

**THE CITY OF ELGIN,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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Independent Auditor's Report

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position – modified cash basis and, where applicable, cash flows – modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of

contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining schedules and debt service coverage information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining schedules and debt service coverage information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and debt service coverage information are fairly stated in all material respects in relation to the financial statements as a whole.

Arlidge & Associates, P.C.

Edmond, Oklahoma
January 25, 2013

CITY OF ELGIN, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

The management of the City of Elgin is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$2,372,880 and the assets of the City exceed its liabilities at June 30, 2012, by \$10,678,610 (net assets). Of this amount, \$2,189,390 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$672,702.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$148,468 or 16.6% of General Fund revenues.

ABOUT THE CITY

The City of Elgin is an incorporated municipality with a population of approximately 2,156 located in Comanche County in southwestern Oklahoma. The City is a statutory aldermanic form of government. Under this form of government, the City is governed by the Mayor and a four-member City Council and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Council is a four-member governing body with a weak Mayor; all are elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

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

The City's Financial Reporting Entity

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

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

- **The City of Elgin** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Elgin Public Works Authority (EPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City, with the Mayor and City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*
- **The Elgin Economic Development Authority (EEDA)** - public trust created pursuant to 60 O.S. § 176 that promotes general economic development within the City, with five members serving as the trustees, appointed by the Mayor and approved by the City Council which has authority to remove at will – *considered part of the primary government presentation for reporting purposes*

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

Related Organization:

Although not included as part of the City of Elgin reporting entity, the City also is a participant in a joint venture with the towns of Apache, Cement, Cyril, Fletcher, Medicine Park, and Sterling. The joint venture is a public trust known as the Multiple Community Services Authority and is formed to conduct certain activities that are of mutual benefit to the participating towns. The City of Elgin has a 1/7 beneficial interest in the trust.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

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

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

Fund Financial Statements

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

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

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For

CITY OF ELGIN, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary funds are the Elgin Public Works Authority that accounts for the operation of the water, sewer, and sanitation activities and the Elgin Economic Development Authority that accounts for the promotion of economic development.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-42 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund.

THE CITY AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$2,372,880.

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

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current assets	\$ 673	\$ 800	-16%	\$ 1,910	\$ 1,282	49%	\$ 2,583	\$ 2,082	24%
Capital assets, net	1,650	1,520	9%	8,777	6,591	33%	10,427	8,111	29%
Other non-current assets	-	-	0%	108	15	620%	108	15	100%
Total assets	2,323	2,320	0%	10,795	7,888	37%	13,118	10,208	29%
Current liabilities	-	-	0%	26	575	-95%	26	575	-95%
Non-current liabilities	401	450	-11%	2,013	877	130%	2,414	1,327	82%
Total liabilities	401	450	-11%	2,039	1,452	40%	2,440	1,902	28%
Net assets									
Invested in capital assets, net of related debt	1,250	1,070	17%	6,764	5,164	31%	8,014	6,234	29%
Restricted	463	572	-19%	12	14	-14%	475	586	-19%
Unrestricted	210	228	-8%	1,980	1,258	57%	2,190	1,486	47%
Total net assets	\$ 1,923	\$ 1,870	3%	\$ 8,756	\$ 6,436	36%	\$ 10,679	\$ 8,306	29%

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

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The following are explanations for significant changes:

Governmental Activities:

Current assets decreased \$127,892 due mainly to the City Hall/Library renovations. This also attributed to the decrease of restricted net assets.

Business-Type Activities:

Current assets (\$628,000 increase – 49%) – Due to an increase in cash in the amount of \$627,825.

Capital assets, net (\$2,186,000 increase – 33%) – Due mainly from current year cost of \$1,833,858 for the waterline project and \$398,535 for the sewer plant improvements.

Other non-current assets (93,000 increase – 620%) – Due mainly from increase of note issue cost related to issuance of OWRB notes payable in the current year.

Current liabilities (\$549,000 decrease – 95%) – Paid off the short-term payable for the industrial park in the amount of \$550,000.

Non-current liabilities (\$1,136,000 increase – 130%) – Took remaining draws on the USDA loan in the amount of \$1,050,000.

Invested in capital assets, net of related debt (\$1,600,000 increase – 31%) – Due to an increase in CIP related to the waterline project and sewer plant improvements project.

Restricted net assets (\$83,000 increase – 593%) Took the remaining draws on the USDA loan related to the sewer plant improvements.

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TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for service	\$ 64	\$ 70	-9%	\$ 960	\$ 919	4%	\$ 1,024	\$ 989	4%
Operating grants and contributions	88	35	151%	21	21	100%	88	56	57%
Capital grants and contributions	-	-	0%	1,879	1,442	30%	1,879	1,442	30%
Taxes	789	783	1%	-	-	-	789	783	1%
Intergovernmental revenue	17	13	31%	-	-	-	17	13	31%
Investment income	3	4	-25%	4	5	-20%	7	9	-22%
Miscellaneous	59	23	157%	8	3	167%	67	26	158%
Total revenues	1,020	928	10%	2,851	2,390	19%	3,871	3,318	17%
Expenses									
General government	161	139	16%	-	-	-	161	139	16%
Public safety	377	382	-1%	-	-	-	377	382	-1%
Highways and streets	18	18	0%	-	-	-	18	18	0%
Cemetery	1	2	-50%	-	-	-	1	2	-50%
Culture and recreation	45	42	7%	-	-	-	45	42	7%
Industrial development	1	1	0%	-	-	-	1	1	0%
Interest on long-term debt	17	21	-19%	-	-	-	17	21	-19%
Water	-	-	-	339	373	-9%	339	373	-9%
Sewer	-	-	-	184	99	86%	184	99	86%
Sanitation	-	-	-	226	208	9%	226	208	9%
Economic development	-	-	-	130	161	-19%	130	161	-19%
Total expenses	620	605	2%	879	841	5%	1,499	1,446	4%
Excess (deficiency) before transfers	400	323	24%	1,972	1,549	27%	2,372	1,872	27%
Transfers	(348)	(177)	97%	348	177	97%	-	-	-
Change in net assets	52	146	-64%	2,320	1,726	34%	2,372	1,872	27%
Beginning net assets	1,870	1,724	8%	6,436	4,710	37%	8,306	6,434	29%
Ending net assets	\$ 1,922	\$ 1,870	3%	\$ 8,756	\$ 6,436	36%	\$ 10,678	\$ 8,306	29%

The following are explanations for significant changes:

Governmental Activities:

Operating grants and contributions (\$53,092 increase- 151%) – The City received a grant for \$60,000 in the current year for the remodeling of City Hall.

Business-Type Activities:

Capital grants and contributions (\$437,000 increase – 30%) – The City received a grant in the amount of \$797,300 for the sewer plant improvements. They did not receive a grant related to this project in the prior year.

Sewer expense (\$84,103 increase – 86%) – Due to an increase in sewer operations and an increase in interest expense related to the USDA loan and the OWRB loan.

