

**THE CITY OF MINCO,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**CITY OF MINCO, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Minco, 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 Minco, Oklahoma, as of and for the year ended June 30, 2011, 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 the 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.B., the City of Minco, Oklahoma prepares its financial statements on a modified cash basis of accounting, 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 of Minco, Oklahoma, as of June 30, 2011, and the respective changes in financial position—modified cash basis, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.B.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2012, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Management's Discussion and Analysis and the Other Information as listed in the table of contents are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide other assurance on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Minco's basic financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.B.

Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma
September 11, 2012

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

The management of the City of Minco 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, 2011. 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 \$96,303. The assets of the City exceed its liabilities at June 30, 2011, by \$1,257,650 (net assets). Of this amount, \$650,317 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$584,016.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$401,454.

ABOUT THE CITY

The City of Minco is an incorporated municipality with a population of approximately 1,632 located in Grady County in central Oklahoma. The City is an aldermanic form of government that provides for three branches of government:

- Legislative – the City Council is a eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, cemetery, street and alley maintenance, parks and recreation, and utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Minco 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.

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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The City's financial reporting entity includes the following separate legal entities.

- **The City of Minco** – an incorporated City that operates the public safety, streets, cemetery, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Minco Municipal Authority** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City, with the City Council members serving as the trustees – *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 trust within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Minco (the "City") and the Minco Municipal Authority (the "Authority"). 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 also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

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.

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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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 each governmental fund financial statement.

Proprietary funds - When the City, through the Minco Municipal 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 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 fund is the Minco Municipal Authority.

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 26-42 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and a federal and state grant awards schedule.

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

THE CITY AS A WHOLE

Following is a summary of net assets reported on a modified cash basis for the City of Minco for the past two fiscal years.

Table 1
NET ASSETS - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ 592	\$ 454	30%	\$ 876	\$ 1,012	-13%	\$ 1,468	\$ 1,466	0%
Capital assets, net	256	216	19%	1,595	1,667	-4%	1,851	1,883	-2%
Total assets	848	670	27%	2,471	2,679	-8%	3,319	3,349	-1%
Current liabilities	7	19	-63%	149	183	-19%	156	202	-23%
Non-current liabilities	-	-	-	1,905	2,015	-5%	1,905	2,015	-5%
Total liabilities	7	19	-63%	2,054	2,198	-7%	2,061	2,217	-7%
Net assets									
Invested in capital assets, net of related debt	256	216	19%	(213)	(453)	53%	43	(237)	118%
Restricted	178	207	-14%	386	435	-11%	564	642	-12%
Unrestricted	406	227	79%	244	499	-51%	650	726	-10%
Total net assets	\$ 840	\$ 650	29%	\$ 417	\$ 481	-13%	\$ 1,257	\$ 1,131	11%

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.

Explanations for significant changes listed below:

Governmental Activities:

Current assets increased by \$137,399 (30%) due to an increase in cash.

Current liabilities decreased by \$11,852 due primarily to the City not recording encumbrances for FY 2011.

Business Type Activities:

Invested in assets, net of related debt increased by \$239,791 (53%) due primarily to principal reduction of long-term debt.

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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Table 2
CHANGES IN NET ASSETS - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for service	\$ 153	\$ 150	2%	\$ 527	\$ 476	11%	\$ 680	\$ 626	9%
Operating grants and contributions	24	16	50%	-	84	-100%	24	100	-76%
Capital grants and contributions	15	12	25%	-	-	-	15	12	25%
Taxes	445	285	56%	-	-	-	445	285	56%
Intergovernmental revenue	17	29	-41%	-	-	-	17	29	-41%
Investment income	5	6	-17%	1	4	-75%	6	10	-40%
Miscellaneous	26	43	-40%	-	-	-	26	43	-40%
Total revenues	685	541	27%	528	564	-6%	1,213	1,105	10%
Expenses									
General government	180	90	100%	-	-	-	180	90	100%
Public safety	263	278	-5%	-	-	-	263	278	-5%
Highways and streets	11	15	-27%	-	-	-	11	15	-27%
Culture and recreation	1	1	0%	-	-	-	1	1	0%
Cemetery	6	5	20%	-	-	-	6	5	20%
Water	-	-	-	464	521	-11%	464	521	-11%
Sewer	-	-	-	51	74	-31%	51	74	-31%
Sanitation	-	-	-	142	113	26%	142	113	26%
Total expenses	461	389	19%	657	708	-7%	1,118	1,097	2%
Excess (deficiency) before transfers	224	152	47%	(129)	(144)	10%	95	8	1088%
Transfers	(36)	(66)	45%	36	66	-45%	-	-	-
Change in net assets	188	86	119%	(93)	(78)	-19%	95	8	1088%
Beginning net assets	652	564	16%	510	559	-9%	1,162	1,123	3%
Ending net assets	<u>\$ 840</u>	<u>\$ 650</u>	<u>29%</u>	<u>\$ 417</u>	<u>\$ 481</u>	<u>-13%</u>	<u>\$ 1,257</u>	<u>\$ 1,131</u>	<u>11%</u>

Explanations for significant changes are listed below.

Governmental Activities:

Taxes - \$159,691 increase (56%) due primarily to sales tax increasing \$93,315 and use tax increasing \$66,788. The increase in sales tax is due to a new retailer that opened in the city limits.

General Government expenses - \$90,213 increase (100%) due primarily to an increase in personal services expenses and hiring of a permanent code enforcement officer.

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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Governmental Activities

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

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
	General government	\$ 180		\$ 90	100%	
Public safety	263	278	-5%	(99)	(121)	-18%
Highways and streets	11	15	-27%	6	(15)	-140%
Culture and recreation	1	1	0%	(1)	(1)	0%
Cemetery	6	5	20%	(1)	4	-125%
Total	<u>\$ 461</u>	<u>\$ 389</u>	19%	<u>\$ (269)</u>	<u>\$ (211)</u>	27%

General government net expense increased \$101,922 (123%) due primarily to an increase in personal services expense and creation of code enforcement position.

Highways and streets net expense decreased \$8,703 (140%) due primarily to the recording of street revenues as operating contributions and a decrease in current year street expenses.

