



City of Altus

**Report on Audit of
Financial Statements
June 30, 2008**

City of Altus, Oklahoma
Report on Audit of Financial Statements
June 30, 2008
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Ronald C. Cottrell, CPA

Independent Auditor's Report

February 26, 2009

City Commissioners
City of Altus
Altus, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of and for the year ended June 30, 2008, which collectively comprise the City of Altus's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Altus's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Altus's internal control over financial reporting. Accordingly, we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of June 30, 2008, 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.

As described in Note VI. E. to the financial statements, the City of Altus made adjustments to beginning net assets for governmental and business-type activities in the government-wide financial statements and to the Altus Municipal Authority and internal service fund in the proprietary fund financial statements to correct errors in prior year's financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2009, on our consideration of the City of Altus's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Ronald C. Cottrell, CPA

Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 45 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Altus's basic financial statements. The accompanying combining and individual nonmajor fund financial statements listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ronald C. Cottrell, CPA

City of Altus, Oklahoma
Management's Discussion and Analysis
June 30, 2008

The following discussion and analysis of the City of Altus's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements, which begin on page 12.

Financial Highlights

- ❖ The assets of the City of Altus exceeded its liabilities at the close of the most recent fiscal year by \$ 40,269,341 (net assets). Of this amount, \$ 19,938,860 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the government's total net assets increased by \$ 2,984,918. This is mainly attributed to the purchase of equipment and improvements to infrastructure.

- ❖ As of the close of the current fiscal year, the City of Altus's governmental funds reported combined ending fund balances of \$ 5,009,214, an increase of \$ 1,018,610 in comparison with the prior year. Approximately \$ 1,049,564 is available for spending at the government's discretion (unreserved fund balance).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,049,564, or 10% of total general fund expenditures.

The City of Altus's total debt decreased by \$ 3,592,539 during the current fiscal year. The key factors in this decrease were scheduled payments to the principal debt.

Overview of the Financial Statements

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

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

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

See disclaimer in accompanying Independent Auditor's Report.

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

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

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

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

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

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

The City maintains fifteen 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 and the capital improvements fund, both of which are considered to be major funds. 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 capital improvements funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

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

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Municipal Authority operation.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its

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workers' compensation, and to pay for the City's group health and life insurance activities. Because this service predominantly benefits governmental rather than business-type functions, its operations have been included within governmental activities in the government-wide financial statements.

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

The basic proprietary fund financial statements can be found on pages 17–21 of this report.

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

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

The basic fiduciary fund financial statements can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23–44 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 general and capital improvements funds. Combining and individual fund statements and schedules can be found on pages 47–54 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 \$ 40,269,341 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (37%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

See disclaimer in accompanying Independent Auditor's Report.

City of Altus

Net Assets

June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 6,378,794	\$ 5,053,184	\$ 24,088,937	\$ 12,539,164	\$ 30,467,731	\$ 17,592,348
Capital and other noncurrent assets	6,670,034	6,800,514	37,268,044	48,824,892	43,938,078	55,625,406
Total assets	<u>13,048,828</u>	<u>11,853,698</u>	<u>61,356,981</u>	<u>61,364,056</u>	<u>74,405,809</u>	<u>73,217,754</u>
Current liabilities	345,456	965,019	4,889,243	4,487,265	5,234,699	5,452,284
Long-term liabilities	<u>1,260,770</u>	<u>1,007,990</u>	<u>27,640,999</u>	<u>31,850,881</u>	<u>28,901,769</u>	<u>32,858,871</u>
Total liabilities	<u>1,606,226</u>	<u>1,973,009</u>	<u>32,530,242</u>	<u>36,338,146</u>	<u>34,136,468</u>	<u>38,311,155</u>
Net assets:						
Invested in capital assets, net of related debt	6,599,523	6,635,058	8,153,099	4,374,657	14,752,622	11,009,715
Restricted	2,665,446	2,818,697	2,912,413	8,487,129	5,577,859	11,305,826
Unrestricted	<u>2,177,633</u>	<u>426,934</u>	<u>17,761,227</u>	<u>12,164,124</u>	<u>19,938,860</u>	<u>12,591,058</u>
Total net assets	<u>\$ 11,442,602</u>	<u>\$ 9,880,689</u>	<u>\$ 28,826,739</u>	<u>\$ 25,025,910</u>	<u>\$ 40,269,341</u>	<u>\$ 34,906,599</u>

An additional portion of the City's net assets (14%) represents resources that are subject to external restrictions on how they may be used, for example, capital improvements and debt service. The remaining balance of unrestricted net assets (\$ 19,938,860) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$ 2,984,918 during the current fiscal year.

City of Altus

Statement of Activities

Years Ended June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	\$ 1,473,692	\$ 1,025,065	\$ 23,767,110	\$ 23,700,759	\$ 25,240,802	\$ 24,725,824
Grants/contributions	844,988	524,635	4,288	8,237	849,276	532,872
General revenues	<u>9,056,518</u>	<u>8,237,772</u>	<u>797,644</u>	<u>606,868</u>	<u>9,854,162</u>	<u>8,844,640</u>
Total revenues	<u>11,375,198</u>	<u>9,787,472</u>	<u>24,569,042</u>	<u>24,315,864</u>	<u>35,944,240</u>	<u>34,103,336</u>
Expenses:						
General government	2,928,905	2,631,022			2,928,905	2,631,022
Public safety	6,030,232	5,209,181			6,030,232	5,209,181
Public works	2,370,545	1,297,180			2,370,545	1,297,180
Culture and recreation	1,335,917	1,461,366			1,335,917	1,461,366
Utilities			19,298,189	19,376,748	19,298,189	19,376,748
Airport	738,690	526,157			738,690	526,157
Economic development		493,292	234,194	1,275,621	234,194	1,768,913
Other	<u>22,650</u>	<u>27,898</u>			<u>22,650</u>	<u>27,898</u>
Total expenses	<u>13,426,939</u>	<u>11,646,096</u>	<u>19,532,383</u>	<u>20,652,369</u>	<u>32,959,322</u>	<u>32,298,465</u>

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	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Increase in net assets before transfers	(2,051,741)	(1,858,624)	5,036,659	3,663,495	2,984,918	1,804,871
Transfers, net	3,095,248	3,244,928	(3,095,248)	(3,244,928)	0	0
Increase in net assets	1,043,507	1,386,304	1,941,411	418,567	2,984,918	1,804,871
Net assets, beginning (restated)	10,399,095	8,494,385	26,885,328	24,607,343	37,284,423	33,101,728
Net assets, ending	<u>\$ 11,442,602</u>	<u>\$ 9,880,689</u>	<u>\$ 28,826,739</u>	<u>\$ 25,025,910</u>	<u>\$ 40,269,341</u>	<u>\$ 34,906,599</u>

Governmental activities. Governmental activities increased the City's net assets by \$ 1,043,507. Key elements of this increase are as follows:

- Purchase of vehicles and equipment for several departments.
- Improvements to equipment.
- Improvements to infrastructure

City of Altus
Governmental Activities
Years Ended June 30, 2008 and 2007

	Program Revenues		Cost of Services	
	2008	2007	2008	2007
General government	\$ 244,476	\$ 109,675	\$ 2,928,905	\$ 2,631,022
Public safety	575,505	538,260	6,030,232	5,209,181
Public works	672,223	142,936	2,370,545	1,297,180
Culture and recreation	191,217	165,707	1,335,917	1,461,366
Economic development		200,000		493,292
Airport	635,259	393,122	738,690	526,157
Interest and fiscal charges			22,650	27,898
Total governmental activities	<u>\$ 2,318,680</u>	<u>\$ 1,549,700</u>	<u>\$ 13,426,939</u>	<u>\$ 11,646,096</u>

Business-type activities. Business-type activities increased the City's net assets by \$ 1,941,411. The key elements in this increase are:

- Purchase of equipment for several departments.
- Relocation of North Park Lane water line.
- Improvements to the RO Treatment Plant.
- Improvements to the electric distribution system.

See disclaimer in accompanying Independent Auditor's Report.

City of Altus
 Business-Type Activities
Years Ended June 30, 2008 and 2007

	Program Revenues		Cost of Services	
	2008	2007	2008	2007
Electric	\$ 17,250,728	\$ 17,313,284	\$ 12,085,968	\$ 13,704,464
Water/wastewater	4,281,842	4,443,722	4,168,481	3,844,811
Sanitation	1,272,821	1,308,832	915,954	676,046
Landfill	507,712	643,158	667,018	591,818
Economic development			234,194	1,275,621
Interest and fiscal charges			530,583	559,609
Administration/services	454,007		930,185	
Total business-type activities	\$ 23,767,110	\$ 23,708,996	\$ 19,532,383	\$ 20,652,369

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 \$ 5,009,214, an increase of \$ 1,018,610 in comparison with the prior year. Approximately 52% of this total amount (\$ 2,262,346) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital improvements, encumbrances, or debt service.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,049,564. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents 10% of total general fund expenditures.

The fund balance of the City's general fund increased \$ 699,145 during the current fiscal year.

- Revenues were up \$ 725,606 to \$ 9,574,806, primarily due to increases in tax collections, licenses/permits, intergovernmental collections and charges for services.
- Expenditures also increased by \$ 170,975 to \$ 11,385,691 as a result of expenditures for governmental administration, public safety and infrastructure.
- Net transfers between the general fund and other funds increased by \$ 402,343 because of shortfalls between collections and expenses.