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Economic development expense (\$30,331 decrease – 19%) – The City paid a loan related to the industrial park in the prior year.

Governmental Activities

The City's governmental activities had an increase in net assets of \$52,554 or 7%.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
	General government	\$ 161	\$ 139	16%	\$ (79)	\$ (119)
Public safety	377	382	-1%	(328)	(316)	-4%
Highways and streets	18	18	0%	1	(7)	114%
Cemetery	1	2	-50%	1	-	0%
Culture and recreation	45	42	7%	(45)	(42)	-7%
Industrial development	1	1	0%	(1)	4	-125%
Interest on long-term debt	17	21	-19%	(17)	(21)	19%
Total	\$ 620	\$ 605	2%	\$ (468)	\$ (501)	7%

Business-Type Activities

The business-type activities had an increase in net assets of \$2,320,626. The increase is due in part to an increase in grant revenue and capital contributions to the EEDA for the industrial park capital project and to sewer for the wastewater system improvements.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
	Water	\$ 339	\$ 373	-9%	\$ 465	\$ 130
Sewer	184	99	86%	739	22	3259%
Sanitation	226	208	9%	9	11	-18%
Economic Development	130	160	-19%	747	1,378	-46%
Total	\$ 879	\$ 840	5%	\$ 1,960	\$ 1,541	27%

CITY OF ELGIN, OKLAHOMA
Management's Discussion and Analysis
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$672,702.

Other fund highlights include:

- For the year ended June 30, 2012, the General Fund's total fund balance decreased slightly by \$18,291.
- The Capital Improvements Fund reported a 24.5% decrease in fund balance resulting mainly from costs on the City Hall/Library renovations.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues over final estimates by \$12,120 or a 1.3% positive variance. General Fund actual expenditures were under final appropriations by \$18,000 or a 1.9% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the City had approximately \$10.4 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets for the year ended June 30, 2012.¹

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 220	\$ 210	\$ 639	\$ 639	\$ 859	\$ 849
Buildings	489	335	858	878	1,347	1,213
Imp. other than buildings	113	100	3,193	3,258	3,305	3,358
Machinery, furniture and equipment	686	737	46	51	732	788
Infrastructure	142	138	-	-	142	138
Utility property	-	-	1,160	1,172	1,160	1,172
Construction in progress	-	-	2,882	593	2,882	593
Totals	<u>\$ 1,651</u>	<u>\$ 1,520</u>	<u>\$ 8,777</u>	<u>\$ 6,591</u>	<u>\$ 10,428</u>	<u>\$ 8,111</u>

¹ For more detailed information on capital asset activity please refer to pages 35-36, Note 3. Capital Assets and Depreciation

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

- City Hall/Library renovations \$171,424
- First Street water project \$45,326
- Waterline project \$1,833,858
- Sewer plant improvements \$398,535

Debt Administration

At year-end, the City had \$2.4 million in long-term debt outstanding, reported on a modified cash basis, which represents a \$1,086,725 increase from the prior year.

TABLE 6
Long-Term Debt
(In Thousands)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Notes payable	-	-	2,013	877	2,013	877
Capital leases	401	450	-	-	401	450
Totals	\$ 401	\$ 450	\$ 2,013	\$ 877	\$ 2,414	\$ 1,327

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2013 budget is consistent to prior years, except for the following:
 - Park improvements approved for \$32,730.
 - The City is scheduled to receive a grant for storm sirens from FEMA in the amount of \$45,000.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at P.O. Box 310, Elgin, Oklahoma 73538 or telephone at 580-492-5777.

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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 449,880	\$ 1,652,270	\$ 2,102,150
Investments	222,914	258,000	480,914
Unamortized bond issuance costs	-	108,004	108,004
Capital assets:			
Land and construction in progress	220,000	3,521,080	3,741,080
Other capital assets, net of depreciation	1,430,646	5,256,014	6,686,660
Total assets	<u>2,323,440</u>	<u>10,795,368</u>	<u>13,118,808</u>
LIABILITIES			
Due to other governments	92	-	92
Due to depositors	-	26,086	26,086
Long-term liabilities:			
Due within one year	51,505	68,814	120,319
Due in more than one year	349,397	1,944,304	2,293,701
Total liabilities	<u>400,994</u>	<u>2,039,204</u>	<u>2,440,198</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,249,744	6,763,976	8,013,720
Restricted for:			
Debt service	-	12,474	12,474
Cemetery	28,542	-	28,542
Streets	24,437	-	24,437
Parks	15,041	-	15,041
Capital improvements	395,006	-	395,006
Unrestricted	209,676	1,979,714	2,189,390
Total net assets	<u>\$ 1,922,446</u>	<u>\$ 8,756,164</u>	<u>\$ 10,678,610</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 160,787	\$ 16,951	\$ 64,856	\$ -	\$ (78,980)	\$ -	\$ (78,980)
Public Safety	377,262	45,166	4,413	-	(327,683)	-	(327,683)
Highways and Streets	17,641	-	18,708	-	1,067	-	1,067
Cemetery	793	2,025	-	-	1,232	-	1,232
Culture and Recreation	45,365	-	185	-	(45,180)	-	(45,180)
Industrial Development	843	-	-	-	(843)	-	(843)
Interest on Long-Term Debt	17,356	-	-	-	(17,356)	-	(17,356)
Total governmental activities	<u>620,047</u>	<u>64,142</u>	<u>88,162</u>	<u>-</u>	<u>(467,743)</u>	<u>-</u>	<u>(467,743)</u>
Business-Type Activities:							
Water	339,444	504,112	-	300,700	-	465,368	465,368
Economic Development	130,229	96,096	-	781,100	-	746,967	746,967
Sewer	184,077	125,595	-	797,300	-	738,818	738,818
Sanitation	225,548	234,502	-	-	-	8,954	8,954
Total business-type activities	<u>879,298</u>	<u>960,305</u>	<u>-</u>	<u>1,879,100</u>	<u>-</u>	<u>1,960,107</u>	<u>1,960,107</u>
Total primary government	<u>\$ 1,499,345</u>	<u>\$ 1,024,447</u>	<u>\$ 88,162</u>	<u>\$ 1,879,100</u>	<u>(467,743)</u>	<u>1,960,107</u>	<u>1,492,364</u>
General revenues:							
Taxes:							
Sales and use taxes					749,788	-	749,788
Franchise taxes and public service taxes					39,127	-	39,127
Intergovernmental revenue not restricted to specific programs					16,525	-	16,525
Unrestricted investment earnings					3,491	4,113	7,604
Miscellaneous					59,129	8,343	67,472
Transfers					(347,763)	347,763	-
Total general revenues and transfers					<u>520,297</u>	<u>360,219</u>	<u>880,516</u>
Change in net assets					52,554	2,320,326	2,372,880
Net assets - beginning					<u>1,869,892</u>	<u>6,435,838</u>	<u>8,305,730</u>
Net assets - ending					<u>\$ 1,922,446</u>	<u>\$ 8,756,164</u>	<u>\$ 10,678,610</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