Business-type Activities

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

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
	Water	\$ 464		\$ 521	-11%	
Sewer	51	74	-31%	33	3	1000%
Sanitation	<u>142</u>	<u>113</u>	26%	<u>16</u>	<u>33</u>	-52%
Total	<u>\$ 657</u>	<u>\$ 708</u>	-7%	<u>\$ (131)</u>	<u>\$ (148)</u>	-11%

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$584,016. For the year ended June 30, 2011, the General Fund's total fund balance increased by \$176,223.

For proprietary funds, the City reports a decrease in net assets for the Minco Municipal Authority of \$92,353.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues over final estimates by \$430,818 or a 102% positive variance. General Fund actual expenditures were over final appropriations by \$304,283 or an 82% negative variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately \$1.8 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and infrastructure. Below are details regarding the City's capital assets for the year ended June 30, 2011.¹

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

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 35	\$ 35	\$ -	\$ -	\$ 35	\$ 35
Buildings	78	86	-	-	78	86
Machinery, furniture and equipment	123	82	44	45	167	127
Infrastructure	20	13	1,551	1,622	1,571	1,635
Totals	<u>\$ 256</u>	<u>\$ 216</u>	<u>\$ 1,595</u>	<u>\$ 1,667</u>	<u>\$ 1,851</u>	<u>\$ 1,883</u>

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

- John Deere tractor, brush cutter, & front end loader \$ 45,526
- Replacement of membranes at water plant (restatement) \$ 28,530

¹ For more detailed information on capital asset activity please refer to pages 34-35, Note 3. Capital Assets and Depreciation

CITY OF MINCO, OKLAHOMA
Other Information - Management's Discussion and Analysis
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Debt Administration

At year-end, the City had \$2,015,000 in long-term debt outstanding, reported on a modified cash basis, which represents a \$105,000 decrease from the prior year. The City's debt consists of one Oklahoma Water Resources Board note, original issue amount of \$2,500,000.

Table 6
Long-Term Debt
(In Thousands)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	2011	2010	2011	2010	2011	2010
Notes payable	\$ -	\$ -	\$ 2,015	\$ 2,120	\$ 2,015	\$ 2,120
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,015</u>	<u>\$ 2,120</u>	<u>\$ 2,015</u>	<u>\$ 2,120</u>

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2012 budget is consistent with prior years.
- The City will begin a major sewer construction project in 2012.

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 202 Main, Minco, Oklahoma 73059 or telephone at 405-352-4274.

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES

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Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$522,017	\$606,216	\$1,128,233
Investments	175,512	93,791	269,303
Internal balances	(106,050)	106,050	-
Capital assets:			
Land and construction in progress	35,000	-	35,000
Other capital assets, net of depreciation	221,316	1,595,496	1,816,812
Unamortized bond issuance costs	-	70,350	70,350
Total Assets	<u>847,795</u>	<u>2,471,903</u>	<u>3,319,698</u>
LIABILITIES			
Due to other governments	7,463	-	7,463
Deposits subject to refund	-	39,585	39,585
Long-term liabilities:			
Due within one year	-	110,000	110,000
Due in more than one year	-	1,905,000	1,905,000
Total Liabilities	<u>7,463</u>	<u>2,054,585</u>	<u>2,062,048</u>
NET ASSETS			
Invested in capital assets, net of related debt	256,316	(213,051)	43,265
Restricted by:			
Statutory requirements	38,709	-	38,709
External parties	139,768	-	139,768
Restricted for debt service	-	385,591	385,591
Unrestricted	405,539	244,778	650,317
Total Net Assets	<u>\$840,332</u>	<u>\$417,318</u>	<u>\$1,257,650</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			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	\$ 179,928	\$ 5,053	\$ 828	\$ -	\$ (174,047)	\$ -	\$ (174,047)
Public Safety	262,526	141,978	6,635	15,126	(98,787)	-	(98,787)
Highways and Streets	10,624	-	16,473	-	5,849	-	5,849
Culture and Recreation	1,472	-	-	-	(1,472)	-	(1,472)
Cemetery	5,971	5,460	-	-	(511)	-	(511)
Total governmental activities	460,521	152,491	23,936	15,126	(268,968)	-	(268,968)
Business-type activities:							
Water	464,408	284,588	-	-	-	(179,820)	(179,820)
Sewer	51,420	84,501	-	-	-	33,081	33,081
Sanitation	141,483	158,010	-	-	-	16,527	16,527
Total business-type activities	657,311	527,099	-	-	-	(130,212)	(130,212)
Total primary government	\$1,117,832	\$679,590	\$23,936	\$15,126	(268,968)	(130,212)	(399,180)
General revenues:							
Taxes:							
Sales and use tax					422,305	-	422,305
Franchise and public service taxes					22,806	-	22,806
Intergovernmental revenue not restricted to specific programs					17,059	-	17,059
Investment income					5,422	1,867	7,289
Miscellaneous					26,024	-	26,024
Transfers - Internal activity					(35,992)	35,992	-
Total general revenues and transfers					457,624	37,859	495,483
Change in net assets					188,656	(92,353)	96,303
Net assets - beginning, restated (See Note 5)					651,676	509,671	1,161,347
Net assets - ending					\$ 840,332	\$ 417,318	\$ 1,257,650

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 475,315	\$ 32,393	\$ 14,309	\$ 522,017
Investments	50,000	-	125,512	175,512
Due from other funds	-	6,316	-	6,316
Total Assets	<u>\$ 525,315</u>	<u>\$ 38,709</u>	<u>\$ 139,821</u>	<u>\$ 703,845</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	112,366	-	-	112,366
Due to other governments	7,463	-	-	7,463
Total Liabilities	<u>119,829</u>	<u>-</u>	<u>-</u>	<u>119,829</u>
Fund Balances:				
Restricted for:				
Street & alley purposes	-	38,709	-	38,709
Cemetery purposes	-	-	139,768	139,768
Assigned for:				
Capital projects	573	-	-	573
Public safety purposes	1,950	-	-	1,950
Cemetery purposes	1,509	-	53	1,562
Unassigned	401,454	-	-	401,454
Total Fund Balances	<u>405,486</u>	<u>38,709</u>	<u>139,821</u>	<u>584,016</u>
Total Liabilities and Fund Balances	<u>\$ 525,315</u>	<u>\$ 38,709</u>	<u>\$ 139,821</u>	<u>\$ 703,845</u>

See accompanying notes to the basic financial statements.