See disclaimer in accompanying Independent Auditor's Report.

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

Unrestricted net assets of the Altus Municipal Authority at the end of the year amounted to \$ 17,761,227. The total increase in net assets was \$ 1,941,411, not including prior period adjustments made to beginning net assets to correct errors from prior years. Operating revenues were flat, showing a slight increase of \$ 124,833 from the \$ 23,717,045 reported in the prior year. Operating expenses were down by \$ 695,405 to \$ 19,001,800, due to the following factors:

- Decreased spending in the electric department.
- Decreased spending for economic development.

Nonoperating revenues and expenses reported an increase of \$ 144,141 in interest income and a decrease of \$ 424,681 in interest expense. Net operating transfers changed only slightly with a net increase of \$ 149,680.

Budgetary Highlights of Major Governmental Funds

The City's estimated revenues for the general fund increased from \$ 9,594,553 originally to \$ 9,904,398 during the year due to receipt of grant revenues and unexpected tax revenues.

Expenditures appropriated went from \$ 12,086,824 to \$ 12,565,319. Major changes in departmental budgets included:

Administrative services	\$ 309,138	Unexpended expected expenses.
Police & traffic	(47,000)	Variance in expenses such as salaries.
Fire	(42,852)	Variance in expenses such as salaries.
Capital outlay	135,536	Unpurchased capital items.

During the year, revenues of \$ 9,361,497 were less than budgetary estimates by \$ (542,901). This was primarily due to:

- Anticipated taxes uncollected at year end.
- Anticipated grants unreimbursed at year end.
- Decrease in collection of anticipated other charges for services.

Expenditures of \$ 11,447,544 were less than budgetary estimates of \$ 12,565,319, due to:

- Reduction in salary expense due to employee turnover.
- Reduction in capital expenditures.

As a result, after net transfers in of \$ 2,510,030, the City did not have to use any of its fund balance carry forward to fund expenditures.

See disclaimer in accompanying Independent Auditor's Report.

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, 2008, amounts to \$ 42,780,412 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and equipment, and infrastructure.

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

- Purchase of police department equipment.
- Purchase of fire department equipment.
- Purchase of vehicles for several departments.
- Improvements of City infrastructure through various grant projects.
- Improvements of Airport facilities and infrastructure through FAA grants.
- Purchase of various pieces of heavy equipment for various departments.

City of Altus
Capital Assets
June 30, 2008 and 2007
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,317,403	\$ 1,317,403	\$ 652,881	\$ 652,881	\$ 1,970,284	\$ 1,970,284
Construction in progress	51,312	17,080	11,856,935	10,935,068	11,908,247	10,952,148
Buildings and improvements	4,087,370	3,952,240	6,805,796	7,248,090	10,893,166	11,200,330
Machinery and equipment	695,533	975,973	853,237	264,267	1,548,770	1,240,240
Infrastructure	518,416	537,818	0		518,416	537,818
Intangible water rights			14,868,628	15,510,917	14,868,628	15,510,917
Utility property			1,072,902	1,654,209	1,072,902	1,654,209
Capital assets, net	<u>\$ 6,670,034</u>	<u>\$ 6,800,514</u>	<u>\$ 36,110,379</u>	<u>\$ 36,265,432</u>	<u>\$ 42,780,413</u>	<u>\$ 43,065,946</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 32-33 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$ 21,190,004. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) totaling \$ 8,964,091, other notes payable to banks and other governmental entities of \$ 395,947, \$ 1,106,781 in capital lease obligations, and contract obligations payable of \$ 10,723,185 for water rights.

See disclaimer in accompanying Independent Auditor's Report.

City of Altus
Outstanding Debt
June 30, 2008 and 2007

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Capital lease obligations	\$ 70,511	\$ 111,237	\$ 1,036,270	\$ 114,593	\$ 1,106,781	\$ 225,830
Contract obligation payable			10,723,185	11,144,105	10,723,185	11,144,105
Notes payable			9,360,038	13,412,608	9,360,038	13,412,608
Compensated absences	703,178	402,382	277,424	105,720	980,602	508,102
Total outstanding debt	<u>\$ 773,689</u>	<u>\$ 513,619</u>	<u>\$ 21,396,917</u>	<u>\$ 24,777,026</u>	<u>\$ 22,170,606</u>	<u>\$ 25,290,645</u>

The City's total debt decreased by \$ 2,611,937 during the current fiscal year. The key factors in this decrease were:

- Anticipated aging of debt.
- Maintaining a disciplined payment schedule.

Additional information on the City's long-term debt can be found in Notes V.F. on pages 32–35 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 revenue and expense budgets. The city expects increases in both revenues and expenditures. Revenues are expected to increase due to grant funds and increases in utility revenues due to significant increases in the number of customers, as well as increased revenue from major customers as a result of renegotiated contracts.

When setting the fiscal year 2009 expenditure budget. The City's officials kept increases in expenditures to a minimal, taking into consideration routine increases in personnel expenses and the volatile nature of the economy related to fuel costs and its effect on required materials and supplies needed to supply city services. The fiscal year 2009 budget includes expenses for several capital improvement projects and programs to include Park Lane improvements, Phase IV of Navajoe gateway Projects, water and sewer line renovations and extensions and modifications at the new water plant. The city has also planned for major mechanical improvements and the addition of a clarifier at the S.E. Wastewater Treatment Plant, installation of a PAPI at the Altus/Quartz Mountain Regional Airport and continued funding of EDC.

Requests for Information

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

See disclaimer in accompanying Independent Auditor's Report.

City of Altus, Oklahoma
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,220,621	\$ (370,102)	\$ 850,519
Investments	3,253,834	13,976,108	17,229,942
Receivables (net of allowance for uncollectibles):			
Accounts	319,083	5,835,858	6,154,941
Taxes	1,415,914		1,415,914
Due from other governments	62,745		62,745
Interest	17,005	83,188	100,193
Inventory	89,592	889,032	978,624
Restricted assets:			
Cash and investments		3,674,853	3,674,853
Total current assets	<u>6,378,794</u>	<u>24,088,937</u>	<u>30,467,731</u>
Noncurrent assets:			
Lease financing receivables		1,083,806	1,083,806
Debt issuance costs (net of accumulated amortization)		73,860	73,860
Capital assets (net of accumulated depreciation)	6,670,034	36,110,378	42,780,412
Total noncurrent assets	<u>6,670,034</u>	<u>37,268,044</u>	<u>43,938,078</u>
Total assets	<u>13,048,828</u>	<u>61,356,981</u>	<u>74,405,809</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	287,189	1,709,254	1,996,443
Payable from restricted assets:			
Accrued interest		166,294	166,294
Customer deposits	9,251	769,799	779,050
Deferred revenue	4,097		4,097
Current portion of long-term obligations	44,919	2,243,896	2,288,815
Total current liabilities	<u>345,456</u>	<u>4,889,243</u>	<u>5,234,699</u>
Noncurrent liabilities:			
Capital lease obligations	25,592	753,451	779,043
Contract obligation payable		10,327,770	10,327,770
Notes payable		7,794,378	7,794,378
Deferred gain - contract refinancing		6,837,784	6,837,784
Accrued landfill closure costs		1,650,193	1,650,193
Claims incurred but not recorded	532,000		532,000
Accrued compensated absences	703,178	277,423	980,601
Total noncurrent liabilities	<u>1,260,770</u>	<u>27,640,999</u>	<u>28,901,769</u>
Total liabilities	<u>1,606,226</u>	<u>32,530,242</u>	<u>34,136,468</u>
Net assets			
Invested in capital assets, net of related debt	6,599,523	8,153,099	14,752,622
Restricted for:			
Capital improvements	2,357,600	475,137	2,832,737
Debt service	3,537	2,437,276	2,440,813
Other	304,309		304,309
Unrestricted	2,177,633	17,761,227	19,938,860
Total net assets	<u>\$ 11,442,602</u>	<u>\$ 28,826,739</u>	<u>\$ 40,269,341</u>

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

City of Altus, Oklahoma
Statement of Activities
Year Ended June 30, 2008

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,928,905	\$ 244,476		
Public safety	6,030,232	429,224	\$ 2,475	\$ 143,806
Public works	3,109,235	620,980	333,673	352,829
Culture and recreation	1,335,917	179,012		12,205
Interest on long-term debt	22,650			
Total governmental activities	<u>13,426,939</u>	<u>1,473,692</u>	<u>336,148</u>	<u>508,840</u>
Business-type activities:				
Administrative/services	930,185	454,007		
Electric	12,085,968	17,250,728	4,288	
Water/wastewater	4,168,481	4,281,842		
Sanitation	915,954	1,272,821		
Landfill	667,018	507,712		
Economic development	234,194			
Interest expense and fiscal charges	530,583			
Total business-type activities	<u>19,532,383</u>	<u>23,767,110</u>	<u>4,288</u>	<u>0</u>
Total primary government	<u>\$ 32,959,322</u>	<u>\$ 25,240,802</u>	<u>\$ 340,436</u>	<u>508,840</u>

General revenues:
Taxes:
 Sales and use
 Franchise
 Other
Interest income
Miscellaneous
Transfers – internal activity
 Total general revenues and transfers
Change in net assets

