

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

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

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

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2012, 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 June 3, 2013, 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, Johnson & Blessingame, P.C.*

Chickasha, Oklahoma  
June 3, 2013

**CITY OF MINCO, OKLAHOMA  
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As of and for the Year Ended June 30, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

**CITY OF MINCO, OKLAHOMA**  
**Other Information - Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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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, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the City's total net assets increased by \$184,015. The assets of the City exceed its liabilities at June 30, 2012, by \$1,441,665 (net assets). Of this amount, \$743,278 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$552,040.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$340,441.

### **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 an 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.

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**  
**As of and for the Year Ended June 30, 2012**

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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 26-41 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, combining statements for non-major governmental funds, 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, 2012**

**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)**

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
Current assets	\$ 557	\$ 591	-6%	\$ 1,087	\$ 876	24%	\$ 1,644	\$ 1,467	12%
Capital assets, net	228	256	-11%	1,522	1,595	-5%	1,750	1,851	-5%
<b>Total assets</b>	<u>785</u>	<u>847</u>	-7%	<u>2,609</u>	<u>2,471</u>	6%	<u>3,394</u>	<u>3,318</u>	2%
Current liabilities	5	7	-29%	153	149	3%	158	156	1%
Non-current liabilities	-	-	-	1,795	1,905	-6%	1,795	1,905	-6%
<b>Total liabilities</b>	<u>5</u>	<u>7</u>	-29%	<u>1,948</u>	<u>2,054</u>	-5%	<u>1,953</u>	<u>2,061</u>	-5%
Net assets									
Invested in capital assets, net of related debt	229	256	-11%	(182)	(213)	15%	47	43	-9%
Restricted	199	178	12%	453	386	17%	652	564	16%
Unrestricted	352	406	-13%	390	244	60%	742	650	14%
<b>Total net assets</b>	<u>\$ 780</u>	<u>\$ 840</u>	-7%	<u>\$ 661</u>	<u>\$ 417</u>	59%	<u>\$ 1,441</u>	<u>\$ 1,257</u>	15%

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:*

Total assets decreased by \$62,562 (7%) due to a decrease in cash and a decrease in capital assets due to depreciation.

Current liabilities decreased by \$2,885 (29%) due to a net decrease between Cleet fees payable in the prior year and payroll taxes payable in the current year.

*Business Type Activities:*

Current assets increased by \$210,566 (24%) primarily due to an increase in cash.

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**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.)
	2012	2011		2012	2011		2012	2011	
<b>Revenues</b>									
Charges for service	\$ 150	\$ 153	-2%	\$ 577	\$ 527	9%	\$ 727	\$ 680	7%
Operating grants and contributions	23	24	-4%	-	-	-	23	24	-4%
Capital grants and contributions	6	15	-60%	-	-	-	6	15	-60%
Taxes	468	445	5%	-	-	-	468	445	5%
Intergovernmental revenue	19	17	12%	-	-	-	19	17	12%
Investment income	3	5	-40%	2	1	100%	5	6	-17%
Miscellaneous	50	26	92%	25	-	100%	75	26	188%
<b>Total revenues</b>	<b>719</b>	<b>685</b>	<b>5%</b>	<b>604</b>	<b>528</b>	<b>14%</b>	<b>1,323</b>	<b>1,213</b>	<b>9%</b>
<b>Expenses</b>									
General government	223	180	24%	-	-	-	223	180	24%
Public safety	252	263	-4%	-	-	-	252	263	-4%
Highways and streets	16	11	45%	-	-	-	16	11	45%
Culture and recreation	1	1	0%	-	-	-	1	1	0%
Cemetery	8	6	33%	-	-	-	8	6	33%
Water	-	-	-	446	464	-4%	446	464	-4%
Sewer	-	-	-	61	51	20%	61	51	20%
Sanitation	-	-	-	132	142	-7%	132	142	-7%
<b>Total expenses</b>	<b>500</b>	<b>461</b>	<b>8%</b>	<b>639</b>	<b>657</b>	<b>-3%</b>	<b>1,139</b>	<b>1,118</b>	<b>2%</b>
Excess (deficiency) before transfers	219	224	-2%	(35)	(129)	73%	184	95	94%
Transfers	(279)	(36)	-675%	279	36	675%	-	-	-
<b>Change in net assets</b>	<b>(60)</b>	<b>188</b>	<b>-132%</b>	<b>244</b>	<b>(93)</b>	<b>362%</b>	<b>184</b>	<b>95</b>	<b>94%</b>
<b>Beginning net assets</b>	<b>840</b>	<b>652</b>	<b>29%</b>	<b>417</b>	<b>510</b>	<b>-18%</b>	<b>1,257</b>	<b>1,162</b>	<b>8%</b>
<b>Ending net assets</b>	<b>\$ 780</b>	<b>\$ 840</b>	<b>-7%</b>	<b>\$ 661</b>	<b>\$ 417</b>	<b>59%</b>	<b>\$ 1,441</b>	<b>\$ 1,257</b>	<b>15%</b>

Explanations for significant changes are listed below.

