555	2,541,407	2,215,633		
2018-2022	3,126,178	31,978	3,303,767	1,453,273		
2023-2027	2,352,106	7,171	3,343,965	462,195		
Totals	<u>\$ 13,412,608</u>	<u>\$ 532,277</u>	<u>\$ 11,144,105</u>	<u>\$ 6,933,175</u>	<u>\$ 114,593</u>	<u>\$ 2,103</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 \$ 1,578,630 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2007, represents the cumulative amount of such cost reported to date based on the use of approximately 78.12 % 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 \$ 440,935 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 2007. The City expects to close the landfill in 2009 to 2010 time frame unless additional cells are opened. 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, 2007, is \$ 6,837,784, 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, 2007, \$ 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, 2007, 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	\$	122,144
State and Community Highway Safety Grant		28,625
Enforcing Underage Drinking Laws Program		2,175
Airport Improvement Program		16,929
Water Quality Management Planning Grant		5,000
Emergency Management Performance Grant		34,126
Law Enforcement Terrorism Prevention Program		29,808
Assistance to Firefighters Grant		16,549
Federal Emergency Management Administration		3,237
Community Expansion of Nutrition Assistance		4,650
Oklahoma Strategic Military Planning Commission Grant		200,000
Interagency Hazardous Materials Public Sector Training and Planning		2,000
Total grants and contracts	\$	<u>465,243</u>

Federal expenditures totaled \$ 260,593 and State expenditures totaled \$ 204,650.

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 liquidated. 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 years ended June 30, 2007 and 2006, for employees and employer were \$ 106,891 and \$ 103,354 and \$ 179,994 and \$ 182,157, on covered payroll of \$ 1,380,581 and \$ 1,401,212, respectively.

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 years ended June 30, 2007 and 2006, for employees and employer were \$ 97,838 and \$ 94,010 and \$ 178,345 and \$ 174,979, on covered payroll of \$ 1,370,432 and \$ 1,345,989, respectively.

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 increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2007. 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 increases based on the age of the employee.

Total actuarial accrued liability was more than net assets available for benefits by \$ 1,264,466 as of January 1, 2007, as follows:

Actuarial accrued liability	\$ 15,156,045
Net assets available for benefits (actuarial value)	<u>(13,891,579)</u>
Underfunded actuarial accrued liability	<u>\$ 1,264,466</u>

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

For the year ended June 30, 2007, employees were required to contribute 4% of annual compensation while the City contributed 7.54% for the period July 1, 2006 through December 31, 2006, and 8.63% for the period January 1, 2007 through June 30, 2007. Contributions to the Plan for the year ended June 30, 2007 and 2006, for employee and employer were \$ 191,894 and \$ 188,098 and \$ 361,811 and \$ 408,218, respectively.

For the years ended June 30, 2007 and 2006, the City’s covered payroll was \$ 4,789,544 and \$ 4,716,519 out of total payroll of \$ 5,666,391 and \$ 5,666,580, respectively. 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.

Funding progress for the Plan for the past 10 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
01/01/07	\$ 13,891,579	\$ 15,156,045	\$ 1,264,466	91.66 %	\$ 4,722,591	26.77 %
01/01/06	14,015,541	14,772,829	757,289	94.87 %	4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01) %
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 after six months of employment and voluntarily select their before tax percentage of contribution up to 15% of compensation. By City ordinance, the City, as employer, is required to make variable contributions to the plan, based on availability of funds. As of July 2002, City contributions were 1.49% of gross salary. The employee is fully vested after 10 years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the City Commission. Contributions to the plan for the year ended June 30, 2007 and 2006, for employees and employer were \$ 58,367 and \$ 49,028 and \$ 71,471 and \$ 70,073, on a covered payroll of \$ 4,789,544 and \$ 4,716,519, respectively.

Oklahoma Municipal Retirement Fund – Defined Contribution Plan – CMO Plan

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

Funding Policy – Employees are eligible to participate upon employment and voluntarily elect their percentage of contribution with a minimum contribution of 3% of compensation.

The City makes contributions to the Plan based on the employment agreement with the employee and employer contributions are immediately vested. The authority to establish and amend the provisions of the Plan rests with the City Commission. Contributions to the Plan for the year ended June 30, 2007 and 2006, for the employee and employer were \$ 2,868 and \$ 2,726 and \$ 9,562 and \$ 9,086 on covered payroll of \$ 95,620 and \$ 90,865, respectively.