CITY OF MINCO, OKLAHOMA
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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2011

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 445,111	\$ -	\$ -	\$ 445,111
Intergovernmental	39,648	16,473	-	56,121
Charges for services	4,498	-	962	5,460
Fines and forfeitures	141,978	-	-	141,978
Licenses and permits	5,053	-	-	5,053
Investment income	5,356	-	66	5,422
Miscellaneous	23,349	-	2,675	26,024
Total Revenues	<u>664,993</u>	<u>16,473</u>	<u>3,703</u>	<u>685,169</u>
Expenditures:				
Current:				
General Government	171,892	-	-	171,892
Public Safety	249,206	-	-	249,206
Highways and Streets	-	12,009	-	12,009
Culture and Recreation	1,472	-	-	1,472
Cemetery	4,780	-	-	4,780
Capital Outlay	6,700	55,125	-	61,825
Total Expenditures	<u>434,050</u>	<u>67,134</u>	<u>-</u>	<u>501,184</u>
Excess (deficiency) of revenues over expenditures	230,943	(50,661)	3,703	183,985
Other Financing Sources (Uses):				
Transfers in	207,949	25,000	-	232,949
Transfers out	(262,669)	-	(6,272)	(268,941)
Total Other Financing Sources (Uses)	<u>(54,720)</u>	<u>25,000</u>	<u>(6,272)</u>	<u>(35,992)</u>
Net change in fund balances	176,223	(25,661)	(2,569)	147,993
Fund balances - beginning	229,263	64,370	142,390	436,023
Fund balances - ending	<u>\$405,486</u>	<u>\$38,709</u>	<u>\$139,821</u>	<u>\$584,016</u>

See accompanying notes to the basic financial statements.

CITY OF MINCO, OKLAHOMA
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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	\$584,016
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$810,648, net of accumulated depreciation of \$554,332, are not financial resources and, therefore, are not reported in the funds.	256,316
	<hr/>
Net assets of governmental activities	<u>\$840,332</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net changes in fund balances - total governmental funds	\$147,993
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	79,017
Depreciation expense	(38,354)
	<hr/>
	40,663
Change in net assets of governmental activities	<u>\$188,656</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Proprietary Fund</u>
	<u>Minco Municipal Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 196,540
Investments	78,291
Due from other funds	107,049
Restricted:	
Cash and cash equivalents	212,703
Investments	15,500
Total current assets	610,083
Noncurrent Assets:	
Restricted:	
Cash and cash equivalents	196,973
Capital assets:	
Other capital assets, net of depreciation	1,595,496
Debt issuance costs, net of amortization	70,350
Total noncurrent assets	1,862,819
Total Assets	2,472,902
LIABILITIES	
Current Liabilities:	
Due to other funds	999
Meter deposit liability	39,585
Notes payable - current portion	110,000
Total current liabilities	150,584
Noncurrent Liabilities:	
Notes payable	1,905,000
Total noncurrent liabilities	1,905,000
Total Liabilities	2,055,584
NET ASSETS	
Invested in capital assets, net of related debt	(213,051)
Restricted for debt service	385,591
Unrestricted	244,778
Total net assets	\$ 417,318

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Proprietary Funds</u>
	<u>Minco Municipal Authority</u>
Operating Revenues:	
Charges for services:	
Water	\$ 277,477
Sewer	82,390
Sanitation	154,062
Miscellaneous income	13,170
	527,099
Operating Expenses:	
Administration	90,344
Water	239,196
Sewer	10,630
Sanitation	114,400
Depreciation expense	107,409
Amortization expense	5,025
	567,004
Operating Income (Loss)	(39,905)
Non-Operating Revenues (Expenses):	
Investment income	1,867
Interest expense	(90,307)
	(88,440)
Net Income (Loss) Before Transfers	(128,345)
Transfers in	254,295
Transfers out	(218,303)
Change in net assets	(92,353)
Total net assets - beginning (restated, see Note 5.)	509,671
Total net assets - ending	\$ 417,318

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	Proprietary Funds
	Minco Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 513,929
Payments to suppliers	(340,439)
Payments to employees	(158,776)
Miscellaneous revenues	13,170
Receipts of customer utility deposits	23,297
Refunds of customer utility deposits	(17,296)
Net Cash Provided by Operating Activities	33,885
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	254,295
Transfers to other funds	(218,303)
Net Cash Provided by Noncapital Financing Activities	35,992
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(7,216)
Principal paid on capital debt	(105,000)
Interest paid on capital debt	(90,307)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(202,523)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	1,867
Sale of investments	434,086
Net Cash Provided by Investing Activities	435,953
Net Increase in Cash and Cash Equivalents	303,307
Balance - beginning of the year, restated	302,909
Balance - end of the year	\$ 606,216
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 196,540
Restricted cash and cash equivalents	409,676
Total cash and cash equivalents	\$ 606,216
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (39,905)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	107,409
Amortization expense	5,025
Change in assets and liabilities:	
Due from other funds	1,599
Due to other funds	(1,599)
Accounts payable	(2,374)
Encumbrances	(42,271)
Meter deposit liability	6,001
Net cash provided by operating activities	\$ 33,885

See accompanying notes to the basic financial statements.

**CITY OF MINCO, OKLAHOMA
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes two separate legal entities reported as the primary government as follows:

- **The City of Minco** – operates the public safety, streets and public works, cemetery, culture and recreation, and administrative activities of the City.
- **The Minco Municipal Authority (the Authority)** – that operates the water, wastewater, and sanitation services of the City. The City of Minco is the beneficiary of the authority and the City Council serves as the governing body of the authority.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*" and includes all component units for which the City is financially accountable.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. A Public Trust (Trust) has no taxing power. The Trusts 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 Trusts. The Trust generally retains title to assets which are acquired or constructed with the Trusts debt or other Trust generated resources. In addition, the City has leased certain existing assets at the creation for the Trust 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 component units have the City Council as their governing body (trustees) and the City is able to impose its will on the Trust 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.