*Governmental Activities:*

Capital Grants and Contributions - \$9,086 decrease (60%) due primarily to the receipt of two Department of Justice Grants in FY 2011.

Miscellaneous - \$23,605 increase (92%) due primarily to donations to the Cemetery Perpetual Care Fund.

General Government expenses - \$42,569 increase (24%) due primarily to increased costs for legal and accounting costs.

Highways and Streets - \$5,843 increase (45%) due primarily to the purchase of asphalt in current year.

**CITY OF MINCO, OKLAHOMA**  
**Other Information - Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**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>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	General government	\$ 223		\$ 180	24%	
Public safety	251	263	-5%	(92)	(99)	-7%
Highways and streets	17	11	55%	(1)	6	-117%
Culture and recreation	1	1	0%	(1)	(1)	0%
Cemetery	8	6	33%	(4)	(1)	300%
<b>Total</b>	<u>\$ 500</u>	<u>\$ 461</u>	8%	<u>\$ (320)</u>	<u>\$ (269)</u>	19%

General government net expense increased \$47,848 (28%) due primarily to increased legal and accounting costs.

Highways and streets net expense decreased \$4,621 (117%) due primarily to the purchase of asphalt in the current year.

**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>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
	Water	\$ 446		\$ 464	-4%	
Sewer	61	51	20%	30	33	-9%
Sanitation	132	142	-7%	38	16	138%
<b>Total</b>	<u>\$ 639</u>	<u>\$ 657</u>	-3%	<u>\$ (63)</u>	<u>\$ (131)</u>	-52%

Water net expense decreased \$48,858 (27%) due primarily to decreased salary costs.

Sanitation net revenue increased \$21,743 (138%) due primarily to increased sanitation rates.

**CITY OF MINCO, OKLAHOMA**  
**Other Information - Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$552,040. For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$52,211.

For proprietary funds, the City reports an increase in net assets for the Minco Municipal Authority of \$243,692.

**Budgetary Highlights**

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues under final estimates by \$138,224 or a 17% negative variance. General Fund actual expenditures were under final appropriations by \$32,262 or a 4% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2012, 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, 2012.<sup>1</sup>

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

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 35	\$ 35	\$ -	\$ -	\$ 35	\$ 35
Buildings	70	78	-	-	70	78
Machinery, furniture and equipment	104	123	58	44	162	167
Infrastructure	20	20	1,464	1,551	1,484	1,571
<b>Totals</b>	<b>\$ 229</b>	<b>\$ 256</b>	<b>\$ 1,522</b>	<b>\$ 1,595</b>	<b>\$ 1,751</b>	<b>\$ 1,851</b>

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

- 2007 Crown Victoria police car, 5 radios for police cars, and camera for police car \$ 14,443
- 18 new membranes for water plant, submersible pump for water well, and replace impellor pump at lift station \$ 28,530

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

**CITY OF MINCO, OKLAHOMA**  
**Other Information - Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Debt Administration**

At year-end, the City had \$1,905,000 in long-term debt outstanding, reported on a modified cash basis, which represents a \$110,000 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>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Notes payable	\$ -	\$ -	\$ 1,905	\$ 2,015	\$ 1,905	\$ 2,015
<b>Totals</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,905</u>	<u>\$ 2,015</u>	<u>\$ 1,905</u>	<u>\$ 2,015</u>

**ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

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

- The FY 2013 budget is consistent with prior years.
- The City will begin a major water construction project in 2013.

**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.

**CITY OF MINCO, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES**

**CITY OF MINCO, OKLAHOMA**  
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**Statement of Net Assets (Modified Cash Basis) – June 30, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$487,157	\$820,771	\$1,307,928
Investments	175,512	94,826	270,338
Internal balances	(106,051)	106,051	-
Capital assets:			
Land and construction in progress	35,000	-	35,000
Other capital assets, net of depreciation	193,615	1,521,721	1,715,336
Unamortized bond issuance costs	-	65,325	65,325
Total Assets	<u>785,233</u>	<u>2,608,694</u>	<u>3,393,927</u>
<b>LIABILITIES</b>			
Due to other governments	967	-	967
Deposits subject to refund	-	42,684	42,684
Payroll withholding liabilities	3,611	-	3,611
Long-term liabilities:			
Due within one year	-	110,000	110,000
Due in more than one year	-	1,795,000	1,795,000
Total Liabilities	<u>4,578</u>	<u>1,947,684</u>	<u>1,952,262</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	228,615	(181,817)	46,798
Restricted by:			
Statutory requirements	45,360	-	45,360
External parties	153,347	-	153,347
Restricted for debt service	-	452,882	452,882
Unrestricted	353,333	389,945	743,278
Total Net Assets	<u>\$780,655</u>	<u>\$661,010</u>	<u>\$1,441,665</u>

See accompanying notes to the basic financial statements.