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

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 96,881	\$ 294,958	\$ 58,041	\$ 449,880
Investments	112,914	100,000	10,000	222,914
Total assets	<u>\$ 209,795</u>	<u>\$ 394,958</u>	<u>\$ 68,041</u>	<u>\$ 672,794</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other governments	\$ 92	\$ -	\$ -	\$ 92
Total liabilities	<u>92</u>	<u>-</u>	<u>-</u>	<u>92</u>
 Fund balances:				
Restricted for:				
Streets	-	-	24,414	24,414
Cemetery	-	-	28,542	28,542
Parks	-	-	15,041	15,041
Assigned to:				
Streets	-	-	44	44
Cemetery	53,307	-	-	53,307
Library	1,777	-	-	1,777
Capital Improvements	-	394,958	-	394,958
Balance future years budget	6,151	-	-	6,151
Unassigned	148,468	-	-	148,468
Total fund balances	<u>209,703</u>	<u>394,958</u>	<u>68,041</u>	<u>672,702</u>
Total liabilities and fund balances	<u>\$ 209,795</u>	<u>\$ 394,958</u>	<u>\$ 68,041</u>	<u>\$ 672,794</u>

See accompanying notes to the basic financial statements.

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

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 799,782	\$ -	\$ -	\$ 799,782
Intergovernmental	10,256	64,856	18,708	93,820
Charges for services	31,193	-	763	31,956
Fines and forfeitures	15,235	-	-	15,235
Licenses and permits	16,951	-	-	16,951
Investment income	1,576	1,791	124	3,491
Miscellaneous	21,790	13,197	24,142	59,129
Total revenues	896,783	79,844	43,737	1,020,364
EXPENDITURES				
Current:				
General government	126,457	18,058	1,500	146,015
Public safety	325,206	-	-	325,206
Highway and streets	-	-	5,244	5,244
Culture and recreation	26,251	-	-	26,251
Cemetery	10,080	-	-	10,080
Industrial development	96	-	-	96
Capital Outlay	-	202,227	17,712	219,939
Debt Service:				
Principal	-	49,316	-	49,316
Interest and other charges	-	17,356	-	17,356
Total expenditures	488,090	286,957	24,456	799,503
Excess (deficiency) of revenues over expenditures	408,693	(207,113)	19,281	220,861
OTHER FINANCING SOURCES (USES)				
Transfers in	27,637	79,221	-	106,858
Transfers out	(454,621)	-	-	(454,621)
Total other financing sources and uses	(426,984)	79,221	-	(347,763)
Net change in fund balances	(18,291)	(127,892)	19,281	(126,902)
Fund balances - beginning	227,994	522,850	48,760	799,604
Fund balances - ending	\$ 209,703	\$ 394,958	\$ 68,041	\$ 672,702

See accompanying notes to the basic financial statements.

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

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$	672,702
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
		1,650,646
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
		(400,902)
		1,922,446
Net Assets of Governmental Activities in the Statement of Net Assets	\$	1,922,446

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$	(126,902)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		229,939
Depreciation expense		(99,799)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		49,316
Change in net assets of governmental activities		\$ 52,554

See accompanying notes to the basic financial statements.

**CITY OF ELGIN, OKLAHOMA
ANNUAL FINANCIAL REPORT
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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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

Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Elgin Public Works Authority</u>	<u>Elgin Economic Development Authority</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,337,836	\$ 283,867	\$ 1,621,703
Investments	250,000	-	250,000
Restricted cash and cash equivalents	30,567	-	30,567
Restricted investments	8,000	-	8,000
Total current assets	<u>1,626,403</u>	<u>283,867</u>	<u>1,910,270</u>
Non-current assets:			
Unamortized note issue costs	108,004	-	108,004
Capital Assets:			
Land and construction in progress	2,995,780	525,300	3,521,080
Other capital assets, net of accumulated depreciation	1,334,605	3,921,409	5,256,014
Total non-current assets	<u>4,438,389</u>	<u>4,446,709</u>	<u>8,885,098</u>
Total assets	<u>6,064,792</u>	<u>4,730,576</u>	<u>10,795,368</u>
LIABILITIES			
Current liabilities:			
Deposits subject to refund	26,086	-	26,086
Notes payable (current portion)	15,074	53,740	68,814
Total current liabilities	<u>41,160</u>	<u>53,740</u>	<u>94,900</u>
Non-current liabilities:			
Notes payable, net of current portion	1,415,784	528,520	1,944,304
Total non-current liabilities	<u>1,415,784</u>	<u>528,520</u>	<u>1,944,304</u>
Total liabilities	<u>1,456,944</u>	<u>582,260</u>	<u>2,039,204</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,899,527	3,864,449	6,763,976
Restricted for debt service	12,474	-	12,474
Unrestricted	1,695,847	283,867	1,979,714
Total net assets	<u>\$ 4,607,848</u>	<u>\$ 4,148,316</u>	<u>\$ 8,756,164</u>

See accompanying notes to the basic financial statements.

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

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Elgin Public Works Authority</u>	<u>Elgin Economic Development Authority</u>	<u>Total Proprietary Funds</u>
Operating Revenues:			
Water charges	\$ 486,044	\$ -	\$ 486,044
Sewer charges	121,094	-	121,094
Sanitation charges	234,502	-	234,502
Penalty charges	12,713	-	12,713
Reconnect fee	9,856	-	9,856
Rentals	-	96,096	96,096
Total operating revenues	<u>864,209</u>	<u>96,096</u>	<u>960,305</u>
Operating Expenses:			
Administration	274,516	-	274,516
Sewer	62,738	-	62,738
Water	76,432	-	76,432
Sanitation	225,548	-	225,548
Economic development	-	5,024	5,024
Depreciation	74,721	80,302	155,023
Amortization expense	4,521	-	4,521
Total operating expenses	<u>718,476</u>	<u>85,326</u>	<u>803,802</u>
Net operating income	<u>145,733</u>	<u>10,770</u>	<u>156,503</u>
Non-Operating Revenues (Expenses):			
Investment income	4,087	26	4,113
Interest expense	(30,580)	(44,903)	(75,483)
Capital grants and contributions	1,098,000	781,100	1,879,100
Miscellaneous revenue	8,255	88	8,343
Miscellaneous expenses	(13)	-	(13)
Total non-operating revenue (expenses)	<u>1,079,749</u>	<u>736,311</u>	<u>1,816,060</u>
Net income (expense) before contributions and transfers	<u>1,225,482</u>	<u>747,081</u>	<u>1,972,563</u>
Transfers in	3,351,107	-	3,351,107
Transfers out	(3,003,344)	-	(3,003,344)
Change in net assets	<u>1,573,245</u>	<u>747,081</u>	<u>2,320,326</u>
Total net assets - beginning	<u>3,034,603</u>	<u>3,401,235</u>	<u>6,435,838</u>
Total net assets - ending	<u>\$ 4,607,848</u>	<u>\$ 4,148,316</u>	<u>\$ 8,756,164</u>

See accompanying notes to the basic financial statements.