Related Organizations

- **The Minco Gas Authority** – public trust created pursuant to 60 O.S. § 176 created for the use and benefit of the City of Minco. The City does not appoint trustees to the Board of the Minco Gas Authority, and the Authority is not fiscally dependent upon the City. However, the City Council must approve all indebtedness or obligations of the Authority by a two-thirds (2/3) vote. The City, as a beneficiary of the public trust, receives title to any residual assets when the public trust is dissolved.

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
- other cash-based receivables/payables
- investments
- 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 and penalties
- Public safety: Fine revenue, fire runs and operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes and capital grants
- Culture and recreation: Recreation fees and operating grants
- Cemetery: Lot sales and interments

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:

General Fund – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

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Special Revenue Funds – used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

Capital Project Funds – used to account for and report financial resources that are restricted, committed, or assigned to expend for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds:

Enterprise Funds – used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

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

Due to the implementation of GASB 54, the following funds have been reclassified as accounts of the General Fund. They were previously reported as special revenue funds:

- Cemetery Operating Fund – accounts for the maintenance and operations of the cemetery
 - Surplus Auction Fund – accounts for sales of surplus assets
 - Civil Defense Fund – accounts for the operations of the Civil defense
 - City Hall Renovation Fund – accounts for an ASCOG grant for the renovation of City Hall
 - CLEET Fund – accounts for the collection and remittance of CLEET fees
- Capital Outlay Fund (Capital Project Fund) – accounts for capital outlay project activities

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

Special Revenue Fund:

- Street and Alley Fund – accounts for state shared gasoline excise and commercial vehicle taxes legally restricted for street and alley purposes
- Cemetery Perpetual Care Fund – accounts for the donations made to the cemetery

Capital Project Fund:

- Cemetery Care Fund – accounts for 25 percent of cemetery revenues half of which is restricted by State law for cemetery capital improvements.

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The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are 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:

- Minco Municipal Authority Fund – accounts for the operation of the water, wastewater and sanitation activities

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 Trusts) 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, and 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 are reported at cost.

D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. 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.

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Capital assets consist of land, 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. Prior to July 1, 2001, 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, 2001 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
- Improvements other than buildings 20-30 years
- Machinery and equipment 5-12 years
- Vehicles 4-6 years
- Infrastructure 25-40 years

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether 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 11.

G. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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- 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 is available. The City’s policy for the use of the 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.”

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.

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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, 2011, the City recognized \$7,289 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 with maturity dates of a year or less.

At June 30, 2011, the primary government held the following deposits and investments:

Type	<u>Credit Rating</u>	<u>Carrying Value</u>
<u>Deposits:</u>		
Demand deposits		\$742,642
Time deposits		269,303
		<u>\$1,011,945</u>
<u>Investments:</u>		
Caval Hill US Treasury - Inst CL Fd	AAAm	249,488
Goldman Sachs FS Tax - Fr Inst Fd	AAAm	136,103
		<u>385,591</u>
Total		<u><u>\$1,397,536</u></u>

Reconciliation to the Statement of Net Assets:

Cash and cash equivalents	\$1,128,233
Investments	269,303
	<u>\$1,397,536</u>

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 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, 2011, the City was not exposed to custodial credit risk as defined above.

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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.

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 Fund Statement of Net Assets are comprised of amounts restricted for debt service, debt reserve, and utility deposits. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Utility Deposits	\$ 24,085	\$ 15,500	\$ 39,585
Trustee Accounts	<u>385,591</u>	<u>-</u>	<u>385,591</u>
Total Restricted Assets	<u>\$ 409,676</u>	<u>\$ 15,500</u>	<u>\$ 425,176</u>

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3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental:				
Capital assets not being depreciated:				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Total capital assets not being depreciated	35,000	-	-	35,000
Other capital assets:				
Buildings	335,041	-	-	335,041
Machinery and Equipment	344,003	71,266	-	415,269
Infrastructure	17,587	7,751	-	25,338
Total other capital assets at historical cost	696,631	79,017	-	775,648
Less accumulated depreciation for:				
Buildings	249,338	7,675	-	257,013
Machinery and Equipment	262,194	30,050	-	292,244
Infrastructure	4,446	629	-	5,075
Total accumulated depreciation	515,978	38,354	-	554,332
Other capital assets, net	180,653	40,663	-	221,316
Governmental, net capital assets	<u>\$ 215,653</u>	<u>\$ 40,663</u>	<u>\$ -</u>	<u>\$ 256,316</u>
Business-Type:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Buildings	18,500	-	-	18,500
Machinery and Equipment	101,884	8,065	-	109,949
Infrastructure	2,926,089	-	-	2,926,089
Total other capital assets at historical cost	3,046,473	8,065	-	3,054,538
Less accumulated depreciation for:				
Buildings	18,500	-	-	18,500
Machinery and Equipment	57,175	8,654	-	65,829
Infrastructure	1,275,958	98,755	-	1,374,713
Total accumulated depreciation	1,351,633	107,409	-	1,459,042
Other capital assets, net	1,694,840	(99,344)	-	1,595,496
Business-Type, net capital assets	<u>\$ 1,694,840</u>	<u>\$ (99,344)</u>	<u>\$ -</u>	<u>\$ 1,595,496</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:

<i>Governmental Activities:</i>		<i>Business-type Activities:</i>	
General government	\$ 11,935	Water	\$ 81,102
Public safety	18,862	Sewer	26,307
Highways and streets	6,366		
Cemetery	1,191		
Total depreciation	<u>\$ 38,354</u>	Total depreciation	<u>\$ 107,409</u>

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
<i>Business-Type:</i>					
Notes payable	<u>\$ 2,120,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 2,015,000</u>	<u>\$ 110,000</u>
Total Long-term Debt	<u>\$ 2,120,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 2,015,000</u>	<u>\$ 110,000</u>

Governmental Activities:

At June 30, 2011, the governmental activities had no long-term debt.