**CITY OF MINCO, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012**

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
<b>Primary Government:</b>							
Governmental activities:							
General Government	\$ 222,497	\$ 602	\$ -	\$ -	\$ (221,895)	\$ -	\$ (221,895)
Public Safety	251,309	145,177	8,168	6,040	(91,924)	-	(91,924)
Highways and Streets	16,467	-	15,239	-	(1,228)	-	(1,228)
Culture and Recreation	1,403	-	-	-	(1,403)	-	(1,403)
Cemetery	8,136	4,350	-	-	(3,786)	-	(3,786)
Total governmental activities	<u>499,812</u>	<u>150,129</u>	<u>23,407</u>	<u>6,040</u>	<u>(320,236)</u>	<u>-</u>	<u>(320,236)</u>
Business-type activities:							
Water	445,695	314,733	-	-	-	(130,962)	(130,962)
Sewer	61,182	91,446	-	-	-	30,264	30,264
Sanitation	131,963	170,233	-	-	-	38,270	38,270
Total business-type activities	<u>638,840</u>	<u>576,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,428)</u>	<u>(62,428)</u>
<b>Total primary government</b>	<u>\$1,138,652</u>	<u>\$726,541</u>	<u>\$23,407</u>	<u>\$6,040</u>	<u>(320,236)</u>	<u>(62,428)</u>	<u>(382,664)</u>
General revenues:							
Taxes:							
Sales and use tax					438,760	-	438,760
Franchise and public service taxes					29,110	-	29,110
Intergovernmental revenue not restricted to specific programs					19,247	-	19,247
Investment income					2,898	1,761	4,659
Miscellaneous					49,629	25,274	74,903
Transfers - Internal activity					(279,085)	279,085	-
Total general revenues and transfers					<u>260,559</u>	<u>306,120</u>	<u>566,679</u>
Change in net assets					(59,677)	243,692	184,015
Net assets - beginning					840,332	417,318	1,257,650
Net assets - ending					<u>\$ 780,655</u>	<u>\$ 661,010</u>	<u>\$ 1,441,665</u>

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, 2012**

	<u>General Fund</u>	<u>Street &amp; Alley Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 420,950	\$ 39,044	\$ 27,163	\$ 487,157
Investments	50,000	-	125,512	175,512
Due from other funds	16,265	6,316	730	23,311
Total Assets	<u>\$ 487,215</u>	<u>\$ 45,360</u>	<u>\$ 153,405</u>	<u>\$ 685,980</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	129,362	-	-	129,362
Due to other governments	967	-	-	967
Payroll withholding liabilities	3,611	-	-	3,611
Total Liabilities	<u>133,940</u>	<u>-</u>	<u>-</u>	<u>133,940</u>
Fund Balances:				
Restricted for:				
Street & alley purposes	-	45,360	-	45,360
Cemetery purposes	-	-	153,343	153,343
Assigned for:				
Capital projects	573	-	-	573
Public safety purposes	689	-	-	689
Cemetery purposes	11,572	-	62	11,634
Unassigned	340,441	-	-	340,441
Total Fund Balances	<u>353,275</u>	<u>45,360</u>	<u>153,405</u>	<u>552,040</u>
Total Liabilities and Fund Balances	<u>\$ 487,215</u>	<u>\$ 45,360</u>	<u>\$ 153,405</u>	<u>\$ 685,980</u>

See accompanying notes to the basic financial statements.