Net assets, beginning

Prior period adjustment

Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,684,429)		\$ (2,684,429)
(5,454,727)		(5,454,727)
(1,801,753)		(1,801,753)
(1,144,700)		(1,144,700)
(22,650)		(22,650)
(11,108,259)	\$ 0	(11,108,259)
	(476,178)	(476,178)
	5,169,048	5,169,048
	113,361	113,361
	356,867	356,867
	(159,306)	(159,306)
	(234,194)	(234,194)
	(530,583)	(530,583)
	4,239,015	4,239,015
\$ (11,108,259)	\$ 4,239,015	\$ (6,869,244)
\$ 7,673,867		\$ 7,673,867
470,329		470,329
699,969		699,969
152,051	\$ 722,876	874,927
60,302	74,768	135,070
3,095,248	(3,095,248)	0
12,151,766	(2,297,604)	9,854,162
1,043,507	1,941,411	2,984,918
9,880,689	25,025,910	34,906,599
518,406	1,859,418	2,377,824
\$ 11,442,602	\$ 28,826,739	\$ 40,269,341

City of Altus, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 17,094	\$ 969,256	\$ 986,350
Investments		2,553,834	2,553,834
Receivables:			
Accounts	273,563	45,520	319,083
Taxes	1,370,349	45,565	1,415,914
Interest		13,023	13,023
Due from other governments		62,745	62,745
Inventories	64,466	25,128	89,594
Total assets	\$ 1,725,472	\$ 3,715,071	\$ 5,440,543
 Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 137,273	\$ 47,974	\$ 185,247
Refundable deposits	9,251		9,251
Deferred revenue	236,831		236,831
Total liabilities	383,355	47,974	431,329
 Fund balances:			
Reserved for:			
Capital improvements		2,357,600	2,357,600
Encumbrances	292,553	93,178	385,731
Debt service		3,537	3,537
Unreserved, designated for, reported in:			
Special revenue funds		1,212,782	1,212,782
Unreserved, undesignated, report in:			
General Fund	1,049,564		1,049,564
Total fund balances	1,342,117	3,667,097	5,009,214
Total liabilities and fund balances	\$ 1,725,472	\$ 3,715,071	

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.	6,670,034
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds:	
Deferred revenue-fines	232,734
Capital lease obligations	(70,511)
Accrued compensated absences	(703,178)
Internal service funds are used to charge the costs of workers' comp insurance and employee health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	304,309
Net assets of governmental activities	\$ 11,442,602

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, 2008

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 8,147,709	\$ 194,746	\$ 8,342,455
Licenses and permits	108,698		108,698
Intergovernmental	646,211	528,360	1,174,571
Fines and forfeitures	421,294		421,294
Charges for services	182,171	568,238	750,409
Other	65,339	96,147	161,486
Interest	3,384	117,074	120,458
Total revenues	<u>9,574,806</u>	<u>1,504,565</u>	<u>11,079,371</u>
Expenditures			
Current:			
General government	2,828,806	15,417	2,844,223
Public safety	5,018,587	413,563	5,432,150
Public works	2,041,644	675,332	2,716,976
Culture and recreation	1,191,711	11,228	1,202,939
Debt service	69,125	16,804	85,929
Capital outlay	235,818	472,160	707,978
Total expenditures	<u>11,385,691</u>	<u>1,604,504</u>	<u>12,990,195</u>
Excess of revenues over (under) expenditures	(1,810,885)	(99,939)	(1,910,824)
Other financing sources (uses)			
Proceeds from capital lease obligations		7,760	7,760
Transfers in	5,429,652	697,850	6,127,502
Transfers out	(2,919,622)	(286,206)	(3,205,828)
Total other financing sources (uses)	<u>2,510,030</u>	<u>419,404</u>	<u>2,929,434</u>
Net change in fund balances	699,145	319,465	1,018,610
Fund balances, beginning	434,956	3,287,200	3,722,156
Prior period adjustment	208,016	60,432	268,448
Fund balances, ending	<u>\$ 1,342,117</u>	<u>\$ 3,667,097</u>	<u>\$ 5,009,214</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, 2008

Net change in fund balances – total governmental funds	\$ 1,018,610
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, net	732,376
Depreciation expense	(862,856)
	(130,480)
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.	
Proceeds from capital lease obligations	(7,760)
Capital lease principal payments	48,486
	40,726
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	
Accrued compensated absences, net change	(354,750)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	
Change in net assets of governmental activities	469,401
	\$ 1,043,507

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

City of Altus, Oklahoma
Statement of Net Assets – Proprietary Funds
June 30, 2008

	Business-type Activities	Governmental Activities
	Altus Municipal Authority	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ (370,102)	\$ 234,271
Investments	13,976,108	700,000
Receivables:		
Accounts (net of allowance for uncollectibles)	5,835,858	
Interest	83,188	3,982
Inventory	889,032	
Restricted assets:		
Cash and investments	3,674,853	
Total current assets	24,088,937	938,253
Noncurrent assets:		
Restricted assets:		
Industrial development lease financing receivables	1,083,806	
Debt issuance costs (net of accumulated amortization)	73,860	
Capital assets (net of accumulated depreciation)	36,110,378	
Total noncurrent assets	37,268,044	0
Total assets	61,356,981	938,253
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	1,709,254	101,944
Payable from restricted assets:		
Accrued interest payable	166,294	
Customer deposits	769,799	
Current portion of long-term debt	2,243,896	
Total current liabilities	4,889,243	101,944
Noncurrent liabilities:		
Notes payable	7,794,378	
Capital lease obligations	753,451	
Contract obligation payable	10,327,770	
Deferred gain - contract refinancing	6,837,784	
Accrued landfill closure and postclosure costs	1,650,193	
Compensated absences	277,423	
Claims liability		532,000
Total noncurrent liabilities	27,640,999	532,000
Total liabilities	32,530,242	633,944
Net assets		
Invested in capital assets, net of related debt	8,153,099	
Restricted:		
Debt service	2,437,276	
Capital improvements	475,137	
Other		304,309
Unrestricted	17,761,227	
Total net assets	\$ 28,826,739	\$ 304,309

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, 2008

	Business-type Activities	Governmental Activities
	Altus Municipal Authority	Internal Service Funds
Operating revenues		
Charges for services:		
Electric	\$ 17,248,178	
Water	3,125,343	
Wastewater	1,134,057	
Sanitation	1,272,771	
Landfill	507,762	
Other	157,229	\$ 1,875,427
Penalties and late charges	396,538	
Total operating revenues	<u>23,841,878</u>	<u>1,875,427</u>
Operating expenses		
Administration	169,863	74,409
Electric	11,664,007	
Water/wastewater maintenance	649,077	
Water treatment	1,543,166	
Wastewater treatment	589,619	
Landfill	470,348	
Sanitation	835,507	
Economic development	234,194	
Utility services	442,009	
Meter services	298,829	
Enterprise services	115,358	
Depreciation and amortization	1,989,823	
Claims expense		1,556,542
Total operating expenses	<u>19,001,800</u>	<u>1,630,951</u>
Net operating income (loss)	4,840,078	244,476
Nonoperating revenues (expenses)		
Capital grants	4,288	
Miscellaneous revenues		19,756
Interest income	722,876	31,594
Interest expense and fiscal charges	(530,583)	
Total nonoperating revenues (expenses)	<u>196,581</u>	<u>51,350</u>
Operating transfers		
Transfers in	2,986,382	173,575
Transfers (out)	(6,081,630)	
Total operating transfers	<u>(3,095,248)</u>	<u>173,575</u>
Net income (loss)	1,941,411	469,401
Net assets, beginning	25,025,910	(182,581)
Prior period adjustment -correction of errors	1,859,418	17,489
Net assets, ending	<u>\$ 28,826,739</u>	<u>\$ 304,309</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, 2008

	Business-type Activities	Governmental Activities
	Altus Municipal Authority	Internal Service Fund
Cash flows from operating activities		
Receipts from customers and others	\$	\$ 1,875,427
Payments to suppliers		(74,409)
Claims and judgments paid		
Payments to employees		(1,981,992)
Net cash provided (used) by operating activities	7,097,073	(180,974)
Cash flows from noncapital financing activities		
(Increase) decrease in loan financing receivables	1,650,322	
Miscellaneous revenues/ (expenses)		19,756
Operating transfers in (out)	(3,095,248)	173,575
Net cash provided (used) by noncapital financing activities	(1,444,926)	193,331
Cash flows from capital and related financing activities		
Proceeds from issuance of long-term debt	1,308,329	
Capital grants	4,288	
Principal paid on long-term debt	(4,446,556)	
Interest expense and fiscal charges	(530,027)	
(Increase) decrease in restricted assets	(5,837)	
Acquisition/construction of capital assets	(1,830,424)	
Net cash provided (used) by capital and related financing activities	(5,500,227)	0
Cash flows from investing activities		
(Increase) decrease in investments	(1,361,194)	(200,000)
Interest income	423,740	29,400
Net cash provided (used) by investing activities	(937,454)	(170,600)
Net increase (decrease) in cash and cash equivalents	(785,534)	(158,243)
Cash and cash equivalents, beginning	415,432	392,514
Cash and cash equivalents, ending	\$ (370,102)	\$ 234,271
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 4,840,078	\$ 244,476
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,989,823	
Changes in assets and liabilities:		
(Increase) decrease in receivables	(110,681)	
(Increase) decrease in inventory	(236,536)	
Increase (decrease) in accounts payable	318,775	
Increase (decrease) in customer deposits	52,348	
Increase (decrease) in accrued expenses	243,266	
Increase (decrease) in claims liability		(425,450)
Total adjustments	2,256,995	(425,450)
Net cash provided (used) by operating activities	\$ 7,097,073	\$ (180,974)

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

City of Altus, Oklahoma
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2008

	Agency Flex Benefit Plan
Assets	
Cash and cash equivalents	\$ 31,072
Total assets	31,072
Liabilities	
Refundable deposits	31,072
Total liabilities	31,072
Net assets	\$ 0

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

City of Altus, Oklahoma
Notes to Financial Statements
June 30, 2008

I. Organization

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

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units which would be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

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

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

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

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

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. 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.