Business-Type Activities:

Long-term commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2011, includes the following:

Notes Payable:

Series 2005B Promissory Note to Oklahoma Water Resources Board, original issue amount of \$2,500,000, secured by sales tax and utilities revenues, payable in semi-annual installments, interest rate of 3.095% to 4.695%, final maturity September 15, 2024.	<u>\$2,015,000</u>
Total Notes Payable	<u>\$2,015,000</u>

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Current portion	\$110,000
Non-current portion	<u>1,905,000</u>
Total Notes Payable	<u>\$2,015,000</u>

Payment Requirements to Maturity:

Business-Type Activities

Year Ended June 30,	Notes Payable	
	Principal	Interest
2012	\$ 110,000	\$ 86,360
2013	110,000	82,185
2014	115,000	77,802
2015	120,000	73,107
2016	125,000	68,089
2017-2021	725,000	251,114
2022-2025	<u>710,000</u>	<u>68,547</u>
Total	<u>\$2,015,000</u>	<u>\$707,204</u>

Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge – The City has three cents (or 75%) of pledged sales tax revenues for debt service coverage purposes (if needed) and net utility revenues to repay the \$2,500,000 of Series 2005B Promissory Note. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged sales tax revenues and net utility revenues and are payable through 2024. The total principal and interest for the remainder of the life of the bond is \$2,722,204. Pledged sales taxes received in the current year were \$254,296 and net utility revenues were \$66,575. Debt service payments of \$195,307 for the current fiscal year were 48% of pledged sales taxes and net utility revenues.

5. Prior Period Adjustments

	Minco Municipal Fund	Business-Type Activities
Beginning net assets as previously reported	\$ 481,056	\$ 481,056
Correction of errors:		
Understatement of capital assets	28,530	28,530
Understatement of cash	85	85
Beginning net assets as restated	<u>\$ 509,671</u>	<u>\$ 509,671</u>

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6. Sales Tax Revenue

Sales tax revenue represents a 4 cent tax on each dollar of taxable sales. All four cents are recorded in the General Fund.

7. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

8. Internal and Interfund Balances and Transfers

Internal and Interfund Balances

The City's policy is to eliminate interfund receivables and payables between funds in the statement of net assets to avoid the grossing up of balances. Only the residual balances due between governmental and business-type activities are reported as internal balances and then offset in the total column.

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	Street & Alley Fund	6,316	expense reimbursement
General Fund	MMA	106,028	expense reimbursement
Meter Deposit Fund	MMA	999	excess meter deposit cash
MMA	General Fund	22	expense reimbursement
		<u>\$ 113,365</u>	

Reconciliation to fund financial statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	6,316	(112,366)	(106,050)
Proprietary Funds	107,049	(999)	106,050
Total	<u>\$ 113,365</u>	<u>\$ (113,365)</u>	<u>\$ -</u>

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
MMA	General Fund	\$193,303	Sales tax transfer
MMA	Street and Alley Fund	25,000	Expense reimbursement
General Fund	MMA	254,296	Sales tax transfer
General Fund	Cleet Fund	8,373	Court fines
Cemetery Care Fund	Cemetery Operations Fund	6,272	Lot sales
		\$487,244	

Reconciliation to Fund Financials and Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$232,949	268,941	(\$35,992)
Business-Type Activities	254,295	218,303	35,992
Total	\$487,244	\$487,244	-

9. 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. The City purchases commercial insurance for protection against loss other than health, life, and workers compensation. Deductibles on property, vehicle, and general liability policies range from \$0 - \$5,000. Settled claims have not exceeded the commercial coverage during the past three years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the City. The City's loss fund balance at June 30, 2011 was \$12,121. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance to honor its obligations could result in losses to the Plan.

10. Employee Retirement Plan Participation

The City of Minco participates in two pension or retirement plan:

- Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
- Simple IRA – a defined contribution plan

OFPRS

The City of Minco, 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 2011, 2010, and 2009, the City's annual required contribution was \$960, \$840, and \$840, respectively, for the OFPRS plan and was equal to the City's actual contribution for each year.

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

Simple IRA Defined Contribution Plan

The City enacted a Simple IRA Plan utilizing the IRS For 5304-SIMPLE for its employees. A Simple IRA is an individual retirement account described in section 408(a) to which the only contributions that can be made are contributions under a Simple Plan and rollovers or transfers from another Simple IRA. The Simple Plan is a defined contribution plan. The City also administers the Simple Plan.

Employee Eligibility Requirements – All employees are eligible.

Salary Reduction Agreement – For a calendar year, an eligible employee may make or modify a salary reduction election during the 60-day period immediately preceding January 1 of that year. However, for the year in which the employee becomes eligible to make salary reduction contributions, the period during which the employee may make or modify the election is a 60-day period that includes either the date the employee becomes eligible or the day before. In addition to the election periods described above, eligible employees may make salary reduction elections or modify prior elections monthly.

Contributions – For each calendar year, the City will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year. Contributions are made on a monthly basis. Contributions made during the fiscal year are as follows: City - \$5,136; Employees - \$6,255.

Vesting Requirements – All contributions made under this Simple Plan are fully vested and non-forfeitable.

No Withdrawal Restrictions – The City may not require the employee to retain any portion of the contribution in his or her Simple IRA or otherwise impose any withdrawal restrictions.

Selection of IRA Trustee – The City must permit each eligible employee to select the financial institution that will serve as the trustee, custodian, or issuer of the Simple IRA to which the City will make all contributions on behalf of the employee. The custodian of the Simple Plan is Metropolitan Life Insurance.

Amendments – The Simple Plan may not be amended except to modify the entries inserted in the blanks or boxes provided in Articles I, II, III, VI, and VIII.

11. 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 comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011 is \$5,035.

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 Minco participates in various federal or state grant/loan programs from year to year. In 2011, the City's involvement in federal and state award programs was not significant. 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.

12. Expenditures Exceeding Appropriations

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

For the year ended June 30, 2011, the City of Minco complied in all material respects with the above requirements.