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

	<b>General Fund</b>	<b>Street &amp; Alley Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ 467,870	\$ -	\$ -	\$ 467,870
Intergovernmental	33,455	15,239	-	48,694
Charges for services	3,620	-	730	4,350
Fines and forfeitures	145,177	-	-	145,177
Licenses and permits	602	-	-	602
Investment income	2,836	-	62	2,898
Miscellaneous	29,302	-	20,327	49,629
<b>Total Revenues</b>	<b>682,862</b>	<b>15,239</b>	<b>21,119</b>	<b>719,220</b>
<b>Expenditures:</b>				
Current:				
General Government	211,526	-	-	211,526
Public Safety	244,878	-	-	244,878
Highways and Streets	-	8,588	-	8,588
Culture and Recreation	1,403	-	-	1,403
Cemetery	5,716	-	-	5,716
<b>Total Expenditures</b>	<b>463,523</b>	<b>8,588</b>	<b>-</b>	<b>472,111</b>
Excess of revenues over expenditures	219,339	6,651	21,119	247,109
<b>Other Financing Sources (Uses):</b>				
Transfers in	14,670	-	-	14,670
Transfers out	(286,220)	-	(7,535)	(293,755)
<b>Total Other Financing Sources (Uses)</b>	<b>(271,550)</b>	<b>-</b>	<b>(7,535)</b>	<b>(279,085)</b>
Net change in fund balances	(52,211)	6,651	13,584	(31,976)
Fund balances - beginning	405,486	38,709	139,821	584,016
Fund balances - ending	<b>\$353,275</b>	<b>\$45,360</b>	<b>\$153,405</b>	<b>\$552,040</b>

See accompanying notes to the basic financial statements.

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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Fund balances of governmental funds	\$552,040
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$825,091, net of accumulated depreciation of \$596,476, are not financial resources and, therefore, are not reported in the funds.	228,615
	<hr/>
Net assets of governmental activities	<u><u>\$780,655</u></u>

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net changes in fund balances - total governmental funds	(\$31,976)
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	14,443
Depreciation expense	(42,144)
	<hr/>
	<u>(27,701)</u>
Change in net assets of governmental activities	<u><u>(\$59,677)</u></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, 2012**

	Proprietary Fund
	Minco Municipal Fund
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 340,705
Investments	79,326
Due from other funds	112,452
Restricted:	
Cash and cash equivalents	283,093
Investments	15,500
Total current assets	831,076
Noncurrent Assets:	
Restricted:	
Cash and cash equivalents	196,973
Capital assets:	
Other capital assets, net of depreciation	1,521,721
Debt issuance costs, net of amortization	65,325
Total noncurrent assets	1,784,019
Total Assets	2,615,095
<b>LIABILITIES</b>	
Current Liabilities:	
Due to other funds	6,401
Meter deposit liability	42,684
Notes payable - current portion	110,000
Total current liabilities	159,085
Noncurrent Liabilities:	
Notes payable	1,795,000
Total noncurrent liabilities	1,795,000
Total Liabilities	1,954,085
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(181,817)
Restricted for debt service	452,882
Unrestricted	389,945
Total net assets	\$ 661,010

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, 2012**

	<b>Proprietary Funds</b>
	<b>Minco Municipal Authority</b>
<b>Operating Revenues:</b>	
Charges for services:	
Water	\$ 300,634
Sewer	87,350
Sanitation	162,607
Miscellaneous income	25,821
Total Operating Revenues	576,412
<b>Operating Expenses:</b>	
Administration	39,795
Water	251,074
Sewer	28,790
Sanitation	120,210
Depreciation expense	107,587
Amortization expense	5,025
Total Operating Expenses	552,481
Operating Income	23,931
<b>Non-Operating Revenues (Expenses):</b>	
Investment income	1,761
Interest expense	(86,359)
Grant revenue	25,709
Loss on disposal of assets	(435)
Total Non-Operating Revenues (Expenses)	(59,324)
Net Income (Loss) Before Transfers	(35,393)
Transfers in	279,085
Change in net assets	243,692
Total net assets - beginning	417,318
Total net assets - ending	\$ 661,010

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, 2012**

	<b>Proprietary Funds</b>
	<b>Minco Municipal Authority</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 550,591
Payments to suppliers	(303,207)
Payments to employees	(136,662)
Miscellaneous revenues	25,821
Receipts of customer utility deposits	9,783
Refunds of customer utility deposits	(6,684)
	139,642
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	279,085
	279,085
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(34,248)
Principal paid on capital debt	(110,000)
Grant revenue	25,709
Interest paid on capital debt	(86,359)
	(204,898)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	1,761
Sale of investments	(1,035)
	726
Net Increase in Cash and Cash Equivalents	214,555
Balance - beginning of the year	606,216
Balance - end of the year	\$ 820,771
<b>Reconciliation to Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 340,705
Restricted cash and cash equivalents	480,066
Total cash and cash equivalents	\$ 820,771
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income	\$ 23,931
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	107,587
Amortization expense	5,025
Change in assets and liabilities:	
Due from other funds	(5,403)
Due to other funds	5,403
Meter deposit liability	3,099
Net cash provided by operating activities	\$ 139,642

See accompanying notes to the basic financial statements.