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

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Elgin Public Works Authority</u>	<u>Elgin Economic Development Authority</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 864,209	\$ 96,096	\$ 960,305
Payments to suppliers	(432,634)	(5,024)	(437,658)
Payments to employees	(206,613)	-	(206,613)
Receipts of customer meter deposits	12,940	-	12,940
Refunds of customer meter deposits	(12,769)	-	(12,769)
Miscellaneous revenue	8,255	88	8,343
Net cash provided by operating activities	<u>233,388</u>	<u>91,160</u>	<u>324,548</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	3,351,107	-	3,351,107
Transfers to other funds	(3,003,344)	-	(3,003,344)
Net cash provided by noncapital financing activities	<u>347,763</u>	<u>-</u>	<u>347,763</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(2,340,722)	-	(2,340,722)
Proceeds from debt	1,523,835	-	1,523,835
Principal paid on debt	(337,365)	(600,430)	(937,795)
Note issue costs paid on debt	(97,534)	-	(97,534)
Interest and fiscal agent fees paid on debt	(30,580)	(44,903)	(75,483)
Federal grants received	1,098,000	781,100	1,879,100
Net cash provided by (used in) capital and related financing activities	<u>(184,366)</u>	<u>135,767</u>	<u>(48,599)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	4,087	26	4,113
Net cash provided by investing activities	<u>4,087</u>	<u>26</u>	<u>4,113</u>
Net increase in cash and cash equivalents	400,872	226,953	627,825
Balances - beginning of year	<u>967,531</u>	<u>56,914</u>	<u>1,024,445</u>
Balances - end of year	<u>\$ 1,368,403</u>	<u>\$ 283,867</u>	<u>\$ 1,652,270</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	\$ 1,337,836	\$ 283,867	\$ 1,621,703
Restricted cash and cash equivalents - current	30,567	-	30,567
Total cash and cash equivalents, end of year	<u>\$ 1,368,403</u>	<u>\$ 283,867</u>	<u>\$ 1,652,270</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income	\$ 145,733	\$ 10,770	\$ 156,503
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	74,721	80,302	155,023
Amortization expense	4,521	-	4,521
Miscellaneous revenue	8,255	88	8,343
Change in assets and liabilities:			
Deposits subject to refund	171	-	171
Miscellaneous expense	(13)	-	(13)
Net cash provided by operating activities	<u>\$ 233,388</u>	<u>\$ 91,160</u>	<u>\$ 324,548</u>

See accompanying notes to the basic financial statements.

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

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

In determining the financial reporting entity, the City uses the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*" that requires the reporting entity and all component units of which the reporting entity is financially accountable be included in the financial report. The City's financial reporting entity includes three separate legal entities.

- **The City of Elgin** – operates the public safety, streets, health and welfare, culture and recreation, and administrative activities of the City.
- **The Elgin Public Works Authority (EPWA)** – that operates the water, wastewater, and sanitation services of the City. The City of Elgin is the beneficiary of the trust and the City Council serves as the governing body of the trust.
- **The Elgin Economic Development Authority (EEDA)** – public trust created pursuant to 60 O.S. § 176 to promote the general economic development of the City. The City of Elgin is the beneficiary of the trust and the Mayor appoints, and the City Council approves, the five trustees that serve as the governing body of the trust.

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

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

The EPWA component unit has the City Council as their governing body (trustees) and the EEDA has trustees appointed by the Mayor and approved by the City Council and the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

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

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

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

- General government: License and permits, operating grants
- Public safety: Fine revenue, fire runs and operating grants
- Highways and streets: Gas excise and commercial vehicle taxes
- Cemetery: Lot sales and interments
- Culture and Recreation: Operating grants

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Capital Improvements Fund – a capital project fund that accounts for capital improvement activities

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

- Street and Alley Fund – a capital project fund that accounts for state-shared gasoline excise and commercial vehicle taxes legally restricted for street and alley purposes
- Cemetery CIP Fund – a capital project fund that accounts for 12.5 percent of cemetery revenues restricted by State law for cemetery capital improvements
- Estate Fund – a special revenue fund that accounts for the development and maintenance of Osborne Park

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

Proprietary Funds:

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

- Elgin Public Works Authority (EPWA) – accounts for the operation of the water, wastewater, and sanitation activities
- Elgin Economic Development Authority (EEDA) – accounts for promoting the general economic development of the City

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

All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts (or Authorities) are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit, any short-term investments with an original maturity of three months or less, and open-end government mutual funds. Investments consist of long-term certificates of deposits and a money market account with the trustee bank and are reported at cost.

D. Capital Assets and Depreciation

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

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,500 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost.

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

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

E. Long-Term Debt

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

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 10.

G. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. **Nonspendable** – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. **Restricted** – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. **Committed** – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. **Assigned** – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. **Unassigned** – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Assets:

Net assets are displayed in three components:

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

**CITY OF ELGIN, OKLAHOMA
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It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

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

2. Deposits and Investments

For the year ended June 30, 2012, the City recognized \$7,604 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2012, the primary government held the following deposits and investments:

Type of Deposits and Investments-Primary Government	Carrying Value				
Deposits:					
Demand deposits	\$ 2,102,087				
Time deposit	480,914				
 Investments:					
Money market fund	<table style="display: inline-table; vertical-align: middle;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Credit Rating</td> <td style="border-left: 1px solid black; padding-left: 10px;"></td> </tr> <tr> <td style="text-align: center;">AAAm</td> <td style="border-left: 1px solid black; padding-left: 10px; text-align: center;">63</td> </tr> </table>	Credit Rating		AAAm	63
Credit Rating					
AAAm	63				
Total deposits and investments	\$ 2,583,064				
 Reconciliation to Statement of Net Assets:					
Cash and cash equivalents	\$ 2,102,150				
Investments	480,914				
	\$ 2,583,064				

Custody Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit

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Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was under-collateralized in the amount of \$13,017 at one financial institution, thus exposed to custodial credit risk as defined above.

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

Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts. As noted in the schedule of deposits and investments above, at June 30, 2012, the City's investment in debt securities were rated AAAM by Standard & Poors.