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OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2011 (Unaudited)

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 226,613	\$ 226,613	\$ 226,613	\$ -
Resources (Inflows):				
Taxes	237,890	237,890	445,111	207,221
Intergovernmental	19,363	19,363	39,648	20,285
Charges for services	500	500	-	(500)
Fines and forfeitures	147,000	147,000	141,978	(5,022)
Licenses and permits	5,000	5,000	5,053	53
Investment income	3,000	3,000	3,055	55
Miscellaneous	7,835	7,835	23,258	15,423
Transfers in	-	-	193,303	193,303
Total Resources (Inflows)	<u>420,588</u>	<u>420,588</u>	<u>851,406</u>	<u>430,818</u>
Amounts available for appropriation	<u>\$647,201</u>	<u>\$ 647,201</u>	<u>\$1,078,019</u>	<u>\$430,818</u>
Charges to Appropriations (Outflows):				
General government	101,444	101,444	130,495	(29,051)
Police	230,737	230,737	223,210	7,527
Fire	23,196	23,196	17,622	5,574
Municipal Court	15,805	15,805	8,369	7,436
Parks	1,100	1,100	1,472	(372)
Code enforcement	300	300	33,028	(32,728)
Transfers out	-	-	262,669	(262,669)
Total Charges to Appropriations	<u>372,582</u>	<u>372,582</u>	<u>676,865</u>	<u>(304,283)</u>
Ending Budgetary Fund Balance	<u>\$ 274,619</u>	<u>\$ 274,619</u>	<u>\$ 401,154</u>	<u>\$ 126,535</u>
Reconciliation to General Fund Revenues, Expenditures and Changes in Fund Balance:				
Cleet Fund			1,261	
Cemetery Operating Fund			1,509	
Civil Defense Fund			689	
City Hall Renovations Fund			573	
Surplus Auction Fund			300	
Fund Balance per Statement of Revenues, Expenditures and Changes in Fund Balance			<u>\$ 405,486</u>	

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Footnotes to Budgetary Comparison Schedules:

1. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the City Manager's approval and supplemental appropriations require City Council's approval.

2. In the General Fund, the City had negative variances in the following departments and for the following amounts:

General Government	(\$29,051)
Parks	(372)
Code Enforcement	(32,728)
Transfers Out	(262,669)

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2011

	General Fund	CLEET Fund	Cemetery Operating Fund	Civil Defense Fund	City Hall Renovations Fund	Surplus Auction Fund	Totals
ASSETS							
Cash and cash equivalents	\$ 470,961	\$ 1,261	\$ 1,509	\$ 711	\$ 573	\$ 300	\$ 475,315
Investments	50,000	-	-	-	-	-	50,000
Total Assets	520,961	1,261	1,509	711	573	300	525,315
LIABILITIES AND FUND BALANCES							
Liabilities:							
Due to other funds	112,344	-	-	22	-	-	112,366
Due to other governments	7,463	-	-	-	-	-	7,463
Total Liabilities	119,807	-	-	22	-	-	119,829
Fund Balances:							
Assigned for:							
Capital projects	-	-	-	-	573	-	573
Public Safety	-	1,261	-	689	-	-	1,950
Cemetery	-	-	1,509	-	-	-	1,509
Unassigned	401,154	-	-	-	-	300	401,454
Total Fund Balances	401,154	1,261	1,509	689	573	300	405,486
Total Liabilities and Fund Balances	\$ 520,961	\$ 1,261	\$ 1,509	\$ 711	\$ 573	\$ 300	\$ 525,315

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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2011**

	<u>General Fund</u>	<u>CLEET Fund</u>	<u>Cemetery Operating Fund</u>	<u>Civil Defense Fund</u>	<u>City Hall Renovations Fund</u>	<u>Surplus Auction Fund</u>	<u>Totals</u>
Revenues:							
Taxes	\$ 445,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 445,111
Intergovernmental	39,648	-	-	-	-	-	39,648
Charges for services	-	-	4,498	-	-	-	4,498
Fines & forfeitures	141,978	-	-	-	-	-	141,978
Licenses & permits	5,053	-	-	-	-	-	5,053
Investment income	3,055	-	2,301	-	-	-	5,356
Miscellaneous	23,258	-	91	-	-	-	23,349
Total Revenues	658,103	-	6,890	-	-	-	664,993
Expenditures:							
Current:							
General government	171,892	-	-	-	-	-	171,892
Public safety	240,832	8,374	-	-	-	-	249,206
Culture and recreation	1,472	-	-	-	-	-	1,472
Cemetery	-	-	4,780	-	-	-	4,780
Capital outlay	-	-	6,700	-	-	-	6,700
Total Expenditures	414,196	8,374	11,480	-	-	-	434,050
Excess (deficiency) of revenues over expenditures	243,907	(8,374)	(4,590)	-	-	-	230,943
Other Financing Sources (Uses):							
Transfers in	193,303	8,374	6,272	-	-	-	207,949
Transfer out	(262,669)	-	-	-	-	-	(262,669)
Total Other Financing Sources (Uses)	(69,366)	8,374	6,272	-	-	-	(54,720)
Net change in fund balances	174,541	-	1,682	-	-	-	176,223
Fund balances (deficit), beginning	226,613	1,261	(173)	689	573	300	229,263
Fund balances, ending	\$ 401,154	\$ 1,261	\$ 1,509	\$ 689	\$ 573	\$ 300	\$ 405,486

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Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2011

	Special Revenue Fund	Capital Project Fund	
	Cemetery Perpetual Fund	Cemetery Care Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 14,309	\$ -	\$ 14,309
Investments	125,512	-	125,512
Total Assets	139,821	-	139,821
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Restricted for:			
Cemetery purposes	139,768	-	139,768
Assigned for:			
Cemetery purposes	53	-	53
	139,821	-	139,821
Total Liabilities and Fund Balances	\$ 139,821	\$ -	\$ 139,821

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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Cemetery Perpetual Fund</u>	<u>Cemetery Care Fund</u>	<u>Totals</u>
Revenues:			
Intergovernmental	\$ -	\$ -	\$ -
Charges for services	-	962	962
Investment income	53	13	66
Miscellaneous	2,675	-	2,675
Total Revenues	<u>2,728</u>	<u>975</u>	<u>3,703</u>
Expenditures:			
Current:			
Capital outlay	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	2,728	975	3,703
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfer out	-	(6,272)	(6,272)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(6,272)</u>	<u>(6,272)</u>
Net change in fund balances	2,728	(5,297)	(2,569)
Fund balances, beginning	137,093	5,297	142,390
Fund balances, ending	<u>\$ 139,821</u>	<u>\$ -</u>	<u>\$ 139,821</u>