**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**

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*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 internal 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 civil defense operations
- City Hall Renovation Fund – accounts for the residual balance of an ASCOG grant received for the purpose of renovating City Hall
- CLEET Fund – accounts for the collection and remittance of CLEET fees
  
- Street and Alley Fund – accounts for state shared gasoline excise and commercial vehicle taxes legally restricted for street and alley purposes

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

Special Revenue Fund:

- 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.

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.

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

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

- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance. The City currently reports no committed fund balance.
- 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, 2012, the City recognized \$4,659 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, 2012, the primary government held the following deposits and investments:

<b>Type</b>	<b><u>Credit Rating</u></b>	<b><u>Carrying Value</u></b>
<b><u>Deposits:</u></b>		
Demand deposits		\$855,046
Time deposits		270,338
		<u>1,125,384</u>
<b><u>Investments:</u></b>		
Cavanal Hill US Treasury - Inst CL Fd	AAAm	316,745
Goldman Sachs FS Tax - Fr Inst Fd	AAAm	136,137
		<u>452,882</u>
<b>Total</b>		<u><u>\$1,578,266</u></u>

**Reconciliation to the Statement of Net Assets:**

Cash and cash equivalents	\$1,307,928
Investments	270,338
	<u><u>\$1,578,266</u></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 a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was 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, 2012 are as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Utility Deposits	\$ 27,184	\$ 15,500	\$ 42,684
Trustee Accounts	<u>452,882</u>	<u>-</u>	<u>452,882</u>
Total Restricted Assets	<u>\$ 480,066</u>	<u>\$ 15,500</u>	<u>\$ 495,566</u>

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**3. Capital Assets and Depreciation**

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

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b>Governmental:</b>				
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	415,269	14,443	-	429,712
Infrastructure	25,338	-	-	25,338
Total other capital assets at historical cost	775,648	14,443	-	790,091
Less accumulated depreciation for:				
Buildings	257,013	7,675	-	264,688
Machinery and Equipment	292,244	33,625	-	325,869
Infrastructure	5,075	844	-	5,919
Total accumulated depreciation	554,332	42,144	-	596,476
Other capital assets, net	221,316	(27,701)	-	193,615
Governmental, net capital assets	<u>\$ 256,316</u>	<u>\$ (27,701)</u>	<u>\$ -</u>	<u>\$ 228,615</u>
<b>Business-Type:</b>				
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	109,949	23,688	17,536	116,101
Infrastructure	2,926,089	10,560	-	2,936,649
Total other capital assets at historical cost	3,054,538	34,248	17,536	3,071,250
Less accumulated depreciation for:				
Buildings	18,500	-	-	18,500
Machinery and Equipment	65,829	9,866	17,100	58,595
Infrastructure	1,374,713	97,721	-	1,472,434
Total accumulated depreciation	1,459,042	107,587	17,100	1,549,529
Other capital assets, net	1,595,496	(73,339)	436	1,521,721
Business-Type, net capital assets	<u>\$ 1,595,496</u>	<u>\$ (73,339)</u>	<u>\$ 436</u>	<u>\$ 1,521,721</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	\$ 10,971	Water	\$ 81,508
Public safety	20,874	Sewer	26,079
Highways and streets	7,879		
Cemetery	2,420		
<b>Total depreciation</b>	<b><u>\$ 42,144</u></b>	<b>Total depreciation</b>	<b><u>\$ 107,587</u></b>

**4. Long-Term Debt and Debt Service Requirements**

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

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Amount Due Within One Year</u>
<i>Business-Type:</i>					
Notes payable	<u>\$ 2,015,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 1,905,000</u>	<u>\$ 110,000</u>
<b>Total Long-term Debt</b>	<b><u>\$ 2,015,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 110,000</u></b>	<b><u>\$ 1,905,000</u></b>	<b><u>\$ 110,000</u></b>

*Governmental Activities:*

At June 30, 2012, 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, 2012, 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>\$1,905,000</u>
<b>Total Notes Payable</b>	<b><u>\$1,905,000</u></b>

Current portion	\$110,000
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Non-current portion	1,795,000
Total Notes Payable	<u>\$1,905,000</u>

*Payment Requirements to Maturity:*

Business-Type Activities

Year Ended June 30,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 110,000	\$ 82,185
2014	115,000	77,802
2015	120,000	73,107
2016	125,000	68,089
2017-2021	725,000	251,112
2022-2026	<u>710,000</u>	<u>68,547</u>
Total	<u>\$1,905,000</u>	<u>\$620,842</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 \$2,525,842. Pledged sales taxes received in the current year were \$279,085 and net utility revenues were \$144,970. Debt service payments of \$196,359 for the current fiscal year were 46% of pledged sales taxes and net utility revenues.