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

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary funds statement of net assets are comprised of amounts restricted for utility deposits, debt reserve, or construction purposes. The restricted assets as of June 30, 2012 are as follows:

	Cash and cash equivalents	Investments
Utility deposits	\$ 18,093	\$ 8,000
USDA Reserve Account	7,778	-
USDA Reserve Capital Account	4,696	-
Total	\$ 30,567	\$ 8,000

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3. Capital Assets and Depreciation

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

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 210,000	\$ 10,000	\$ -	\$ 220,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>210,000</u>	<u>10,000</u>	<u>-</u>	<u>220,000</u>
Other capital assets:				
Buildings	462,266	171,424	-	633,690
Improvements	140,106	22,100	-	162,206
Infrastructure	197,117	17,712	-	214,829
Machinery, furniture and equipment	1,288,754	8,703	31,363	1,266,094
Total other capital assets at historical cost	<u>2,088,243</u>	<u>219,939</u>	<u>31,363</u>	<u>2,276,819</u>
Less accumulated depreciation for:				
Buildings	126,847	17,756	-	144,603
Improvements	39,649	9,650	-	49,299
Infrastructure	59,256	13,144	-	72,400
Machinery, furniture and equipment	551,985	59,249	31,363	579,871
Total accumulated depreciation	<u>777,737</u>	<u>99,799</u>	<u>31,363</u>	<u>846,173</u>
Other capital assets, net	<u>1,310,506</u>	<u>120,140</u>	<u>-</u>	<u>1,430,646</u>
Governmental activities capital assets, net	<u>\$ 1,520,506</u>	<u>\$ 130,140</u>	<u>\$ -</u>	<u>\$ 1,650,646</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 639,300	\$ -	\$ -	\$ 639,300
Construction in progress	592,614	2,334,493	45,327	2,881,780
Total capital assets not being depreciated	<u>1,231,914</u>	<u>2,334,493</u>	<u>45,327</u>	<u>3,521,080</u>
Other capital assets:				
Buildings	981,653	-	-	981,653
Machinery, furniture and equipment	244,514	2,446	16,943	230,017
Improvements	3,268,845	-	-	3,268,845
Utility property	2,122,876	49,110	-	2,171,986
Total other capital assets at historical cost	<u>6,617,888</u>	<u>51,556</u>	<u>16,943</u>	<u>6,652,501</u>
Less accumulated depreciation for:				
Buildings	103,971	19,691	-	123,662
Machinery, furniture and equipment	193,269	8,025	16,943	184,351
Improvements	10,896	65,377	-	76,273
Utility property improvements	950,270	61,931	-	1,012,201
Total accumulated depreciation	<u>1,258,406</u>	<u>155,024</u>	<u>16,943</u>	<u>1,396,487</u>
Other capital assets, net	<u>5,359,482</u>	<u>(103,468)</u>	<u>-</u>	<u>5,256,014</u>
Business-type activities capital assets, net	<u>\$ 6,591,396</u>	<u>\$ 2,231,025</u>	<u>\$ 45,327</u>	<u>\$ 8,777,094</u>

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

Governmental Activities:		Business-Type Activities:	
General government	\$ 14,772	Administration	\$ 8,921
Public safety	52,056	Water	36,107
Highways and streets	12,397	Sewer	29,693
Cemetery	713	Economic Development	80,303
Culture and recreation	19,114	Total Business-Type Activities	<u>\$ 155,024</u>
Industrial development	747		
Total Governmental Activities	<u>\$ 99,799</u>		

4. Long-Term Debt and Debt Service Requirements

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

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital lease payable	\$ 450,218	\$ -	\$ 49,316	\$ 400,902	\$ 51,505
Total Governmental Activities	<u>\$ 450,218</u>	<u>\$ -</u>	<u>\$ 49,316</u>	<u>\$ 400,902</u>	<u>\$ 51,505</u>
Business-Type Activities:					
Notes Payable	\$ 877,077	\$ 1,523,835	\$ 387,793	\$ 2,013,118	\$ 68,814
Total Business-Type Activities	<u>877,077</u>	<u>1,523,835</u>	<u>387,793</u>	<u>2,013,118</u>	<u>68,814</u>
Total Long-Term Debt	<u>\$ 1,327,295</u>	<u>\$ 1,523,835</u>	<u>\$ 437,109</u>	<u>\$ 2,414,020</u>	<u>\$ 120,319</u>

Reconciliation to Statement of Net Assets:

Governmental Activities:

Due within one year	\$ 51,505
Due in more than one year	349,397
Total Governmental Activities Long-term liabilities	<u>\$ 400,902</u>

Business-Type Activities:

Due within one year	\$ 68,814
Due in more than one year	1,944,304
Total Business-Type Activities Long-term liabilities	<u>\$ 2,013,118</u>

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Governmental Activities:

At June 30, 2012, the governmental activities long-term payable from taxes and other general revenues include the following:

Capital Leases:

\$550,000 lease obligation with Arvest Equipment Leasing for the purchase of a fire truck, payable in 60 monthly installments of \$5,660 with an annual interest rate of 4.35%, final payment of \$304,735 due April 2014

	\$ 400,902
Total Capital Leases Payable	\$ 400,902
Current portion	51,505
Noncurrent portion	349,397
Total Capital Leases Payable	\$ 400,902

Business-Type Activities:

Notes Payable:

USDA Promissory Note, issued in April 2011, original amount \$1,304,000, with an annual interest rate of 4.125% due in monthly installments of \$5,556 beginning May 19, 2011, final installment due April 19, 2051 .

\$ 1,257,724

Industrial Park Building Note Payable to Arvest Bank dated April 29, 2008, original amount of \$746,250 with an annual interest rate of 6.104% due in monthly installments of \$7,356 beginning January 29, 2009, final installment due December 29, 2018.

582,259

2011 OWRB Promissory Note dated December 1, 2011, original amount \$3,060,000 due in semi-annual principal installments each March 15 and September 15 beginning September 15, 2013, final installment due September 15, 2032 with an administration fee of 0.5% and interest at 2.13% payable annually based on principal outstanding. Remaining funds to be drawn at June 30, 2012 are \$2,586,165.

173,135

Total Notes Payable	\$ 2,013,118
Current portion	68,814
Noncurrent portion	1,944,304
Total Notes Payable	\$ 2,013,118

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Payment Requirements to Maturity:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Capital Leases</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	51,505	16,420	68,814	144,907
2014	349,397	11,942	229,798	140,009
2015	-	-	234,098	77,945
2016	-	-	238,594	73,277
2017	-	-	243,489	68,381
2018-2022	-	-	1,162,471	253,579
2023-2027	-	-	908,363	209,612
2028-2032	-	-	714,416	181,321
2033-2037	-	-	186,800	146,560
2038-2042	-	-	229,507	103,853
2043-2047	-	-	281,978	51,382
2048-2049	-	-	100,955	3,472
Totals	\$ 400,902	\$ 28,362	\$ 4,599,283	\$ 1,454,298
			Less amount to be drawn (2,586,165)	
			<u>\$ 2,013,118</u>	

Capital Lease Property:

The following is an analysis of the governmental fund leased property under capital leases by major classes:

Machinery and Equipment	\$550,000
Less: Accumulated Depreciation	(56,528)
Net Machinery and Equipment under Capital Leases	<u>\$493,472</u>

Conduit Debt:

<u>Original Debt</u>	<u>Project</u>	<u>Remaining Principal</u>
Elgin Economic Development Authority		
\$3,350,000	(1) BAE Systems Land & Armaments L.P. Tax Increment Revenue Note Series 2008	<u>\$ 2,843,381</u>
	Total EEDA Conduit Debt	<u>\$ 2,843,381</u>

(1) BAE Systems Land & Armaments L.P.