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

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

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

items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City.

Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

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

2. Receivables and payables

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

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

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

3. Inventories and prepaid items

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

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

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

4. Restricted assets

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

5. Capital assets

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

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

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

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

6. Compensated absences

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

7. Long-term obligations

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

8. Fund equity

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

III. Reconciliation of government-wide and fund financial statements

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

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

Capital leases payable	\$ 70,511
Accrued compensated absences	<u>703,178</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 773,689</u>

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

Capital assets, net of accumulated depreciation	<u>\$ 6,670,034</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 6,670,034</u>

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

Internal service funds for unemployment and employee health insurance	<u>\$ 304,309</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 304,309</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	\$ 732,376
Depreciation expense	<u>(862,856)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (130,480)</u>

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

Principal repayments:	
Proceeds from capital lease obligations	(7,760)
Capital lease obligations	<u>\$ 48,486</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 40,726</u>

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

Compensated absences	<u>\$ (374,750)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (374,750)</u>

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

Internal service funds used to charge the cost of unemployment and employee health insurance to individual funds.	<u>\$ 469,401</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 469,401</u>

IV. Stewardship, compliance, and accountability

Budgetary information

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

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

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

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

V. Detailed notes on all funds

A. Deposits and investments

Deposits

The City's carrying amount of deposits was \$ 1,202,427 as of June 30, 2008, and the bank balances totaled \$ 2,160,022. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The investment policy for custodial credit risk for deposits states, "Safety of principal is the foremost objective of the investment program... All collateral pledged to secure public funds shall be valued at no more than market value... The collateralization level will be 110% of market value or principal and accrued interest... Collateral will be held by the City Clerk-Treasurer of the City of Altus or by an independent third party with whom the entity has a current custodial agreement." As of June 30, 2008, none of the City's bank balances of \$ 2,160,022 was exposed to custodial credit risk.

Investments

As of June 30, 2008, the City had investments primarily in certificates of deposits with maturities of less than three years, diversified over several financial institutions as follows:

Investment	Maturities	Fair Value
Certificates of deposit	<1 year	\$ 15,001,083
U.S. Treasury Mutual Funds	n/a	2,912,415
Total		<u>\$ 17,913,498</u>

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

Credit Risk. The City's investment policy limits investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit; c) savings accounts of savings and loans associations, banks, and credit unions, to the extent that the amounts are fully insured by the Federal Deposit Insurance Corporation, or d) County, Municipal, or school district direct debt obligation for which an ad valorem tax may be levied. As of June 30, 2008, the City's investments in certificates of deposit were all federally insured or adequately collateralized by pledges of securities owned by the various financial institutions, except one financial institution whose collateral pledges were short by \$ 182,023.

Concentration of Credit Risk. The City of Altus' investment policy limits to 50% the amount of the City's investment portfolio that may be invested in a single financial institution, with the exception of investments in U.S. Treasury securities and accounts. Of the City's total investments at June 30, 2008, approximately 16% were invested in U.S. Treasury security mutual funds accounts. Of the City of Altus' investments, all were in certificates of deposit with 54% invested with one financial institution. For the Altus Municipal Authority, 57% of its total investments were with the same financial institution.

B. Receivables

Receivables as of June 30, 2008, for the City of Altus's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Altus Municipal Authority	Internal Service Funds	Total
Receivables:					
Taxes	\$ 1,370,349	\$ 45,565			\$ 1,415,914
Accounts		45,520	\$ 6,419,204		6,464,724
Other	3,997				3,997
Court fines	269,566				269,566
Due from other governments		62,745			62,745
Notes receivable			1,083,806		1,083,806
Interest		13,023	83,188	\$ 3,982	100,193
Gross receivables	<u>1,643,912</u>	<u>166,853</u>	<u>7,586,198</u>	<u>3,982</u>	<u>9,400,945</u>
Less: allowance for uncollectibles	0	0	(583,346)	0	(583,346)
Net total receivables	<u>\$ 1,643,912</u>	<u>\$ 166,853</u>	<u>\$ 7,002,852</u>	<u>\$ 3,982</u>	<u>\$ 8,817,599</u>

C. Restricted assets

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

The following is a summary of the restricted asset account balances as of June 30, 2008:

	Enterprise Funds Altus Municipal Authority					Total
	OWRB Series 2005 Notes	Mountain Park Bonds	Utility Refunding Series 2003 Notes	FNB Series 2004 Notes	Meter Deposit Fund	
Restricted assets:						
Reserve fund	\$ 677,500	\$ 930,055				\$ 1,607,555
Sinking fund	139,159	474,131	\$ 216,432			829,722
Construction fund	373,719			\$ 101,419		475,138
Customer deposits					\$ 762,438	762,438
Total restricted assets	<u>\$ 1,190,378</u>	<u>\$ 1,404,186</u>	<u>\$ 216,432</u>	<u>\$ 101,419</u>	<u>\$ 762,438</u>	<u>\$ 3,674,853</u>

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2008, 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	17,080	\$ 34,232		51,312
Total capital assets, not being depreciated	<u>1,334,483</u>	<u>34,232</u>	<u>\$ 0</u>	<u>1,368,715</u>
Capital assets, being depreciated:				
Buildings and improvements	9,122,051	459,477		9,581,528
Machinery and equipment	4,848,408	238,667		5,087,075
Infrastructure	604,782			604,782
Total capital assets, being depreciated	<u>14,575,241</u>	<u>698,144</u>	<u>0</u>	<u>15,273,385</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,169,811)	(324,347)		(5,494,158)
Machinery and equipment	(3,872,435)	(519,107)		(4,391,542)
Infrastructure	(66,964)	(19,402)		(86,366)
Total accumulated depreciation	<u>(9,109,210)</u>	<u>(862,856)</u>	<u>0</u>	<u>(9,972,066)</u>
Total capital assets, being depreciated, net	<u>5,466,031</u>	<u>(164,712)</u>	<u>0</u>	<u>5,301,319</u>
Governmental activities capital assets, net	<u>\$ 6,800,514</u>	<u>\$ (130,480)</u>	<u>\$ 0</u>	<u>\$ 6,670,034</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	10,935,068	\$ 921,867		11,856,935
Total capital assets, not being depreciated	<u>11,587,949</u>	<u>921,867</u>	<u>\$ 0</u>	<u>12,509,816</u>
Capital assets, being depreciated:				
Buildings and improvements	7,923,590	18,500		7,942,090
Machinery and equipment	3,746,947	874,754		4,621,701
Water rights	24,647,726			24,647,726
Utility property	20,863,356	6,770		20,870,126
Total capital assets, being depreciated	<u>57,181,619</u>	<u>900,024</u>	<u>0</u>	<u>58,081,643</u>
Less accumulated depreciation for:				
Building and improvements	(675,500)	(460,794)		(1,136,294)
Machinery and equipment	(3,482,680)	(285,784)		(3,768,464)
Water rights	(9,136,809)	(642,289)		(9,779,098)
Utility property	(19,209,147)	(588,077)		(19,797,224)
Total accumulated depreciation	<u>(32,504,136)</u>	<u>(1,976,944)</u>	<u>0</u>	<u>(34,481,080)</u>
Total capital assets, being depreciated, net	<u>24,677,483</u>	<u>(1,076,920)</u>	<u>0</u>	<u>23,600,563</u>
Business-type activities capital assets, net	<u>\$ 36,265,432</u>	<u>\$ (155,053)</u>	<u>\$ 0</u>	<u>\$ 36,110,379</u>

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

Governmental activities:	
General government	\$ 185,429
Public safety	306,923
Public works	127,008
Cultural and recreation	115,097
Airport	128,399
Total depreciation expense – governmental activities	<u>\$ 862,856</u>
Business-type activities:	
Electric	\$ 123,132
Water	1,353,872
Wastewater	23,493
Sanitation	80,447
Landfill	196,670
Administration/services	199,330
Total depreciation expense – business-type activities	<u>\$ 1,976,944</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, 2008, cash and investments included \$ 762,439 available for refund of customer deposits, while the liability to customers was \$ 769,799.

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, 2008, \$ 9,251 was being held that was subject to refund.