**6. Sales Tax Revenue**

Sales tax revenue represents a four cent tax on each dollar of taxable sales. The four cents are recorded in the General Fund and then three cents are transferred to the authority for debt service.

**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**

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**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	106,029	expense reimbursement
Meter Deposit Fund	MMA	6,401	expense reimbursement
Cleet Fund	General Fund	16,265	expense reimbursement
Civil Defense Fund	MMA	22	expense reimbursement
Cemetery Operation Fund	Cemetery Perpetual Care Fund	730	25% transfer
		<u>\$ 135,763</u>	

**Reconciliation to fund financial statements:**

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 23,311	\$ (129,362)	\$ (106,051)
Proprietary Funds	112,452	(6,401)	106,051
Total	<u>\$ 135,763</u>	<u>\$ (135,763)</u>	<u>\$ -</u>

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>
General Fund	MMA	\$ 279,085	Sales tax transfer
General Fund	Cleet Fund	7,135	Court fines
Cemetery Care Fund	Cemetery Operating Fund	7,535	Lot sales
		<u>\$ 293,755</u>	

**Reconciliation to Fund Financials and Statement of Activities:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities	\$ 14,670	\$ 293,755	\$ (279,085)
Business-Type Activities	279,085	-	279,085
Total	<u>\$ 293,755</u>	<u>\$ 293,755</u>	<u>\$ -</u>

**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, 2012 was \$5,248. 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 2012, 2011, and 2010, the City's annual required contribution was \$780, \$960, 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 - \$5,547; Employees - \$6,388.

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, 2012 is \$7,134.

### *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 2012, 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, 2012, the City of Minco complied in all material respects with the above requirements with the following exceptions:

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

General Government	(\$7,937)
Municipal Court	(782)
Code Enforcement	(435)

In the Street and Alley Fund, the City had negative variances in the following department and for the following amounts:

Streets	(\$1,762)
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**OTHER INFORMATION**

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**Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2012 (Unaudited)**

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>Beginning Budgetary Fund Balance:</b>	\$ 413,353	\$ 413,353	\$ 401,154	\$ (12,199)
<b>Resources (Inflows):</b>				
Taxes	497,359	497,359	467,870	(29,489)
Intergovernmental	15,882	15,882	33,455	17,573
Fines and forfeitures	151,930	151,930	145,177	(6,753)
Licenses and permits	569	569	602	33
Investment income	1,398	1,398	1,579	181
Miscellaneous	23,272	23,272	25,935	2,663
Transfers in	122,432	122,432	-	(122,432)
<b>Total Resources (Inflows)</b>	812,842	812,842	674,618	(138,224)
<b>Amounts available for appropriation</b>	1,226,195	1,226,195	1,075,772	(150,423)
<b>Charges to Appropriations (Outflows):</b>				
General government	187,805	187,805	195,742	(7,937)
Police	211,354	211,354	202,873	8,481
Fire	16,234	16,234	14,382	1,852
Municipal Court	6,584	6,584	7,366	(782)
Parks	1,500	1,500	1,403	97
Code enforcement	7,983	7,983	8,418	(435)
First Responders	4,282	4,282	3,587	695
Transfers out	316,511	316,511	286,220	30,291
<b>Total Charges to Appropriations</b>	752,253	752,253	719,991	32,262
<b>Ending Budgetary Fund Balance</b>	\$ 473,942	\$ 473,942	\$ 355,781	\$ (118,161)
<b>Reconciliation to General Fund Revenues, Expenditures and Changes in Fund Balance:</b>				
Cleet Fund			(15,640)	
Cemetery Operating Fund			11,572	
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			\$ 353,275	

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	<b>STREET AND ALLEY FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Beginning Budgetary Fund Balance:</b>	\$ 38,316	\$ 38,316	\$ 38,709	\$ 393
<b>Resources (Inflows):</b>				
Taxes	15,137	15,137	15,239	102
Transfers In	1,537	1,537	-	(1,537)
<b>Total Resources (Inflows)</b>	<u>16,674</u>	<u>16,674</u>	<u>15,239</u>	<u>(1,435)</u>
<b>Amounts available for appropriation</b>	<u>54,990</u>	<u>54,990</u>	<u>53,948</u>	<u>(1,042)</u>
<b>Charges to Appropriations (Outflows):</b>				
Streets	6,826	6,826	8,588	(1,762)
<b>Total Charges to Appropriations</b>	<u>6,826</u>	<u>6,826</u>	<u>8,588</u>	<u>(1,762)</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 48,164</u>	<u>\$ 48,164</u>	<u>\$ 45,360</u>	<u>\$ (2,804)</u>