The Tax Increment Revenue Bonds were issued to partially fund the construction of the Fort Sill Industrial Park. The bonds were purchased by a subsidiary of BAE Systems Land & Armaments L.P. and are secured by incremental ad valorem taxes on the industrial park. The only commitment the Elgin Economic Development Authority has is remittance to the trustee bank of these incremental taxes received from the county. As of the end of fiscal 2012, the City has not received any ad valorem taxes related to this venture. If the incremental taxes are insufficient to service the debt, the EEDA has no further liability.

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5. Pledge of Future Revenues

Sales Tax and Net Revenues Pledge - The City has pledged one cent of future sales tax revenues and also net sewer utility revenues to repay \$3,060,000 of the OWRB Promissory Note Payable. Proceeds from the note provide financing for improvements to the wastewater system in the City of Elgin. The notes are payable from pledged sales tax and net utility revenues and is payable through September 2032. The pledged sales tax revenues were \$237,213 and the net sewer utility revenues were \$58,356. Debt service payments of \$301,273 for the current fiscal year were 102% of the pledged sales tax and net utility revenues of \$295,569.

Sales Tax Pledge - The City has pledged one cent of future sales tax revenues to repay \$1,304,000 of the USDA Promissory Note Payable. Proceeds from the note provide financing for improvements to the water system in Elgin. The note is payable from pledged sales tax revenues and is payable through September 2051. The pledged sales tax revenues were \$237,213. Debt service payments of \$66,672 for the current fiscal year were 28% of the pledged sales tax revenues.

Utility Gross Water Revenues Pledge - The City has pledged gross utility water revenues to repay \$1,304,000 of the USDA Promissory Note Payable. Proceeds from the note provide financing for improvements to the water system in Elgin. The note is payable from pledged gross utility revenues and is payable through April 2051. The pledged gross utility water revenues were \$486,044. Debt service payments of \$66,672 for the current fiscal year were 13.7% of the pledged utility revenues.

6. Sales Tax Revenue

Sales tax revenue represents a 3 cent tax on each dollar of taxable sales of which 1 cent is required to be transferred to the PWA for the USDA-RD loan. Forty percent of the remaining sales tax is transferred to the CIP fund while 60% remains in the General Fund. These are transferred from the General Fund monthly to the appropriate funds.

7. Schedule of Transfers Between Funds and Legal Entities

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

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Capital Improvement Fund	\$ 79,221	Sales tax
General Fund	EPWA Operating	375,400	Sales tax
EPWA Operating	General Fund	27,637	Sales tax
EPWA Operating	USDA RD	1,035,966	USDA loan
EPWA Bond Fund	EPWA Operating	105,883	Capital assets
USDA RD	EPWA Operating	1,833,858	Capital assets
Total		\$ 3,457,965	
Reconciliation to Fund Financial Statements:			
	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 106,858	\$ (454,621)	\$ (347,763)
Proprietary Funds	3,351,107	(3,003,344)	347,763
	\$ 3,457,965	\$ (3,457,965)	-

8. Risk Management

The City and its public trusts are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

9. Employee Retirement Plan Participation

The City of Elgin participates in two pension or retirement plans:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Oklahoma Municipal Retirement Fund (OMRF-DCP) – an agent multiple-employer defined contribution plan

OFPRS

The City of Elgin, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS) as a result of the employment of volunteer firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ fulltime or volunteer firefighters. For 2012, the City's annual required contribution was \$5,247 for the OFPRS plan and was equal to the City's actual contribution.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS
4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

OMRF Defined Contribution Plan

The City provided effective January 11, 2005, a defined contribution plan and trust known as the City of Elgin Plan and Trust (the Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan. OMRF operations are supervised by a nine-member Council of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is available to all full-time employees on a voluntary basis who are not already participating in another plan. According to City Ordinance, the maximum combined contribution is 10% of the employee's gross wages. The City, as employer, contributes an amount equal to 2% of the

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employee's gross wages toward the maximum of 10%. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited may be used to reduce the City's current-period contribution requirements. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2012, the City contributed \$9,170 to the plan, while the employee contributions totaled \$12,955.

Schedule of Retirement Plan Contributions – OFPRS and OMRP

Oklahoma Firefighter's Pension and Retirement System			Oklahoma Municipal Retirement Fund		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2010	5,149	100%	2010	9,242	100%
2011	4,998	100%	2011	9,647	100%
2012	5,247	100%	2012	12,955	100%

10. Commitments and Contingencies

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and compensatory time leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012 is \$20,925.

Litigation:

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

Federal and State Award Programs:

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

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11. Expenditures Exceeding Appropriations

The City is required to adopt appropriations for all funds of the City of Elgin's legal entity. The level at which expenditures should not exceed appropriations is the department level within a fund as provided by the Municipal Budget Act. Transfer of appropriations may be approved by City management; however, supplemental appropriations must be approved by the City Council and subsequently filed with the Oklahoma State Auditor's Office.

For the year ended June 30, 2012, the City of Elgin expenditures exceeded fund/departmental appropriations as follows:

<u>Fund/Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund/Fire	\$ 110,974	\$ 112,792	\$ (1,818)
General Fund/Animal control	12,000	12,802	(802)
General Fund/Parks	18,000	18,177	(177)
General Fund/Library	5,000	5,076	(76)

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OTHER SUPPLEMENTAL INFORMATION

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

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 164,829	\$ 164,829	\$ 164,829	\$ -
Resources (Inflows):				
Taxes	779,800	789,800	799,782	9,982
Intergovernmental	8,100	9,100	10,071	971
Charges for services	34,583	34,583	30,693	(3,890)
Fines and forfeitures	18,000	18,000	15,235	(2,765)
Licenses and permits	18,000	18,000	16,951	(1,049)
Investment income	2,500	3,500	975	(2,525)
Miscellaneous	13,400	15,400	18,159	2,759
Transfers in	0	19,000	27,637	8,637
Total Resources (Inflows)	<u>874,383</u>	<u>907,383</u>	<u>919,503</u>	<u>12,120</u>
Amounts available for appropriation	<u>1,039,212</u>	<u>1,072,212</u>	<u>1,084,332</u>	<u>12,120</u>
Charges to Appropriations (Outflows):				
Police	193,301	196,801	196,612	189
Fire	108,374	110,974	112,792	(1,818)
Animal control	12,000	12,000	12,802	(802)
Parks	15,000	18,000	18,177	(177)
General government	131,338	129,338	124,903	4,435
Cemetery	-	100	80	20
Library	3,500	5,000	5,076	(76)
Municipal court	8,000	8,000	4,554	3,446
Industrial park	500	500	96	404
Transfers out	423,000	467,000	454,621	12,379
Total Charges to Appropriations	<u>895,013</u>	<u>947,713</u>	<u>929,713</u>	<u>18,000</u>
Ending Budgetary Fund Balance	<u>\$ 144,199</u>	<u>\$ 124,499</u>	<u>\$ 154,619</u>	<u>\$ 30,120</u>
Reconciliation to Statement of Revenues, Expenditures and Changes in Fund Balance:				
Cemetery Fund			53,307	
Community Library Fund			1,777	
Total General Fund Balance			<u>\$ 209,703</u>	

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements. See page 47 General Fund combining accounts for actual comparison.
2. The legal level of appropriation control is the department level within a fund. All appropriations require City Council's approval.