K. Employee post-employment benefits other than pensions

The City of Altus provides certain retirees with health insurance coverage at a premium to the retired employee less than the actual cost of the health coverage. For the year ended June 30, 2007, the cost to the City of Altus for this subsidy was approximately \$ 193,000.

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, 2007, 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	<u>2,663,859</u>
Total investments or assets at risk	<u>\$ 4,817,777</u>

The repayment of the notes and related accrued interest 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, 2007 were \$ 165,364.

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.

C. Post-Employment Benefits Other Than Pensions

During the year ended June 30, 2007, the City of Altus provided retirees (either normal or disability retirement) with a subsidy for health insurance costs (approximately \$ 193,000 per year currently). Historically, this subsidy has continued until the retiree becomes eligible for Medicare and for the spouse for three years after the employee becomes eligible for Medicare whichever comes first. While the City has historically provided the post-employment benefit, the provisions of the benefit (subsidy) as to amount, eligibility and duration have not been formally established by the City Commission.

City of Altus, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual – General Fund
Year Ended June 30, 2007

	Budget			Variance with Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 8,133,851	\$ 8,217,851	\$ 7,731,943	\$ (485,908)
Licenses and permits	88,400	88,400	105,025	16,625
Intergovernmental	144,450	425,727	583,562	157,835
Fines and forfeitures	350,486	342,986	357,795	14,809
Charges for services	166,700	160,980	164,263	3,283
Miscellaneous	99,000	99,000	72,916	(26,084)
Rental revenue	33,800	33,800	28,291	(5,509)
Interest	1,200	1,200	5,405	4,205
Total revenues	9,017,887	9,369,944	9,049,200	(320,744)
EXPENDITURES				
General government:				
Administration	2,030,028	2,006,558	1,794,982	211,576
City attorney	103,173	103,173	106,666	(3,493)
City clerk	152,719	153,719	153,169	550
Municipal court	199,735	199,735	175,165	24,570
Public safety:				
Police department	2,832,259	2,851,709	2,749,815	101,894
Fire department	1,923,518	2,110,716	1,855,582	255,134
Emergency management	99,258	99,883	77,090	22,793
Public works:				
Engineering	69,660	65,371	66,242	(871)
Code enforcement & planning	432,811	323,653	288,439	35,214
Street department	696,625	698,737	622,678	76,059
Garage	479,346	478,835	456,498	22,337
Building maintenance	285,265	295,765	270,474	25,291
Economic development		400,000	400,000	0
Culture and recreation:				
Parks and cemetery	1,271,749	1,221,049	1,300,127	(79,078)
Debt service		41,904	19,233	22,671
Capital outlay	653,503	1,469,209	1,078,554	390,655
Total expenditures	11,229,649	12,520,016	11,414,714	1,105,302
Excess (deficit) of revenues over expenditures	(2,211,762)	(3,150,072)	(2,365,514)	784,558
OTHER FINANCING SOURCES (USES)				
Proceed from debt issuances		673,950	810,655	136,705
Transfers in		5,192,418	2,714,192	(2,478,226)
Transfers (out)		(2,862,611)	(1,417,162)	1,445,449
Total other financing sources (uses)	0	3,003,757	2,107,685	(896,072)
Net change in fund balances	(2,211,762)	(146,315)	(257,829)	(111,514)
FUND BALANCES, beginning	552	692,785	692,785	0
FUND BALANCES, ending	\$ (2,211,210)	\$ 546,470	\$ 434,956	\$ (111,514)

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, 2007

<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	\$ 9,049,200
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(200,000)
	<hr/>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 8,849,200</u>
 EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 11,414,714
Adjustments:	
<i>Budgetary</i> general fund expenditures are reported on the cash basis, rather than the modified accrual basis	(200,000)
	<hr/>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 11,214,714</u>

See disclaimer in accompanying Independent Auditor's Report.

City of Altus, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2007

	Special Revenue			
	Street and Alley Fund	Emergency E-911 Fund	Parks Development Fund	Altus Donation Fund
ASSETS				
Cash and cash equivalents	\$ 283,420	\$ 28,483	\$ 62,580	\$ 252,346
Investments	525,000			
Receivables:				
Accounts, net				
Taxes				
Due from other governments	35,604			
Accrued interest	4,787			
Inventory				
Due from other governments				
Total assets	<u>\$ 848,811</u>	<u>\$ 28,483</u>	<u>\$ 62,580</u>	<u>\$ 252,346</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,764	\$ 11,270	\$ 30,000	\$ 95,550
Due to other funds				
Unearned revenue				
Total liabilities	<u>8,764</u>	<u>11,270</u>	<u>30,000</u>	<u>95,550</u>
FUND BALANCES				
Reserved for:				
Reserve for inventory				
Unreserved:				
Special revenue	840,047	17,213	32,580	156,796
Capital projects				
Undesignated				
Total fund balances	<u>840,047</u>	<u>17,213</u>	<u>32,580</u>	<u>156,796</u>
Total liabilities and fund balances	<u>\$ 848,811</u>	<u>\$ 28,483</u>	<u>\$ 62,580</u>	<u>\$ 252,346</u>