**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	(\$7,937)
Municipal Court	(782)
Code Enforcement	(435)

3. In the Street and Alley Fund, the City had negative variances in the following departments and for the following amounts:

Streets	(\$1,762)
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**Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2012**

	<u>General Account</u>	<u>CLEET Account</u>	<u>Cemetery Operating Account</u>	<u>Civil Defense Account</u>	<u>City Hall Renovations Account</u>	<u>Surplus Auction Account</u>	<u>Totals</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 406,439	\$ 625	\$ 12,302	\$ 711	\$ 573	\$ 300	\$ 420,950
Investments	50,000	-	-	-	-	-	50,000
Due from other funds	16,265	-	-	-	-	-	16,265
Total Assets	<u>472,704</u>	<u>625</u>	<u>12,302</u>	<u>711</u>	<u>573</u>	<u>300</u>	<u>487,215</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Due to other funds	112,345	16,265	730	22	-	-	129,362
Due to other governments	967	-	-	-	-	-	967
Payroll withholding liabilities	3,611	-	-	-	-	-	3,611
Total Liabilities	<u>116,923</u>	<u>16,265</u>	<u>730</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>133,940</u>
Fund Balances:							
Restricted for:							
Cemetery purposes	-	-	-	-	-	-	-
Assigned for:							
Capital projects	-	-	-	-	573	-	573
Public Safety	-	-	-	689	-	-	689
Cemetery	-	-	11,572	-	-	-	11,572
Unassigned	355,781	(15,640)	-	-	-	300	340,441
Total Fund Balances	<u>355,781</u>	<u>(15,640)</u>	<u>11,572</u>	<u>689</u>	<u>573</u>	<u>300</u>	<u>353,275</u>
Total Liabilities and Fund Balances	<u>\$ 472,704</u>	<u>\$ 625</u>	<u>\$ 12,302</u>	<u>\$ 711</u>	<u>\$ 573</u>	<u>\$ 300</u>	<u>\$ 487,215</u>

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

	<u>General Account</u>	<u>CLEET Account</u>	<u>Cemetery Operating Account</u>	<u>Civil Defense Account</u>	<u>City Hall Renovations Account</u>	<u>Surplus Auction Account</u>	<u>Totals</u>
<b>Revenues:</b>							
Taxes	\$ 467,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 467,870
Intergovernmental	33,455	-	-	-	-	-	33,455
Charges for services	-	-	3,620	-	-	-	3,620
Fines & forfeitures	145,177	-	-	-	-	-	145,177
Licenses & permits	602	-	-	-	-	-	602
Investment income	1,579	-	1,257	-	-	-	2,836
Miscellaneous	25,935	-	3,367	-	-	-	29,302
<b>Total Revenues</b>	<u>674,618</u>	<u>-</u>	<u>8,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>682,862</u>
<b>Expenditures:</b>							
Current:							
General government	211,526	-	-	-	-	-	211,526
Public safety	220,842	24,036	-	-	-	-	244,878
Culture and recreation	1,403	-	-	-	-	-	1,403
Cemetery	-	-	5,716	-	-	-	5,716
<b>Total Expenditures</b>	<u>433,771</u>	<u>24,036</u>	<u>5,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,523</u>
<b>Excess (deficiency) of revenues over expenditures</b>	240,847	(24,036)	2,528	-	-	-	219,339
<b>Other Financing Sources (Uses):</b>							
Transfers in	-	7,135	7,535	-	-	-	14,670
Transfer out	(286,220)	-	-	-	-	-	(286,220)
<b>Total Other Financing Sources (Uses)</b>	<u>(286,220)</u>	<u>7,135</u>	<u>7,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(271,550)</u>
<b>Net change in fund balances</b>	(45,373)	(16,901)	10,063	-	-	-	(52,211)
<b>Fund balances, beginning</b>	401,154	1,261	1,509	689	573	300	405,486
<b>Fund balances, ending</b>	<u>\$ 355,781</u>	<u>\$ (15,640)</u>	<u>\$ 11,572</u>	<u>\$ 689</u>	<u>\$ 573</u>	<u>\$ 300</u>	<u>\$ 353,275</u>

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

	<b>Special Revenue Fund</b>	<b>Capital Project Fund</b>	
	<b>Cemetery Perpetual Fund</b>	<b>Cemetery Care Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 26,963	\$ 200	\$ 27,163
Investments	125,512	-	125,512
Due from other funds	-	730	730
 Total Assets	 152,475	 930	 153,405
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	-	-	-
 Total Liabilities	 -	 -	 -
Fund Balances:			
Restricted for:			
Cemetery purposes	152,413	930	153,343
Assigned for:			
Cemetery purposes	62	-	62
	152,475	930	153,405
 Total Liabilities and Fund Balances	 \$ 152,475	 \$ 930	 \$ 153,405