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Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – City of Elgin – June 30, 2012

	SPECIAL REVENUE FUNDS			Total Governmental Funds
	Street and Alley Fund	Cemetery CIP Fund	Estate Fund	
ASSETS				
Cash and cash equivalents	\$ 19,458	\$ 23,542	\$ 15,041	\$ 58,041
Investments	5,000	5,000	-	10,000
Total assets	<u>24,458</u>	<u>28,542</u>	<u>15,041</u>	<u>68,041</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Restricted for:				
Streets	24,414	-	-	24,414
Cemetery	-	28,542	-	28,542
Parks	-	-	15,041	15,041
Assigned to:				
Streets	44	-	-	44
Total fund balances	<u>24,458</u>	<u>28,542</u>	<u>15,041</u>	<u>68,041</u>
Total liabilities and fund balances	<u>\$ 24,458</u>	<u>\$ 28,542</u>	<u>\$ 15,041</u>	<u>\$ 68,041</u>

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds (Modified Cash Basis) - City of Elgin - Year Ended June 30, 2012

	Street and Alley Fund	Cemetery CIP Fund	Estate Fund	Total-Other Governmental Funds
REVENUES				
Intergovernmental	\$ 18,708	\$ -	\$ -	\$ 18,708
Charges for services	-	763	-	763
Investment earnings	23	80	21	124
Miscellaneous	17,324	1,660	5,158	24,142
Total revenues	<u>36,055</u>	<u>2,503</u>	<u>5,179</u>	<u>43,737</u>
EXPENDITURES				
Current:				
General government	-	-	1,500	1,500
Highways and streets	5,244	-	-	5,244
Capital Outlay	17,712	-	-	17,712
Total expenditures	<u>22,956</u>	<u>-</u>	<u>1,500</u>	<u>24,456</u>
Excess (deficiency) of revenues over expenditures	<u>13,099</u>	<u>2,503</u>	<u>3,679</u>	<u>19,281</u>
OTHER FINANCING SOURCES (USES)				
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	13,099	2,503	3,679	19,281
Fund balances - beginning	11,359	26,039	11,362	48,760
Fund balances - ending	<u>\$ 24,458</u>	<u>\$ 28,542</u>	<u>\$ 15,041</u>	<u>\$ 68,041</u>

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2012

	GENERAL FUND			
	General Fund	Cemetery Fund	Community Library Fund	Total General Fund
ASSETS				
Cash and cash equivalents	\$ 88,666	\$ 6,438	\$ 1,777	\$ 96,881
Investments	66,045	46,869	-	112,914
Total assets	154,711	53,307	1,777	209,795
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payable to other governments	92	-	-	92
Total liabilities	92	-	-	92
Fund balances:				
Assigned to:				
Cemetery	-	53,307	-	53,307
Library	-	-	1,777	1,777
Balance future years budget	6,151	-	-	6,151
Unassigned	148,468	-	-	148,468
Total fund balances	154,619	53,307	1,777	209,703
Total liabilities and fund balances	\$ 154,711	\$ 53,307	\$ 1,777	\$ 209,795

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2012

	General Fund	Cemetery Fund	Community Library Fund	Total General Fund
REVENUES				
Taxes	\$ 799,782	\$ -	\$ -	\$ 799,782
Intergovernmental	10,071	-	185	10,256
Charges for services	30,693	500	-	31,193
Fines and forfeitures	15,235	-	-	15,235
Licenses and permits	16,951	-	-	16,951
Investment earnings	975	597	4	1,576
Miscellaneous	18,159	-	3,631	21,790
Total revenues	891,866	1,097	3,820	896,783
EXPENDITURES				
Current:				
General government	126,457	-	-	126,457
Public Safety	325,206	-	-	325,206
Cemetery	80	10,000	-	10,080
Culture and recreation	23,253	-	2,998	26,251
Industrial development	96	-	-	96
Total expenditures	475,092	10,000	2,998	488,090
Excess (deficiency) of revenues over expenditures	416,774	(8,903)	822	408,693
OTHER FINANCING SOURCES (USES)				
Transfers in	27,637	-	-	27,637
Transfers out	(454,621)	-	-	(454,621)
Total other financing sources and uses	(426,984)	-	-	(426,984)
Net change in fund balances	(10,210)	(8,903)	822	(18,291)
Fund balances - beginning	164,829	62,210	955	227,994
Fund balances - ending	\$ 154,619	\$ 53,307	\$ 1,777	\$ 209,703

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

Proprietary Fund Accounts Combining Schedule of Net Assets (Modified Cash Basis) – EPWA – June 30, 2012

	Elgin Public Works Authority Accounts						Total
	EPWA Operating	PWA Bond Account	PWA Money Market Account	Meter Deposit Account	OWRB	USDA-RD Account	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 652,968	\$ 632,062	\$ 46,550	\$ -	\$ 22	\$ 6,234	\$ 1,337,836
Investments	-	200,000	50,000	-	-	-	250,000
Restricted:							
Restricted cash and cash equivalents	12,474	-	-	18,093	-	-	30,567
Restricted investments	-	-	-	8,000	-	-	8,000
Total current assets	<u>665,442</u>	<u>832,062</u>	<u>96,550</u>	<u>26,093</u>	<u>22</u>	<u>6,234</u>	<u>1,626,403</u>
Non-current assets:							
Unamortized note issue costs	108,004	-	-	-	-	-	108,004
Capital Assets:							
Land and construction in progress	2,995,780	-	-	-	-	-	2,995,780
Other capital assets, net of accumulated depreciation	1,334,605	-	-	-	-	-	1,334,605
Total non-current assets	<u>4,438,389</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,438,389</u>
Total assets	<u>\$ 5,103,831</u>	<u>\$ 832,062</u>	<u>\$ 96,550</u>	<u>\$ 26,093</u>	<u>22</u>	<u>6,234</u>	<u>\$ 6,064,792</u>
LIABILITIES							
Current liabilities:							
Deposits subject to refund	-	-	-	26,086	-	-	26,086
Notes payable	15,074	-	-	-	-	-	15,074
Total current liabilities	<u>15,074</u>	<u>-</u>	<u>-</u>	<u>26,086</u>	<u>-</u>	<u>-</u>	<u>41,160</u>
Non-current liabilities:							
Notes payable	1,415,784	-	-	-	-	-	1,415,784
Total non-current liabilities	<u>1,415,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,415,784</u>
Total liabilities	<u>1,430,858</u>	<u>-</u>	<u>-</u>	<u>26,086</u>	<u>-</u>	<u>-</u>	<u>1,456,944</u>
NET ASSETS							
Invested in capital assets, net of related debt	2,899,527	-	-	-	-	-	2,899,527
Restricted for debt service	12,474	-	-	-	-	-	12,474
Unrestricted	760,972	832,062	96,550	7	22	6,234	1,695,847
Total net assets	<u>\$ 3,672,973</u>	<u>\$ 832,062</u>	<u>\$ 96,550</u>	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ 6,234</u>	<u>\$ 4,607,848</u>