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Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – For year ended June 30, 2011

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Awards Expended
FEDERAL AWARDS:				
<u>US DEPARTMENT OF JUSTICE:</u>				
Passed through Oklahoma District Attorney's Council:				
Bullet Proof Vest Grant	16.803	2009-SU-B9-003	\$ 4,610	\$ 4,610
JAG LLE Equipment Grant	16.803	2009-SU-B9-003	4,950	4,950
<u>US DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Department of Emergency Management:				
Emergency Management	97.036	PA1876 PW405 B73(73)	828	828
Total Federal Awards			<u>\$ 10,388</u>	<u>\$ 10,388</u>
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF PUBLIC SAFETY:</u>				
Oklahoma Highway Safety Grant	N/A	SE-11-03-07-01	\$ 15,000	\$ 8,580
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Fire Operating Grant	N/A	N/A	4,398	4,398
<u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GOVERNMENTS:</u>				
REAP Grant 04	N/A	042272	20,000	15,000
REAP Grant 06	N/A	062265	30,000	5,709
Total State Awards			<u>\$ 69,398</u>	<u>\$ 33,687</u>

Note 1. Basis of Presentation

This schedule includes the grant activity of the City of Minco, Oklahoma under programs of the federal and state governments for the year ended June 30, 2011. Because the schedule presents only a selected portion of the operations of the City of Minco, Oklahoma, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Minco, Oklahoma.

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 which may be different from other information contained in the City's financial statements.

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Schedule of Debt Service Coverage Compliance

	Series 2005B Promissory Note
GROSS REVENUE AVAILABLE:	
Operating revenues of leased systems (1)	\$ 513,929
Sales tax appropriated and transferred from the City General Fund	254,296
Total Gross Revenue Available	768,225
OPERATING EXPENSES:	
Total Operating Expenses (excludes depreciation, amortization and capital asset purchases)	447,354
Net Revenue Available for Debt Service	\$ 320,871
Maximum Annual Debt Service Requirements	\$ 196,970
	\$ 196,970
Computed Coverage	163%
Coverage Requirement	125%

(1) Leased systems include water, sewer and sanitation.

Schedule of Reserve Requirement

	Series 2005B Promissory Note
Balance in Reserve Account, June 30, 2011	\$ 196,973
Required Balance of Reserve per Bond Agreement (1)	196,970
Surplus of Account Balance over Required Balance Reserve	3

(1) Represents maximum annual debt service

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE ACCOMPANYING FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the City Council
City of Minco, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Minco, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 11, 2012. The 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting: 11-1 and 11-10.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be

significant deficiencies in internal control over financial reporting: 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, 11-8, 11-9, 11-11, 11-12, 11-13, 11-14, 11-15, 11-16, and 11-17.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 11-5, 11-6, 11-7, 11-9, 11-10, 11-11, 11-13, 11-14, 11-15, 11-16, and 11-17.

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

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

Angel, Johnston & Blessingame, P.C.

Chickasha, Oklahoma
September 11, 2012

**CITY OF MINCO
, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Deficiencies of Internal Control, Compliance and Other Matters

- 11-1. Criteria – A good system of internal control provides for a proper segregation of the accounting functions.

Condition – The City has a small number of employees that perform the duties that would optimally be divided among a larger number of employees.

Cause – Financial resources have not been available or been made available to hire the additional employees necessary to have proper segregation of duties.

Effect – Financial errors or irregularities could occur and not be detected in a timely manner.

Recommendation – Review the design of your accounting system to obtain the greatest amount of accountability.

Management response – Management agrees with the recommendation.

- 11-2. Criteria – Utility receivables and meter deposit balances should be independently reconciled on a monthly basis. The reconciled balance should tie out all the variables that change the account balances.

Condition – The utility and meter deposits are not being reconciled either by the utility personnel or independently.

Cause – The necessary training or commitment has not been made to implement this process.

Effect – As noted in 11-1 there is a lack of segregation of duties and so financial errors or irregularities could occur and not be detected in a timely manner. Without out these procedures the process still has these deficiencies.

Recommendation – Design and implement reconciliation procedures.

Management response – Management agrees.

- 11-3. Criteria – When customers' deposits are used to pay outstanding utility balances the amounts should be transferred at least monthly from the meter deposit account to the MMA gross revenue fund.

Condition – Noted several meter deposits that were used to pay utility bills and were not transferred to the MMA gross revenue fund.

Cause – Procedures have not been established or have not been followed to reconcile the due to/due from balances between the meter deposit fund and the gross revenue fund.

Effect – Payments are not all being properly credited to the appropriate fund.

Recommendation – Establish and monitor procedures for proper crediting of utility payments.

Management response – Management agrees.

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- 11-4. Criteria – Management of the utility revenue and costs can be monitored by comparing water volumes used/pumped and sold.

Condition – This comparison was not performed.

Cause – This procedure has not been used to monitor the utility process.

Effect – Cost and revenue fluctuations that could possibly located issues that need to be addressed will not be identified.

Recommendation – Setup a monthly procedure that is checked by the utility clerk and utility department head to monitor and take appropriate action related to fluctuations.

Management response – Management agrees.

- 11-5. Criteria – Rates for utilities is set by the council.

Condition – There were new sanitation rates established near the end of the fiscal year end. We noted several customers were billed incorrectly. Some of the incorrect charges were related non-standard billings that were input incorrectly in the individual account. There were two rate categories that were setup incorrectly so all customers in these rate categories were incorrectly billed.

Cause – There is no procedure established to check the rates after a rate change.

Effect – Customers were charged in correct rates.

Recommendation – Establish procedures that require checking rates updated in the computerized billing system to insure their accuracy.

Management response – Management agrees.

- 11-6. Criteria – It is required by ordinance that 25% of cemetery revenue be transferred to the Cemetery Care fund.

Condition – For the year the required amount was \$1,185, but only \$962.50 was transferred.

Cause – There is no monitoring procedures in place to insure compliance.