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**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Cemetery Perpetual Fund</u>	<u>Cemetery Care Fund</u>	<u>Totals</u>
<b>Revenues:</b>			
Charges for services	\$ -	\$ 730	\$ 730
Investment income	62	-	62
Miscellaneous	20,127	200	20,327
Total Revenues	<u>20,189</u>	<u>930</u>	<u>21,119</u>
<b>Expenditures:</b>			
Current:			
Capital outlay	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of revenues over expenditures</b>	20,189	930	21,119
<b>Other Financing Sources (Uses):</b>			
Transfer out	(7,535)	-	(7,535)
Total Other Financing Sources (Uses)	<u>(7,535)</u>	<u>-</u>	<u>(7,535)</u>
<b>Net change in fund balances</b>	12,654	930	13,584
<b>Fund balances, beginning</b>	139,821	-	139,821
<b>Fund balances, ending</b>	<u>\$ 152,475</u>	<u>\$ 930</u>	<u>\$ 153,405</u>

**CITY OF MINCO, OKLAHOMA**  
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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – For year ended June 30, 2012**

Federal/State Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Grant #	Award Amount	Awards Expended
<b>FEDERAL AWARDS:</b>				
<u>US DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Department of Homeland Security: Interoperable Emergency Communications Grant	97.055	180.111	\$ 6,040	\$ 6,040
Total Federal Awards			<u>\$ 6,040</u>	<u>\$ 6,040</u>
<b>STATE AWARDS:</b>				
<u>OKLAHOMA DEPARTMENT OF PUBLIC SAFETY:</u>				
Oklahoma Highway Safety Grant	N/A	SE-11-03-07-01	\$ 15,000	\$ 2,979
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Fire Operating Grant	N/A	N/A	4,413	4,413
<u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GOVERNMENTS:</u>				
REAP Grant 04	N/A	042272	20,000	5,000
Total State Awards			<u>\$ 39,413</u>	<u>\$ 12,392</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, 2012.

**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.

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**Schedule of Debt Service Coverage Compliance**

	<b>Series 2005B Promissory Note</b>
<b>GROSS REVENUE AVAILABLE:</b>	
Operating revenues of leased systems (1)	\$ 550,591
Sales tax appropriated and transferred from the City General Fund	279,085
Total Gross Revenue Available	829,676
<b>OPERATING EXPENSES:</b>	
Total Operating Expenses (excludes depreciation and amortization)	439,869
Net Revenue Available for Debt Service	\$ 389,807
Maximum Annual Debt Service Requirements	\$ 196,970
	\$ 196,970
Computed Coverage	198%
Coverage Requirement	125%

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

**Schedule of Reserve Requirement**

	<b>Promissory Note</b>
Balance in Reserve Account, June 30, 2012	\$ 196,973
Required Balance of Reserve per Bond Agreement (2)	196,970
Surplus of Account Balance over Required Balance Reserve	3

(2) Represents maximum annual debt service

**INTERNAL CONTROL AND COMPLIANCE**

**CITY OF MINCO, OKLAHOMA  
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**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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 3, 2013. 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 did not consider any of the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting.

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: 12-1, 12-2, 12-4, 12-5, 12-8, and 12-9.

**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 12-3, 12-4, 12-6, and 12-7.

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, Johnson + Blessingame, P.C.*

Chickasha, Oklahoma  
June 3, 2013

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

Deficiencies of Internal Control, Compliance and Other Matters

- 12-1. 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 has implemented various new procedures and the independent consulting firm is independently reconciling bank accounts.

- 12-2. 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 -- A monthly reconciliation is performed in the computer system, but the elements of the reconciliation are not independently verified.

- 12-3. Criteria -- It is required by ordinance that 12.5% of cemetery revenue be transferred to the Cemetery Care Fund.

Condition -- For the year the 12.5% required amount was not 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.

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

12-4. 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.

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.

12-5. Criteria – For proper monitoring of the City's expenditures proper classification is required.

Condition – We noted \$4,300 of police gas expense was transferred to police payroll apparently to reduce the police gas expense line item.

Cause – There lack of monitoring expenditures for proper classification.

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.

12-6. 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 – The Street and Alley Fund overspent its budget. The General Fund departments for General Government, Municipal Court, and Code Enforcement budgets were overspent.

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.

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

12-7. 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.

12-8. 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.

12-9. 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 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.