F. Long-term debt

Capital Leases

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

Governmental activities:

\$ 49,857 capital lease with Deere Credit 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.	\$ 10,835
\$ 17,683 capital lease with Deere Credit 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.	7,366
\$ 40,824 capital lease with Deere Credit for a tractor dated, June 9, 2005, with an interest rate of 5.25%, monthly payments of \$ 722 and a final maturity of May 6, 2010.	16,851
\$ 7,760 capital lease with Kansas State Bank for a mower dated, September 15, 2007, with an interest rate of 10.345%, monthly payments of \$ 252 and a final maturity of August 15, 2010.	5,839
\$ 59,508 capital lease with Kansas State Bank 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.	16,023
\$ 16,569 capital lease with Deere Credit 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>13,597</u>
Total governmental activities	<u>\$ 70,511</u>

Business-Type Activities:

2007 capital lease with First National Bank, 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.	<u>\$ 1,036,270</u>
Total business-type activities	<u>1,036,270</u>
Total capital lease obligations	<u>\$ 1,106,781</u>

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Asset:		
Tractor	\$ 49,857	
Tractor	17,683	
Tractor	40,824	
Mower	7,760	
Park & recreation equipment	59,508	
Cemetery equipment	16,569	
Equipment		\$ 1,450,000
Total	<u>\$ 192,201</u>	<u>\$ 1,450,000</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

<u>Year Ending June 30,</u>	<u>Capital Lease Obligations</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2009	\$ 48,348	\$ 321,002
2010	19,268	321,002
2011	4,654	321,002
2012	3,807	156,564
Total required payments	76,077	1,119,570
Less: amount representing interest	(5,566)	(83,300)
Total principal payments	<u>\$ 70,511</u>	<u>\$ 1,036,270</u>

Notes and contract obligation payable

Long-term liabilities of the City of Altus as of June 30, 2008, are summarized as follows:

Business-type activities

Altus Municipal Authority

Notes payable:

2005 Series Oklahoma Water Resources Board, FAP-05-0008-L 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.	\$ 6,251,600
Oklahoma Department of Commerce CDBG Note, original issue amount of \$235,183, dated October 2, 1998, issued by Altus Municipal Authority, secured by available utility revenues, with a 1% interest rate, final maturity September 1, 2018.	126,733
2005 Series Oklahoma Water Resources Board, ORF-05-0006-DW 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 1, 2025.	1,512,491

2004 Series Revenue Note, with First National Bank, 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.	269,214
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.	<u>1,200,000</u>
Total notes payable	<u>9,360,038</u>
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.	<u>10,723,185</u>
Total contract obligation payable	<u>10,723,185</u>
Total business-type activities	<u>20,083,223</u>
Total long-term debt	<u>\$ 21,190,004</u>

Long-term liabilities transactions for the year ended June 30, 2008, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital leases	\$ 111,237	\$ 7,760	\$ (48,486)	\$ 70,511	\$ 44,919
Compensated absences	402,382	300,796		703,178	0
Total governmental activities	<u>513,619</u>	<u>308,556</u>	<u>(48,486)</u>	<u>773,689</u>	<u>44,919</u>
Business-type activities					
Notes payable	13,412,608		(4,052,570)	9,360,038	1,565,662
Capital lease obligations	114,593	1,308,329	(386,652)	1,036,270	282,819
Contract obligations payable	11,144,105		(420,920)	10,723,185	395,415
Compensated absences	105,720	171,704		277,423	0
Total business-type activities	<u>24,777,026</u>	<u>1,480,033</u>	<u>(4,860,142)</u>	<u>21,396,916</u>	<u>2,243,896</u>
Total long-term debt	<u>\$ 25,290,645</u>	<u>\$ 1,788,589</u>	<u>\$ (4,908,628)</u>	<u>\$ 22,170,605</u>	<u>\$ 2,288,815</u>

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

Year Ending June 30,	Business-type Activities			
	Notes Payable		Contract Obligation Payable	
	Principal	Interest	Principal	Interest
2009	\$ 1,565,659	\$ 225,709	\$ 395,415	\$ 533,507
2010	1,083,872	201,135	411,075	516,702
2011	591,400	179,218	426,735	498,820
2012	527,309	160,932	450,225	479,830
2013	557,409	143,856	465,885	459,570
2014–2018	1,744,446	568,768	2,685,690	1,942,909
2019–2023	2,222,943	312,647	3,449,115	1,188,199
2024–2028	1,067,000	36,227	2,439,045	253,661
Totals	<u>\$ 9,360,038</u>	<u>\$ 1,828,492</u>	<u>\$ 10,723,185</u>	<u>\$ 5,873,198</u>

G. Debt issuance costs

Debt issuance costs of \$ 86,894 have been capitalized and are being amortized on the straight-line basis over the term of the relevant debt issues. As of June 30, 2008, accumulated amortization was \$ (13,034) including current year amortization of \$ 4,435.

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.

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

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

Governmental activities	703,178
Business-type activities	277,423
Total accrued compensated absences	<u>\$ 980,601</u>

I. Interfund receivables, payables, and transfers

The composition of interfund activity and balances as of June 30, 2008, is as follows:

Interfund transfers:

	Transfers Out			Totals
	General Fund	Non-major Governmental	Altus Municipal Authority	
Transfer in:				
General fund			\$ 5,429,652	\$ 5,429,652
Nonmajor Governmental	\$ 196,040	\$ 23,406	478,404	697,850
Altus Municipal Authority	2,723,582	262,800		2,986,382
Internal service	0		173,575	173,575
Totals	\$ 2,919,622	\$ 286,206	\$ 6,081,631	\$ 9,287,459

J. Landfill closure and post-closure liability

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

The \$ 1,650,193 reported as other noncurrent liabilities for the accrued landfill closure cost liability as of June 30, 2008, represents the cumulative amount of such cost reported to date based on the use of approximately 79.50% 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 \$ 425,521 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 2008. 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 estimated closure and post-closure costs and the accrued liability as of June 30, 2008, are as follows:

Estimated closure costs	\$ 1,128,795
Estimated post-closure costs	946,919
Total estimated costs	2,075,714
Accrued closure costs	1,650,193
Current estimated costs charged to expense	\$ 105,701

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

K. Deferred gain – Contract refinancing

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

In June 2005, the Mountain Park Master Conservancy District refinanced the project debt. The Authority's share of the refinanced debt was \$ 11,709,765. As a result of the refinancing, an accounting gain of \$ 8,015,425 was recorded and deferred with the Authority amortizing the gain over a twenty-one year period. The unamortized amount of this gain as of June 30, 2008, is \$ 6,837,784, with a current year amortization of \$ 381,686 recognized as an offset to interest expense.

L. Grants and contracts

During the year ended June 30, 2008, the City of Altus received and expended a variety of state and federal grant and contract funds to include the following:

Federal grants:	Expenditures
Community Development Block Grant (CDBG)	\$ 34,248
Airport Improvement Program	220,746
Traffic Enforcement (OHSO)	19,358
Emergency Management Performance Grant (Homeland Security)	42,411
Hazardous Materials Training Program	143,701
Total Federal grant expenditures	<u>\$ 460,464</u>
State grants:	
Community Expansion of Nutrition Assistance (CENA)	\$ 3,245
Oklahoma Strategic Military Planning Commission Grant	250,000
Total State grant expenditures	<u>\$ 253,245</u>

VI. Other information

A. Risk management

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

B. Commitments and contingent liabilities

Grants and contracts

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

Litigation

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

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

Investment in Quartz Mountain Aerospace

As of June 30, 2008, 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). Quartz Mountain Aerospace is a development 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. As of June 30, 2008, the AMA's investment in the Quartz Mountain Aerospace, Inc. project consisted of:

Notes receivable from Luscombe & Altus/Southwest Economic Development Corporation	\$ 2,083,649
Accrued interest on notes receivable	70,269
Lease financing receivable – Luscombe	2,663,859
Total investments or assets at risk	<u>\$ 4,817,777</u>

The repayment of the notes and related accrued interest and 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. Operating and maintenance costs of Mountain Park are shared by the member governments. AMA's share of costs for the year ended June 30, 2008 was \$ 176,800.

June 2008 tornado

The City of Altus sustained significant damage to city assets as a result of a storm and tornado in June 2008. The City and AMA incurred approximately \$ 1,862,085 in expenses for repairs to the electrical distribution system, emergency protective measures, and debris clean-up. Subsequent to June 30, 2008, the City received approximately \$ 126,995 in insurance reimbursements. The City has filed claims with the Federal Emergency Management Agency (FEMA) for disaster assistance and expects reimbursement of 75% of the costs incurred, less the insurance reimbursements.

C. Employee retirement systems and pension plans

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

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City.

That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2008, for employees and employer were \$ 113,268 and \$ 189,204, respectively, on covered payroll of \$ 1,476,819.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

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

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary and the City of Altus contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2008, for employees and employer were \$ 108,651 and \$ 179,453, on covered payroll of \$ 1,442,005.

Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma

Plan Description – The Oklahoma Municipal Retirement Fund Employee Retirement System of Altus, Oklahoma (the Plan) is a defined benefit retirement plan covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). The OMRF board of trustees retains BankOne as custodian to hold the Plan's assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after ten years of service. Employees, who retire at age 65 or completion of 10 years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.625% of final average compensation multiplied by the number of years

of credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service.

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

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

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

Funding Policy – The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of January 1, 2008. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases based on the age of the employee.