Special Revenue			Capital Projects			
Airport Fund	Hotel/Motel Tax Fund	Cemetery Perpetual Care Fund	Capital Improvement Fund	Veterans Bypass Fund	ODOC Grant Fund	Landfill Improvement Fund
\$ 4,349	\$ 48,126	\$ 14,797	\$ 12,629 122,000	\$ 18,182 50,000	\$ 122	\$ 157,401 600,000
37,365	18,268		247	29		9,626
29,067						
<u>\$ 70,781</u>	<u>\$ 66,394</u>	<u>\$ 14,797</u>	<u>\$ 134,876</u>	<u>\$ 68,211</u>	<u>\$ 122</u>	<u>\$ 767,027</u>
\$ 2,511		\$ 150				
<u>2,511</u>		<u>150</u>				
29,067						
39,203	\$ 66,394	14,647	\$ 134,876	\$ 68,211	\$ 122	\$ 767,027
<u>68,270</u>	<u>66,394</u>	<u>14,647</u>	<u>134,876</u>	<u>68,211</u>	<u>122</u>	<u>767,027</u>
<u>\$ 70,781</u>	<u>\$ 66,394</u>	<u>\$ 14,797</u>	<u>\$ 134,876</u>	<u>\$ 68,211</u>	<u>\$ 122</u>	<u>\$ 767,027</u>

City of Altus, Oklahoma
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2007

	Capital Projects			Debt Service	Total Nonmajor Governmental Funds
	Economic Development Construction Fund	Drainage Improvement Fund	FAA Grant Fund	Debt Service Fund	
ASSETS					
Cash and cash equivalents	\$ 99,492	\$ 38,991		\$ 1,646	\$ 1,022,564
Investments	898,000	55,000			2,250,000
Receivables:					
Accounts, net					37,365
Taxes					18,268
Due from other governments			\$ 16,929		52,533
Accrued interest	11,037	38			25,764
Inventory					29,067
 Total assets	<u>\$ 1,008,529</u>	<u>\$ 94,029</u>	<u>\$ 16,929</u>	<u>\$ 1,646</u>	<u>\$ 3,435,561</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 115				\$ 148,360
Due to other funds					
Unearned revenue					
Total liabilities	<u>115</u>				<u>148,360</u>
FUND BALANCES					
Reserved for:					
Reserve for inventory					29,067
Unreserved:					
Special revenue					1,166,880
Capital projects	1,008,414	\$ 94,029	\$ 16,929	\$ 1,646	2,091,254
Undesignated					0
Total fund balances	<u>1,008,414</u>	<u>94,029</u>	<u>16,929</u>	<u>1,646</u>	<u>3,287,201</u>
Total liabilities and fund balances	<u>\$ 1,008,529</u>	<u>\$ 94,029</u>	<u>\$ 16,929</u>	<u>\$ 1,646</u>	<u>\$ 3,435,561</u>

**Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2007**

	Special Revenue			
	Street & Alley Fund	Emergency E-911 Fund	Parks Development Fund	Altus Donation Fund
REVENUES				
Taxes				
Intergovernmental	\$ 195,332			\$ 2,000
Charges for services		\$ 145,175		
Other				84,945
Interest	20,907		\$ 806	
Total revenues	216,239	145,175	806	86,945
EXPENDITURES				
Current:				
Public safety		401,871		
Airport				
Public works	9,533			
Culture and recreation			30,000	20,059
Debt service:				
Principal				
Interest				
Economic development				
Capital outlay	12,300			181,351
Total expenditures	21,833	401,871	30,000	201,410
Excess (deficiency) of revenues over (under) expenditures	194,406	(256,696)	(29,194)	(114,465)
OTHER FINANCING SOURCES (USES)				
Proceeds of debt issuance				
Transfers in		310,282		30,001
Transfers (out)		(25,000)		
Total other financing sources (uses)	0	285,282	0	30,001
Net change in fund balances	194,406	28,586	(29,194)	(84,464)
FUND BALANCES, beginning	645,641	(11,373)	61,774	241,260
FUND BALANCES, ending	\$ 840,047	\$ 17,213	\$ 32,580	\$ 156,796