Proprietary Fund Accounts Combining Schedule of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) - EPWA - Year Ended June 30, 2012

	Elgin Public Works Authority Accounts						Total
	EPWA Operating	PWA Bond Account	PWA Money Market Account	Meter Deposit Account	OWRB	USDA-RD Account	
Operating Revenues:							
Water charges	\$ 486,044	-	-	-	-	-	\$ 486,044
Sewer charges	97,104	23,980	-	-	-	-	121,084
Sanitation charges	234,502	-	-	-	-	-	234,502
Penalty charges	12,713	-	-	-	-	-	12,713
Reconnect fee	9,856	-	-	-	-	-	9,856
Total operating revenues	<u>840,219</u>	<u>23,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>864,209</u>
OPERATING EXPENSES							
Administration	274,516	-	-	-	-	-	274,516
Sewer	62,738	-	-	-	-	-	62,738
Water	76,432	-	-	-	-	-	76,432
Sanitation	225,548	-	-	-	-	-	225,548
Depreciation	74,721	-	-	-	-	-	74,721
Amortization expense	4,521	-	-	-	-	-	4,521
Total Operating Expenses	<u>718,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>718,476</u>
Net operating income (loss)	<u>121,743</u>	<u>23,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,733</u>
NON-OPERATING REVENUES (EXPENSES)							
Interest and investment revenue	943	2,530	487	7	22	98	4,087
Interest expense	(30,580)	-	-	-	-	-	(30,580)
Capital grants and contributions	300,700	-	-	-	-	797,300	1,098,000
Miscellaneous revenue	1,959	6,283	-	-	13	-	8,255
Miscellaneous expenses	-	-	-	-	(13)	-	(13)
Total non-operating revenue (expenses)	<u>273,022</u>	<u>8,813</u>	<u>487</u>	<u>7</u>	<u>22</u>	<u>797,398</u>	<u>1,079,749</u>
Income (loss) before transfers	<u>394,765</u>	<u>32,803</u>	<u>487</u>	<u>7</u>	<u>22</u>	<u>797,398</u>	<u>1,225,482</u>
Transfers in	2,315,141	-	-	-	-	-	2,315,141
Transfers out	(1,063,803)	(105,983)	-	-	-	1,035,966	3,351,107
Change in net assets	1,846,303	(73,080)	487	7	22	(1,833,868)	(3,003,344)
Total net assets - beginning	2,026,870	905,142	96,063	-	-	8,728	1,573,245
Total net assets - ending	<u>\$ 3,672,973</u>	<u>\$ 832,062</u>	<u>\$ 96,550</u>	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ 6,234</u>	<u>\$ 4,607,848</u>

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

Schedule of Debt Service Coverage

	OWRB 2011 PROMISSORY NOTE
Gross Revenue Available for Debt Service:	
Operating revenues (sewer)	\$121,094
Transfer in - sales tax	237,213
Total Gross Revenues Available	358,307
Public Works Authority operating expenses (sewer)	62,738
Net Revenues Available for Debt Service	\$295,569
Debt Service Requirements:	
Maximum annual debt service - OWRB	\$214,860
Total Debt Service Requirements	\$214,860
Coverage	1.38
Coverage Requirement	1.25

Schedule of Debt Reserve Requirement

	USDA Reserve Account
Required Balance:	
USDA Reserve Requirement (1)	\$7,778
Balance in Reserve Account, June 30, 2012	7,778
Excess of Account Balance over Required Balance	\$ -

(1) USDA requires that the City deposit 10% of it's monthly payment into a reserve account until the reserve is fully funded in the amount of \$66,672. At June 30, 2012 the reserve requirement balance should be \$7,778.

CITY OF ELGIN, OKLAHOMA
SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2012

CITY OF ELGIN, OKLAHOMA

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

To the City Council
City of Elgin, 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 Elgin, Oklahoma (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 25, 2013. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Arledge Associates, P.C.
Edmond, Oklahoma
January 25, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Elgin, Oklahoma

Compliance

We have audited the City of Elgin, Oklahoma's (the "City's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is

reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2012, and have issued our report thereon dated January 25, 2013 which contained unqualified opinions on those financial statements. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
January 25, 2013

CITY OF ELGIN, OKLAHOMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

<u>Federal Grantor/Pass through agency Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Environmental Protection Agency</u>		
Passed through the Oklahoma Water Resources Board		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 300,700
<u>Department of Homeland Security</u>		
Disaster Grants - Public Assistance	97.036	4,856
<u>Department of Agriculture</u>		
Water and Waste Disposal Systems for Rural Communities (Note 3)	10.760	<u>1,847,891</u>
Total Federal Awards		<u><u>\$ 2,153,447</u></u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Federal Direct Loans and Grants

The federal expenditures noted above are the combined expenditures under a federal direct loan and a direct grant. Loan expenditures totaled \$1,050,000 during the fiscal year and grant expenditures were \$797,891. The balance of loans outstanding at June 30, 2012 totaled \$1,257,724 due in monthly installments of \$5,556 with the final installment due April 19, 2051.

CITY OF ELGIN, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness (es) identified? yes X no

Significant deficiency (ies) identified
not considered to be material weakness (es)? yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF ELGIN, OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND
CORRECTIVE ACTION PLAN**

June 30, 2012

The City of Elgin, Oklahoma respectfully submits the following summary schedule of prior audit findings and corrective action plan for the year ended June 30, 2012.

Name and address of independent public accounting firm: Arledge and Associates, P.C., 309 N. Bryant Avenue, Edmond, Oklahoma 73034.

Audit period: July 1, 2010 to June 30, 2011.

Summary Schedule of Prior Audit Findings

There were no audit findings for the year ended June 30, 2011 that requires a preparation of a summary of prior audit findings.

Corrective Action Plan

No corrective action plan is required.

Questions regarding this plan should be addressed to Machel Reynolds at 7892 U.S. Hwy 277, Elgin, Oklahoma or by phone at (580) 492-5777.