The total actuarial liability exceeded the net assets available for benefits by \$ 1,587,538 at January 1, 2008, as follows:

Actuarial accrued liability	\$ 15,996,679
Net assets available for benefits (actuarial value)	(14,409,141)
Unfunded actuarial accrued liability	<u>\$ 1,587,538</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, 2008, employees were required to contribute 4% of annual compensation while the City contributed the remaining amounts necessary to fund the pension plan using an actuarial basis. The City's contribution rate, for the year ended June 30, 2008, was 8.63%. Contributions to the Plan for payroll for the year ended June 30, 2008, for employees and employer were \$ 206,354 and \$ 445,040, respectively.

For the year ended June 30, 2008, the City's covered payroll was \$ 5,158,829 out of a total payroll of \$ 5,406,895. Covered payroll refers to all compensation paid by the City of Altus to active employees covered by the Plan on which contributions are based.

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

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

Accrual Valuation Date	Value of Assets Available for Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
01/01/08	\$14,409,141	\$ 15,996,679	\$ 1,587,538	90.08 %	\$4,904,734	32.38 %
01/01/07	13,891,579	15,156,045	1,264,466	91.66 %	4,722,591	26.77 %
01/01/06	14,015,541	14,772,829	757,289	94.87 %	4,368,011	17.34 %
01/01/05	13,491,412	14,452,756	961,344	93.35 %	4,708,511	20.42 %
01/01/04	13,019,257	13,275,713	256,456	98.07 %	4,230,289	6.06 %
01/01/03	12,593,195	12,759,189	165,994	98.70 %	4,083,685	4.06 %
01/01/02	13,417,087	12,883,478	(533,609)	104.14 %	4,101,463	(13.01)%
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 provide a defined contribution plan and trust known as the City of Altus Plan and Trust (the Plan) in the form of the Oklahoma Municipal Retirement Fund Defined Contribution Plan (OMRF). The plan is administered by BankOne of Oklahoma City, Oklahoma. The defined contribution plan is available to all full-time employees except those covered by other plans. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities.

Funding Policy – Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months of employment and voluntarily select their before-tax percentage-of-contribution up to 15% of compensation. By City ordinance, the City, as employer, is required to make variable contributions to the plan, based on availability of funds. As of July 2002, City contributions were 1.49% of gross salary. The employee is fully vested after 10 years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining eligible participants. The authority to establish and amend the provisions of the plan rests with the City Commission. Contributions to the plan for the year ended June 30, 2008, for employees and employer were \$ 72,448 and \$ 76,869, on a covered payroll of \$ 5,158,829.

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, 2008, for the employee and employer were \$ 3,049 and \$ 10,164 on covered payroll of \$ 101,639.

D. Subsequent events

The citizens of the City of Altus on August 26, 2008 approved the issuance of \$ 34 million in general obligation bonds for City of Altus and Altus Public Schools capital improvements. The bonds are to be repaid with proceeds from a sales tax levied by the City. Fifty percent (50%) of the proceeds shall be used for; a) construction of a city hall, police station, and senior citizens center; b) renovation of the existing fire station, and to the extent funds are available, construction of a new fire station in the northeast quadrant of the city; and c) economic development purposes through transfer of proceeds to the Altus Municipal Authority. The remaining fifty percent (50%) of the proceeds shall be used for renovation of the high school and construction of new high school classroom facilities for Altus Public Schools.

As of January 1, 2009, the City had issued \$ 10 million in bonds with an interest rate of 4.50%. Sales tax collections are to begin in April 2009.

E. Prior period adjustments

Adjustments were made to beginning net assets in the government-wide financial statements and to beginning fund balance/net assets in the fund financial statements to correct errors in prior year's financial statements.

The details of the adjustment are as follows:

Government-wide financial statements-net assets-	Governmental Activities	Business-Type Activities
Accounts receivable		\$ 851,142
Taxes receivable	\$ 330,988	
Due from other governments	47,814	
Prepaid expenses	(6,750)	
Accounts payable	(19,677)	426,353
Claims payable	(30,325)	
Deferred revenue	196,356	
Long-term debt		581,923
Totals	\$ 518,406	\$ 1,859,418

Fund financial statements-fund balance-	Governmental funds		Proprietary funds	
	General Fund	Nonmajor Governmental	Altus Municipal Authority	Internal Service Funds
Accounts receivable			\$ 851,142	
Taxes receivable	\$ 330,988			\$ 47,814
Due from other governments				
Prepaid expenses	(6,750)			
Accounts payable	(79,729)	\$ 60,317	426,353	
Claims payable				(30,325)
Deferred revenue	(36,493)	115		
Long-term debt			581,923	
Totals	\$ 208,016	\$ 60,432	\$ 1,859,418	\$ 17,489

City of Altus, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – General Fund
Year Ended June 30, 2008

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Taxes	\$ 8,254,394	\$ 8,329,340	\$ 7,995,914	\$ (333,426)
Licenses and permits	99,619	99,619	108,698	9,079
Intergovernmental	551,107	786,006	652,116	(133,890)
Fines and forfeitures	360,805	360,805	349,857	(10,948)
Charges for services	198,758	198,758	182,171	(16,587)
Miscellaneous	126,160	126,160	69,357	(56,803)
Interest	3,710	3,710	3,384	(326)
Total revenues	<u>9,594,553</u>	<u>9,904,398</u>	<u>9,361,497</u>	<u>(542,901)</u>
Expenditures				
General government:				
City council	120,995	114,995	128,081	(13,086)
Mayor	30,640	31,524	26,372	5,152
Administrative services	522,726	931,864	714,204	217,660
Administration	266,438	258,313	208,659	49,654
City attorney	112,104	107,444	101,939	5,505
Information systems	193,795	193,795	182,494	11,301
Finance department	228,887	228,887	223,136	5,751
Human resources	204,097	204,097	199,578	4,519
City clerk-treasurer	164,382	164,382	157,102	7,280
Central purchasing	191,708	191,707	178,621	13,086
Municipal court	175,742	191,985	185,771	6,214
Public safety:				
Police-traffic	2,074,948	2,027,948	1,932,694	95,254
Police-detective	517,802	512,186	496,037	16,149
Police-administration	387,368	382,553	372,343	10,210
Police-animal control	212,245	218,000	207,477	10,523
Fire department	2,079,857	2,037,005	1,954,000	83,005
Emergency services	89,574	88,169	69,012	19,157
Communications	105,879	105,879	90,128	15,751
Public works:				
Cemetery	137,133	130,736	128,890	1,846
Engineering	79,222	79,222	69,647	9,575
Planning	417,211	417,211	348,496	68,715
Street department	775,684	775,684	733,361	42,323
Fleet maintenance	522,874	523,874	487,105	36,769
Building maintenance	286,540	289,091	278,416	10,675
Culture and recreation:				
Parks	547,126	564,183	555,625	8,558
Parks/recreation-administration	134,243	134,243	121,011	13,232
Recreation	293,661	278,440	250,291	28,149
Pool	264,407	285,843	270,146	15,697
Debt service	279,623	290,610	69,125	221,485
Capital outlay	669,913	805,449	707,783	97,666
Total expenditures	<u>12,086,824</u>	<u>12,565,319</u>	<u>11,447,544</u>	<u>1,117,775</u>
Excess of revenues over expenditures	(2,492,271)	(2,660,921)	(2,086,047)	574,874

City of Altus, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – General Fund
Year Ended June 30, 2008

(continued)

	<u>Budget</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Other financing sources (uses)				
Transfers in	5,192,418	5,192,418	5,429,652	237,234
Transfers (out)	(2,862,611)	(2,865,611)	(2,919,622)	(54,011)
Total other financing sources (uses)	<u>2,329,807</u>	<u>2,326,807</u>	<u>2,510,030</u>	<u>183,223</u>
Net change in fund balances	(162,464)	(334,114)	423,983	758,097
Fund balances, beginning	<u>663,102</u>	<u>663,102</u>	<u>434,956</u>	<u>(228,146)</u>
Fund balances, ending	<u>\$ 500,638</u>	<u>\$ 328,988</u>	<u>\$ 858,939</u>	<u>\$ 529,951</u>

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, 2008

<u>Budgetary funds</u>	<u>General Fund</u>
Revenues	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 9,361,497
Adjustments:	
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	<u>213,309</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 9,574,806</u></u>
Expenditures	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 11,447,544
Adjustments:	
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	<u>(61,853)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u><u>\$ 11,385,691</u></u>
Other financing sources (uses)	
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ 2,510,030
Adjustments:	<u>0</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u><u>\$ 2,510,030</u></u>

See disclaimer in accompanying "Independent Auditor's Report".