Special Revenue			Capital Project Funds		
Airport Fund	Hotel/Motel Tax Fund	Cemetery Perpetual Fund	Capital Improvement Fund	Veterans Bypass Fund	ODOC Grant Fund
	\$ 148,329				\$ 122,144
\$ 376,224		\$ 7,463			
			\$ 5,364	\$ 2,509	94
<u>376,224</u>	<u>148,329</u>	<u>7,463</u>	<u>5,364</u>	<u>2,509</u>	<u>122,238</u>
485,053					70,100
9,261	6,050	2,692 357			
<u>10,559</u>		<u>22,216</u>			<u>52,044</u>
<u>504,873</u>	<u>6,050</u>	<u>25,265</u>	<u>0</u>	<u>0</u>	<u>122,144</u>
<u>(128,649)</u>	<u>142,279</u>	<u>(17,802)</u>	<u>5,364</u>	<u>2,509</u>	<u>94</u>
145,439		16,569			
<u>(16,929)</u>	<u>(129,921)</u>				
<u>128,510</u>	<u>(129,921)</u>	<u>16,569</u>	<u>0</u>	<u>0</u>	<u>0</u>
(139)	12,358	(1,233)	5,364	2,509	94
<u>68,409</u>	<u>54,036</u>	<u>15,880</u>	<u>129,512</u>	<u>65,702</u>	<u>28</u>
<u>\$ 68,270</u>	<u>\$ 66,394</u>	<u>\$ 14,647</u>	<u>\$ 134,876</u>	<u>\$ 68,211</u>	<u>\$ 122</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2007
(continued)

	Capital Projects			
	Landfill Improvement Fund	Economic Development Construction Fund	Drainage Improvement Fund	FAA Grant Fund
REVENUES				
Taxes				
Intergovernmental				\$ 16,929
Charges for services				
Other			\$ 13,212	
Interest	\$ 27,650	\$ 54,742	2,483	
Total revenues	<u>27,650</u>	<u>54,742</u>	<u>15,695</u>	<u>16,929</u>
EXPENDITURES				
Current:				
Public safety				
Airport				16,929
Public works				
Culture and recreation				
Debt service:				
Principal				
Interest				
Economic development				
Capital outlay				
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,929</u>
Excess (deficiency) of revenues over (under) expenditures	<u>27,650</u>	<u>54,742</u>	<u>15,695</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of debt issuance				
Transfers in	200,000			16,929
Transfers (out)				
Total other financing sources (uses)	<u>200,000</u>	<u>0</u>	<u>0</u>	<u>16,929</u>
Net change in fund balances	227,650	54,742	15,695	16,929
FUND BALANCES, beginning	<u>539,377</u>	<u>953,672</u>	<u>78,334</u>	
FUND BALANCES, ending	<u>\$ 767,027</u>	<u>\$ 1,008,414</u>	<u>\$ 94,029</u>	<u>\$ 16,929</u>

<u>Debt Service</u>		<u>Total Nonmajor Governmental Funds</u>
Debt Service Fund		
\$ 1,527	\$	149,856
		336,405
		528,862
		98,157
<u>119</u>		<u>114,674</u>
<u>1,646</u>		<u>1,227,954</u>
		401,871
		501,982
		79,633
		50,059
		11,953
		6,407
		0
		<u>278,470</u>
<u>0</u>		<u>1,330,375</u>
<u>1,646</u>		<u>(102,421)</u>
		16,569
		702,651
		<u>(171,850)</u>
<u>0</u>		<u>530,801</u>
1,646		444,949
		<u>2,842,252</u>
<u>\$ 1,646</u>	<u>\$</u>	<u>3,287,201</u>

City of Altus, Oklahoma
Combining Statement of Net Assets
Internal Service Funds
June 30, 2007

	<u>Workers'</u> <u>Compensation</u> <u>Fund</u>	<u>Assurance</u> <u>Fund</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 248,469	\$ 144,045	\$ 392,514
Investments	500,000		500,000
Receivables:			
Accrued interest	1,788		1,788
Total current assets	<u>750,257</u>	<u>144,045</u>	<u>894,302</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation			
Total noncurrent assets	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>750,257</u>	<u>144,045</u>	<u>894,302</u>
LIABILITIES			
Current liabilities:			
Claims liability	247,648	437,235	684,883
Total current liabilities	<u>247,648</u>	<u>437,235</u>	<u>684,883</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>639,648</u>	<u>437,235</u>	<u>1,076,883</u>
NET ASSETS			
Unrestricted	110,609	(293,190)	(182,581)
Total net assets	<u>\$ 110,609</u>	<u>\$ (293,190)</u>	<u>\$ (182,581)</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenses and Changes In Net Assets
Internal Service Funds
June 30, 2007