Effect – The City Ordinances were not followed in relation to the Cemetery Care transfer.

Recommendation – Establish monitoring procedures to insure compliance.

Management response – Management agrees.

- 11-7. Criteria – Cemetery revenue needs to be tracked for proper accountability.

Condition – There appeared to be one instance of a \$500 lot sale that could not be located in deposits. Also lots sales are sometimes received in installments. However, there is no follow up

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billings or tracking of balances due. There were also some lots that we inquired about that we were unable to tell if they were sold or not.

Cause – The system to track cemetery revenue is not sufficient to insure proper accounting of the revenue.

Effect – It is possible that some of the cemetery revenue was not properly received or recorded.

Recommendation – Review cemetery revenue processes and establish appropriate procedures.

Management response – Management agrees.

- 11-8. Criteria – All assets of the City need to be properly identified and monitored.

Condition – There is a certificate of deposit the City maintains at Stillwater National Bank. However, the City could not locate any information related to this CD. They indicate they never receive any information related to this account.

Cause – Lack of communication and understanding by the City staff of the need to monitor activity on all their accounts.

Effect – Funds could go unaccounted for if proper monitoring activity is not established.

Recommendation – Establish bank reconciliation and monitoring activity on all City accounts.

Management response – Management agrees.

- 11-9. Criteria – Revenue should be deposited into the statutory fund designated for the revenue.

Condition – We noted that in June, 2011 \$1,076 of Alcohol Beverage Tax was deposited and recorded in error in the Street and Alley Fund.

Cause – There is a lack of monitoring procedures to insure proper recording revenue.

Effect – The wrong fund received and recorded Alcohol Beverage Tax.

Recommendation – Establish proper monitoring activity from revenue recognition.

Management response – Management agrees.

- 11-10. Criteria – Purchase orders are to be used to initiate the purchasing process. If properly followed this insures the City stays within budget.

Condition – In our expenditure testing we noted several purchase orders that were dated after the invoice date. Also there was a professional service payment for engineering that had no purchase order.

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Cause – There is not proper implementation of the statute requiring authorization of purchase orders prior to initiating purchases.

Effect – Purchasing laws were violated and the budget could not be properly monitored.

Recommendation – The City needs to establish proper purchase order procedures. Management and the City Council must establish clarity and expectations related to these requirements.

Management response – Management agrees.

- 11-11. Criteria – State statute requires invoices be acknowledged as received prior to payment.

Condition – In our expenditure testing we noted several invoices that did not have any signature indicating receipt of the goods or services.

Cause – Lack of training, lack of procedures and lack of monitoring appears to be causing this breakdown.

Effect – Violation of state statute and possibility of paying for items not received by the City.

Recommendation – Procedures, monitoring and training related to purchasing is needed.

Management response – Management agrees.

- 11-12. Criteria – For proper monitoring of the City's expenditures proper classification is required.

Condition – We noticed that the miscellaneous expense category was over used. When reviewing the account detail we found many expenses that had established accounts to be recorded in, but instead the expenses were being lumped into the miscellaneous expense category.

Cause – There a lack of an accounting environment that sets the expectations for proper accounting of all transactions.

Effect – The financial statements lose effectiveness for management's (including the City Council) need to monitor the City's financial activity.

Recommendation – Management needs to monitor financial statements and establish the appropriate expectations related to financial accountability.

Management response – Management agrees.

- 10-13. Criteria – Annually a budget is required to be adopted for the General Fund and the Special Revenue Funds. These budgets can be amended and the City is required not to exceed the total amended budgets.

Condition – All the Special Revenue funds overspent their budgets and the General Fund departments for General Government, Parks, Code Enforcement and Transfers Out were overspent. The General Fund in total was also overspent.

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Cause – During the year the budget was not monitored and properly amended. Also purchase order procedures are not properly followed.

Effect – There were numerous violations of the budgeting requirements.

Recommendation – Budgeting procedures and monthly financial statements need to be monitored by management (including the City Council) to improve compliance.

Management response – Management agrees.

- 10-14. Criteria – Timecards or sheets need to be properly signed by a supervisor.

Condition – The City Clerk, who processes payroll, did not have her timesheets signed by a supervisor.

Cause – There was not a set procedure to require a supervisor's signature.

Effect – There was no oversight as to the appropriate number of hours worked.

Recommendation – Each employee should have a supervisor signoff on their hours worked.

Management response – Management agrees.

- 10-15. Criteria – All employee benefits need to be listed in the employee handbook to insure proper communication.

Condition – We noted that life insurance is being paid for some employees but is not listed in the employee's handbook. We were told that this benefit is communicated verbally and they have an option to receive the benefit.

Cause – Lack of proper documentation of employee benefits.

Effect – There is apparently a lack of documentation that consistent communication of benefits was made to the employees. This potentially could cause a problem if employee misses a benefit due to lack of communication and documentation.

Recommendation – All benefits need to be documented in the employee handbook. Employee receipt of the handbook should be documented.

Management response – Management agrees.

- 10-16. Criteria – The overtime rates should be calculated from the base pay of an employee.

Condition – We noted on several employees that the overtime and/or vacation rate was inconsistent with the base rate.

Cause – It appears the rate has been off for some time and when a raise (i.e.-5% raise) is given then the base rate and overtime rate are raised 5%. But since the overtime rate was previously off then the error just continues forward.

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Effect -- The overtime rate is higher by as much as \$.32 per hour on employees.

Recommendation – Overtime and vacation rates should be calculated from the base pay of employees. The current pay rates need to be reviewed and adjusted and future adjustments need to be based upon base pay.

Management response – Management agrees.

10-17. Criteria – Pay raises need to be consistent with the approved increase.

Condition – On the May 1, 2011 pay raise, we noted one police department employee whose base pay increased more than 5%. It appears the 5% raise was applied to the OT rate and then his base pay was adjusted to be consistent with the OT rate. As noted in 10-16 above this method will not work because the OT rates are not correct.

Cause – Employee rates are not consistently applied.

Effect – On this employee it made his base pay \$18.08 too high per pay period.

Recommendation – Rates of pay need to be consistent and checked by someone independent of the payroll process.

Management response -- Management agrees.