**City of Altus, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

	Special Revenue			
	ODOC Grant Fund	Altus Donation Fund	Airport Fund	Hotel/Motel Tax Fund
Assets				
Cash and cash equivalents	\$ 7,987	\$ 48,601		\$ 38,390
Investments				
Receivables:				
Accounts, net			\$ 45,520	
Taxes				29,458
Interest				
Due from other governments	45,816			
Inventory			25,128	
Total assets	<u>\$ 53,803</u>	<u>\$ 48,601</u>	<u>\$ 70,648</u>	<u>\$ 67,848</u>
Liabilities				
Accounts payable and accrued liabilities			\$ 33,058	
Deferred revenue				
Total liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>33,058</u>	<u>\$ 0</u>
Fund balances				
Reserved:				
Capital improvements				
Debt service				
Encumbrances	48,093	600	37,215	
Unreserved:				
Designated	5,710	48,001	375	67,848
Total fund balances	<u>53,803</u>	<u>48,601</u>	<u>37,590</u>	<u>67,848</u>
Total liabilities and fund balances	<u>\$ 53,803</u>	<u>\$ 48,601</u>	<u>\$ 70,648</u>	<u>\$ 67,848</u>

Special Revenue			Capital Projects		
Street & Alley Fund	Emergency E-911 Fund	Parks Development Fund	Economic Development Construction Fund	Veteran's Bypass Fund	FAA Grant Fund
\$ 230,377		\$ 126,834	\$ 43,943	\$ 20,706	
725,000			1,001,834	50,000	
16,107			3,469	72	
4,476					\$ 16,929
<u>\$ 975,960</u>	<u>\$ 0</u>	<u>\$ 126,834</u>	<u>\$ 1,049,246</u>	<u>\$ 70,778</u>	<u>\$ 16,929</u>
	\$ 4,676				\$ 10,240
<u>\$ 0</u>	<u>4,676</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>10,240</u>
			1,049,246	70,778	6,689
7,120	150				
968,840	(4,826)	126,834			
<u>975,960</u>	<u>(4,676)</u>	<u>126,834</u>	<u>1,049,246</u>	<u>70,778</u>	<u>6,689</u>
<u>\$ 975,960</u>	<u>\$ 0</u>	<u>\$ 126,834</u>	<u>\$ 1,049,246</u>	<u>\$ 70,778</u>	<u>\$ 16,929</u>

City of Altus, Oklahoma
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008
(continued)

	Capital Projects			
	Capital Improvement Fund	ODOT Grant Fund	Landfill Improvement Fund	Cemetery Perpetual Fund
Assets				
Cash and cash equivalents	\$ 7,304		\$ 393,189	\$ 6,381
Investments	122,000		600,000	
Receivables:				
Accounts, net				
Taxes				
Interest	234		4,550	
Due from other governments				
Inventory				
Total assets	\$ 129,538	\$ 0	\$ 997,739	\$ 6,381
Liabilities				
Accounts payable and accrued liabilities				
Deferred revenue				
Total liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Fund balances				
Reserved:				
Capital improvements	129,538	0	997,739	6,381
Debt service				
Encumbrances				
Unreserved:				
Designated				
Total fund balances	129,538	0	997,739	6,381
Total liabilities and fund balances	\$ 129,538	\$ 0	\$ 997,739	\$ 6,381

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
Drainage Improvement Fund	Debt Service Fund	
\$ 42,007	\$ 3,537	\$ 969,256
55,000		2,553,834
		45,520
		45,565
222		13,023
		62,745
		25,128
<u>\$ 97,229</u>	<u>\$ 3,537</u>	<u>\$ 3,715,071</u>
		\$ 47,974
		0
<u>\$ 0</u>	<u>\$ 0</u>	<u>47,974</u>
97,229		2,357,600
	3,537	3,537
		93,178
		1,212,782
<u>97,229</u>	<u>3,537</u>	<u>3,667,097</u>
<u>\$ 97,229</u>	<u>\$ 3,537</u>	<u>\$ 3,715,071</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Special Revenue			
	ODOC Grant Fund	Altus Donation Fund	Airport Fund	Hotel/Motel Tax Fund
Revenues				
Taxes				\$ 192,993
Intergovernmental	\$ 117,371	\$ 1,000		
Charges for services			\$ 414,513	
Other		32,956		
Interest	26			
Total revenues	<u>117,397</u>	<u>33,956</u>	<u>414,513</u>	<u>192,993</u>
Expenditures				
Current:				
General government		15,417		
Public safety		1,365		
Public works				
Culture and recreation		11,228		
Economic development				17,289
Airport			573,150	
Debt service			11,977	
Capital outlay	17,899	174,067	40,032	
Total expenditures	<u>17,899</u>	<u>202,077</u>	<u>625,159</u>	<u>17,289</u>
Excess of revenues over (under) expenditures	99,498	(168,121)	(210,646)	175,704
Other financing sources (uses)				
Proceeds from capital leases			7,760	
Transfers in	8,175	8,476	199,632	
Transfers (out)	(53,991)			(174,250)
Total other financing sources (uses)	<u>(45,816)</u>	<u>8,476</u>	<u>207,392</u>	<u>(174,250)</u>
Net change in fund balances	53,682	(159,645)	(3,254)	1,454
Fund balances, beginning	121	156,796	68,270	66,394
Prior period adjustment		51,450	(27,426)	
Fund balances, ending	<u>\$ 53,803</u>	<u>\$ 48,601</u>	<u>\$ 37,590</u>	<u>\$ 67,848</u>

Special Revenue			Capital Projects		
Street & Alley Fund	Emergency E-911 Fund	Parks Development Fund	Economic Development Construction Fund	Veteran's Bypass Fund	FAA Grant Fund
\$ 174,531	\$ 146,374	\$ 62,950	\$ 40,716	\$ 2,567	\$ 220,746
32,351		1,304	40,716	2,567	
<u>206,882</u>	<u>146,374</u>	<u>64,254</u>	<u>40,716</u>	<u>2,567</u>	<u>220,746</u>
84,893	412,198				
9,135					222,292
<u>94,028</u>	<u>412,198</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>222,292</u>
112,854	(265,824)	64,254	40,716	2,567	(1,546)
14,712	243,935				(8,694)
<u>14,712</u>	<u>243,935</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,694)</u>
127,566	(21,889)	64,254	40,716	2,567	(10,240)
840,047	17,213	32,580	1,008,414	68,211	16,929
8,347		30,000	116		
<u>\$ 975,960</u>	<u>\$ (4,676)</u>	<u>\$ 126,834</u>	<u>\$ 1,049,246</u>	<u>\$ 70,778</u>	<u>\$ 6,689</u>

City of Altus, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2008
(continued)

	Capital Projects			
	Capital Improvement Fund	ODOT Grant Fund	Landfill Improvement Fund	Cemetery Perpetual Fund
Revenues				
Taxes				
Intergovernmental		\$ 14,712		
Charges for services				\$ 7,351
Other				
Interest	\$ 6,301		\$ 30,713	
Total revenues	<u>6,301</u>	<u>14,712</u>	<u>30,713</u>	<u>7,351</u>
Expenditures				
Current:				
General government				
Public safety				
Public works				
Culture and recreation				
Economic development				
Airport				
Debt service				4,827
Capital outlay				8,735
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,562</u>
Excess of revenues over (under) expenditures	6,301	14,712	30,713	(6,211)
Other financing sources (uses)				
Proceeds from capital leases				
Transfers in	22,920		200,000	
Transfers (out)	(34,559)	(14,712)		
Total other financing sources (uses)	<u>(11,639)</u>	<u>(14,712)</u>	<u>200,000</u>	<u>0</u>
Net change in fund balances	(5,338)	0	230,713	(6,211)
Fund balances, beginning	134,876	0	767,026	14,647
Prior period adjustment				(2,055)
Fund balances, ending	<u>\$ 129,538</u>	<u>\$ 0</u>	<u>\$ 997,739</u>	<u>\$ 6,381</u>

<u>Capital Projects</u>	<u>Debt Service</u>	
<u>Drainage Improvement Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	\$ 1,753	\$ 194,746
		528,360
		568,238
\$ 241		96,147
2,959	137	117,074
<u>3,200</u>	<u>1,890</u>	<u>1,504,565</u>
		15,417
		413,563
		84,893
		11,228
		17,289
		573,150
		16,804
		472,160
<u>0</u>	<u>0</u>	<u>1,604,504</u>
3,200	1,890	(99,939)
		7,760
		697,850
		(286,206)
<u>0</u>	<u>0</u>	<u>419,404</u>
3,200	1,890	319,465
94,029	1,647	3,287,200
		60,432
<u>\$ 97,229</u>	<u>\$ 3,537</u>	<u>\$ 3,667,097</u>

City of Altus, Oklahoma
Combining Statement of Net Assets –
Internal Service Funds
June 30, 2008

	Workers' Compensation Fund	Assurance Fund	Total Internal Service Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ 184,361	\$ 49,910	\$ 234,271
Investments	700,000		700,000
Accrued interest receivable	3,982		3,982
Total current assets	888,343	49,910	938,253
Noncurrent assets:			
Capital assets (net of accumulated depreciation)			0
Total noncurrent assets	0	0	0
Total assets	888,343	49,910	938,253
Liabilities			
Current liabilities:			
Claims liability	29,819	72,125	101,944
Total current liabilities	29,819	72,125	101,944
Noncurrent liabilities:			
Claims liability	532,000		532,000
Total noncurrent liabilities	532,000	0	532,000
Total liabilities	561,819	72,125	633,944
Net assets			
Restricted	326,524	(22,215)	304,309
Total net assets	\$ 326,524	\$ (22,215)	\$ 304,309

City of Altus, Oklahoma
Combining Statement of Revenues, Expenses, and Changes in Net Assets -
Internal Service Funds
Year Ended June 30, 2008