	Workers' Compensation Fund	Assurance Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 538,562	\$ 1,598,388	\$ 2,136,950
Total operating revenues	<u>538,562</u>	<u>1,598,388</u>	<u>2,136,950</u>
OPERATING EXPENSES			
Administration expense	10,889	80,532	91,421
Claims expense	202,438	2,083,947	2,286,385
Total operating expenses	<u>213,327</u>	<u>2,164,479</u>	<u>2,377,806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>325,235</u>	<u>(566,091)</u>	<u>(240,856)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	17,587	494	18,081
Miscellaneous	8,093		8,093
Net non-operating revenues (expenses)	<u>25,680</u>	<u>494</u>	<u>26,174</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds		606,290	606,290
Transfers to other funds			
Total other financing sources (uses)	<u>0</u>	<u>606,290</u>	<u>606,290</u>
Change in Net Assets	350,915	40,693	391,608
NET ASSETS, beginning	<u>(240,306)</u>	<u>(333,883)</u>	<u>(574,189)</u>
NET ASSETS, ending	<u>\$ 110,609</u>	<u>\$ (293,190)</u>	<u>\$ (182,581)</u>

City of Altus, Oklahoma
Combining Statement of Cash Flows
Internal Service Funds
June 30, 2007

	Workers' Compensation Fund	Assurance Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from charges to other funds	\$ 538,562	\$ 1,695,606	\$ 2,234,168
Receipts from others	6,305	361,913	368,218
Claims and judgments paid	(196,334)	(2,394,044)	(2,590,378)
Net cash provided (used in) operating activities	<u>348,533</u>	<u>(336,525)</u>	<u>12,008</u>
CASH FLOWS FROM NONCAPITAL INVESTING ACTIVITIES			
Transfers in		606,290	606,290
Net cash provided by noncapital investing activities		<u>606,290</u>	<u>606,290</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	17,587	494	18,081
(Increase) in investments	(500,000)		(500,000)
Net cash provided (used) by investing activities	<u>(482,413)</u>	<u>494</u>	<u>(481,919)</u>
Net increase (decrease) in cash and cash equivalents	(133,880)	270,259	136,379
CASH AND CASH EQUIVALENTS, beginning	<u>382,349</u>	<u>(126,214)</u>	<u>256,135</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 248,469</u>	<u>\$ 144,045</u>	<u>\$ 392,514</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating Income (Loss)	\$ 325,235	\$ (566,091)	\$ (240,856)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Other non-operating revenue	8,093		8,093
Increase (decrease) in accounts receivable	(1,788)		(1,788)
Increase (decrease) in accounts payable and accrued liabilities		229,566	229,566
Increase (decrease) in estimated liability for claims	16,993		16,993
Net cash provided by (used in) operating activities	<u>\$ 348,533</u>	<u>\$ (336,525)</u>	<u>\$ 12,008</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
01/01/07	\$ 13,891,579	\$ 15,156,045	\$ 1,264,466	91.66 %	\$ 4,722,591	26.77 %
01/01/06	14,015,541	14,772,829	757,289	94.87 %	4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01) %
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 %

City of Altus, Oklahoma
Schedule of Debt Service Coverage –
Altus Municipal Authority
Year Ended June 30, 2007

	<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	\$ 3,342,950		
Utility system revenue		\$ 23,717,045	\$ 23,717,045
Investment income	578,735	578,735	578,735
Total gross revenues available	<u>3,921,685</u>	<u>24,295,780</u>	<u>24,295,780</u>
EXPENSES			
Operating	3,095,281	19,697,105	19,697,105
Less:			
Depreciation and amortization	<u>(899,585)</u>	<u>(1,427,912)</u>	<u>(1,427,912)</u>
Net revenues available for debt service	<u>\$ 1,725,989</u>	<u>\$ 6,026,587</u>	<u>\$ 6,026,587</u>
Debt service requirements:			
Maximum annual debt service	<u>\$ 930,055</u>	<u>\$ 268,520</u>	<u>\$ 1,135,945</u>
Computed coverage	<u>186%</u>	<u>2244%</u>	<u>531%</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.

Joseph E. Carlson, CPA

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

November 9, 2007

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, 2007, and have issued my report thereon dated November 9, 2007. 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.

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*.

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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.

Joseph E. Carlson

Joseph E. Carlson, CPA