	Workers' Compensation Fund	Assurance Fund	Total Internal Service Funds
Operating revenues			
Charges for services:			
Other	\$ 410,752	\$ 1,464,675	\$ 1,875,427
Total operating revenues	<u>410,752</u>	<u>1,464,675</u>	<u>1,875,427</u>
Operating expenses			
Administration expense	62,213	12,196	74,409
Claims expense	133,447	1,423,095	1,556,542
Total operating expenses	<u>195,660</u>	<u>1,435,291</u>	<u>1,630,951</u>
Net operating income (loss)	215,092	29,384	244,476
Nonoperating revenues (expenses)			
Miscellaneous		19,756	19,756
Interest	31,148	446	31,594
Total nonoperating revenues (expenses)	<u>31,148</u>	<u>20,202</u>	<u>51,350</u>
Operating transfers			
Transfers in		173,575	173,575
Transfers out			
Total operating transfers	<u>0</u>	<u>173,575</u>	<u>173,575</u>
Net income (loss)	246,240	223,161	469,401
Net assets, beginning	110,609	(293,190)	(182,581)
Prior period adjustment	<u>(30,325)</u>	<u>47,814</u>	<u>17,489</u>
Net assets, ending	<u>\$ 326,524</u>	<u>\$ (22,215)</u>	<u>\$ 304,309</u>

City of Altus, Oklahoma
Combining Statement of Cash Flows –
Internal Service Funds
Year Ended June 30, 2008

	Workers' Compensation Fund	Assurance Fund	Total Internal Service Funds
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities			
Receipts from customers and others	\$ 410,752	\$ 1,464,675	\$ 1,875,427
Payments to suppliers	(62,213)	(12,196)	(74,409)
Payments to employees	(241,601)	(1,740,391)	(1,981,992)
Net cash provided (used) by operating activities	<u>106,938</u>	<u>(287,912)</u>	<u>(180,974)</u>
Cash flows from noncapital financing activities			
Miscellaneous revenues		19,756	19,756
Operating transfers in (out)		173,575	173,575
Net cash provided (used) by noncapital financing activities	<u>0</u>	<u>193,331</u>	<u>193,331</u>
Cash flows from capital and related financing activities			
Net cash provided (used) by capital and related financing activities	<u>0</u>	<u>0</u>	<u>0</u>
Cash flows from investing activities			
(Increase) decrease in investments	(200,000)		(200,000)
Interest income	28,954	446	29,400
Net cash provided (used) by investing activities	<u>(171,046)</u>	<u>446</u>	<u>(170,600)</u>
Net increase (decrease) in cash and cash equivalents	(64,108)	(94,135)	(158,243)
Cash and cash equivalents, beginning	<u>248,469</u>	<u>144,045</u>	<u>392,514</u>
Cash and cash equivalents, ending	<u>\$ 184,361</u>	<u>\$ 49,910</u>	<u>\$ 234,271</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 215,092	\$ 29,384	\$ 244,476
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Changes in assets and liabilities:			
Increase (decrease) in claims liability	<u>(108,154)</u>	<u>(317,296)</u>	<u>(425,450)</u>
Total adjustments	<u>(108,154)</u>	<u>(317,296)</u>	<u>(425,450)</u>
Net cash provided (used) by operating activities	<u>\$ 106,938</u>	<u>\$ (287,912)</u>	<u>\$ (180,974)</u>



Ronald C. Cottrell, CPA

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

February 26, 2009

City Commissioners
City of Altus
Altus, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Altus, Oklahoma, as of and for the year ended June 30, 2008, and have issued our report thereon dated February 26, 2009. We did not audit management's discussion and analysis or the budgetary comparison schedules, which are required supplementary information, and therefore expressed no opinion on it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Ronald C. Cottrell, CPA

2008-1 Capital Assets

Criteria – Subsidiary accounting records should be reconciled with the general ledger control accounts for capital assets periodically. Reconciliations help ensure that amounts presented in the general ledger are correct, thereby allowing the correct presentation in financial reports; that all assets of the City are included; and that all assets recorded actually exist and are being used by the City.

Condition – The City of Altus has not reconciled its detailed capital asset subsidiary records with the general ledger control account balances.

Cause and Effect – Capital asset acquisitions and dispositions may have not been properly recorded on either the capital asset detail subsidiary record or the general ledger accounting records in some instances over the past years. Additionally, no physical inventory of capital assets has been taken in several years. As a result, account balances could be materially over or understated in the financial statements.

Recommendation – Capital assets should be added to or deleted from the detail subsidiary records at the time of acquisition/disposition. Also, appropriate journal entries should be made to the general ledger control accounts at that time. A physical inventory should be made of all capital assets owned by the City and reconciled with the detail subsidiary ledger. The general ledger amounts should be reconciled with the detailed subsidiary records to ensure that the amounts recorded in the general ledger accurately reflect the capital assets on hand.

Management's Corrective Action Plan – The City of Altus has been trying to get its capital asset system up to date for several years now. It is anticipated that this will be complete by June 30, 2009.

2008-2 Reconciliation of Utility Receivables

Criteria – Detailed subsidiary records should be reconciled monthly with activity and general ledger control account balances to help ensure that all transactions are recorded; that all transactions recorded actually occurred; and that the general ledger accounting records reflect accurate account balances for preparation of financial statements and other reports.

Condition – The City of Altus does not perform a monthly proof or other reconciliation of its utility billing system, nor is the customer account detail reconciled with the general ledger control accounts for utility receivables.

Cause and Effect – A monthly proof of the utility billing system will help ensure that all collections were properly posted to the customer accounts and that customer account balances are correctly reflected in the accounting records.

Ronald C. Cottrell, CPA

Recommendation – The City of Altus should perform a proof of its utility billing system on a monthly basis as follows:

Beginning customer account balances per aging report
Add: current-month billings per the billing register
Deduct: customer payments per bank deposit records
Add/deduct: adjustments per adjustment detail (meter rereads, etc.)
Equals: ending customer account balances per aging report

The ending customer account balances per the aging report should then be reconciled with the accounts receivable control account balances in the general ledger.

Management's Corrective Action Plan – The City of Altus felt that when we ran the G/L Reconciliation Report on a daily basis this was being done. This is the first audit where we were informed this was a problem. The auditors informed us on the proper procedures and it has been implemented.

2008–3 Deposit Collateral

Criteria – Oklahoma Statutes require all deposits of a municipality to be properly insured and/or collateralized at all times to ensure that no public funds are lost in the event of a failure of the financial institution.

Condition – The City of Altus had funds on deposit with one local financial institution that were not adequately covered by a combination of Federal Depository Insurance and collateral pledges by the institution as of June 30, 2008. Deposits were under-collateralized by approximately \$182,000. The City did not have proper procedures in place to ensure that deposits were properly insured and/or collateralized.

Cause and Effect – Account balances in any one bank fluctuate from month to month due to cash flow and transfers of investments between banks. In the event of a failure of the financial institution, the City could lose those funds that were not covered by either Federal Depository Insurance or were otherwise collateralized by pledges of securities by the bank.

Recommendation – The City of Altus should establish procedures to properly monitor the deposit and investment balances at each bank in relation to the amounts pledged by the banks to ensure that all public funds are adequately collateralized at all times. Additional pledges should be obtained from the bank which was under-collateralized. Banks may now obtain a letter of credit from another bank as collateral for the City deposits in lieu of pledging securities. Investments can be made through local brokerage firms in Federally-insured certificates of deposit or U. S. Treasury securities.

Management's Corrective Action Plan – The City of Altus believes this to be an isolated incidence, but will be monitored closely in the future.

2008–4 Financial Reporting Process

Criteria – The financial reporting process should include proper internal controls over the accumulation and presentation of accounting data to ensure the preparation of proper and accurate financial statements, and the review of those financial statements to ensure that they reflect accurate financial information.

Condition – The financial statements of the City of Altus as of and for the year ended June 30, 2007 included several errors in balances and amounts presented that had to be adjusted in the current financial statements as of and for the year ended June 30, 2008. These prior period adjustments are reflected in the accompanying financial statements and footnotes. Adjustments totaling approximately \$2,377,824 were made to beginning net assets in the government-wide financial statements, while corrections of approximately \$2,145,355 were made to beginning fund balances/net assets in the various fund financial statements, for errors noted in receivables, payables, long-term debt, and other balances in the previous financial statements.

The previous auditor assisted the City in the preparation of the financial statements from the City's trial balances, after some auditor recommended adjustments. The City did not have proper procedures and controls in place to review the draft financial statements to identify the misstatements or ensure the accuracy of the financial statements presented.

Cause and Effect – The draft financial statements were not reviewed by City of Altus financial management to the extent necessary to ensure that the financial statements accurately reflected the financial position and results of operation as of and for the year ended June 30, 2007 in accordance with accounting principles generally accepted in the United States of America. As a result, errors were included in the financial statements.

Recommendation – The City of Altus should implement procedures and controls for review of draft financial statements and footnotes to ensure that the financial statements as presented accurately reflect the financial position and results of operations of the City in accordance with accounting principles generally accepted in the United States of America.

Management's Corrective Action Plan – The City of Altus was unaware of any reporting inconsistencies prior to this year's audit. With the help of our current auditors, procedures will be put in place to assure there will be no issues in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008–1, 2008–2, 2008–3, and 2008–4 to be material weaknesses.

Ronald C. Cottrell, CPA

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Altus in a separate letter dated February 26, 2009.

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

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

Ronald C. Cottrell, CPA