

CITY OF MINCO
June 30, 2010

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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, 2010, 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.C., 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.

Management has not included the Minco Volunteer Fire Fund in the City of Minco, Oklahoma's, financial statements. Accounting principles generally accepted in the United States of America require the Minco Volunteer Fire Fund to be presented as an aggregate remaining fund and financial information about the Minco Volunteer Fire Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues and expenses and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the governmental activities and the omitted nonmajor fund is not reasonably determinable.

In our opinion, except for the effects of the omission of the Minco Volunteer Fire Fund from the aggregate remaining funds, as described in the preceding paragraph, 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, 2010, 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.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, 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.

The Required Supplementary Information on page C-1 and the notes on page C-2 are not a required part of the basic financial statements but are supplementary information required to accompany those statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Minco has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary supplemental information, although not required to be part of the basic financial statements.

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. The accompanying combining and individual non-major governmental fund financial statements (pages D-1 and D-2) and the accompanying schedule of federal and state awards (page D-3) are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Minco, Oklahoma. The combining and individual nonmajor fund financial statements and the schedule of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.C.

Chickasha, Oklahoma
December 9, 2011

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND ACTIVITIES

City of Minco, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 384,619	\$ 282,143	\$ 666,762
Restricted Cash and Cash Equivalents		20,681	20,681
Investments	175,512	77,550	253,062
Restricted Investments		450,327	450,327
Internal Activity	(106,051)	106,051	-
<i>Total Current Assets</i>	<u>454,080</u>	<u>936,752</u>	<u>1,390,832</u>
Noncurrent Assets:			
Note Costs, net of accumulated amortization	-	75,375	75,375
Land and other non-depreciable assets		-	-
Other capital assets, net of accumulated depreciation	215,653	1,667,158	1,882,811
<i>Total Noncurrent Assets</i>	<u>215,653</u>	<u>1,742,533</u>	<u>1,958,186</u>
<i>Total Assets</i>	<u>669,733</u>	<u>2,679,285</u>	<u>3,349,018</u>
<u>Liabilities</u>			
Encumbrances	17,889	42,271	60,160
Payables	1,426	2,374	3,800
Due to Depositors	-	33,584	33,584
Long-Term Liabilities:			
Due within one year		105,000	105,000
Due in more than one year		2,015,000	2,015,000
<i>Total Liabilities</i>	<u>19,315</u>	<u>2,198,229</u>	<u>2,217,544</u>
<u>Net Assets</u>			
Invested in Capital Assets, net of related debt	215,653	(452,842)	(237,189)
Restricted for:			
Nonexpendable Permanent Fund Principal	125,512	-	125,512
Expendable:			
Debt Service		434,827	434,827
Capital Projects	573	-	573
Other Purposes	81,766	-	81,766
Unrestricted	226,914	499,071	725,985
<i>Total Net Assets</i>	<u>\$ 650,418</u>	<u>\$ 481,056</u>	<u>\$ 1,131,474</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2010

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 73,426	\$ 675	\$ 626	\$ -	\$ (72,125)	\$ -	\$ (72,125)
Court	9,923	-	-	-	(9,923)	-	(9,923)
Fire	32,774	-	5,100	-	(27,674)	-	(27,674)
Police	245,889	144,895	6,337	11,822	(82,835)	-	(82,835)
Streets	14,552	-	-	-	(14,552)	-	(14,552)
Civil Defense	1,466	-	-	-	(1,466)	-	(1,466)
Parks	1,039	-	-	-	(1,039)	-	(1,039)
Cemetery	4,679	4,670	3,676	-	3,667	-	3,667
Capital Improvement	5,398	-	-	-	(5,398)	-	(5,398)
<i>Total Governmental Activities</i>	<u>389,146</u>	<u>150,240</u>	<u>15,739</u>	<u>11,822</u>	<u>(211,345)</u>	<u>-</u>	<u>(211,345)</u>
Business-Type Activities:							
Water	520,997	252,455	84,291	-	-	(184,251)	(184,251)
Sewer	74,239	77,029	-	-	-	2,790	2,790
Sanitation	113,143	146,051	-	-	-	32,908	32,908
<i>Total Business-Type Activities</i>	<u>708,379</u>	<u>475,535</u>	<u>84,291</u>	<u>-</u>	<u>-</u>	<u>(148,553)</u>	<u>(148,553)</u>
<i>Total Primary Government</i>	<u>1,097,525</u>	<u>625,775</u>	<u>100,030</u>	<u>11,822</u>	<u>(211,345)</u>	<u>(148,553)</u>	<u>(359,898)</u>
General Revenues:							
Taxes:							
Sales Tax					245,745	-	245,745
Use Tax					16,457	-	16,457
Franchise Tax					23,218	-	23,218
Intergovernmental Revenue					29,369	-	29,369
Investment Income					6,462	4,897	11,359
Miscellaneous					11,430	-	11,430
Insurance Proceeds					31,087	-	31,087
Transfers - Internal Activity					(66,063)	66,063	-
<i>Total General Revenues and Transfers</i>					<u>297,705</u>	<u>70,960</u>	<u>368,665</u>
<i>Change in Net Assets</i>					86,360	(77,593)	8,767
<i>Net Assets - Beginning</i>					<u>564,058</u>	<u>558,649</u>	<u>1,122,707</u>
<i>Net Assets - Ending</i>					<u>\$ 650,418</u>	<u>\$ 481,056</u>	<u>\$ 1,131,474</u>

The notes to the financial statements are an integral part of this statement.

BASIC FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

City of Minco, Oklahoma
Statement of Assets, Liabilities, and Fund Equity
Governmental Funds - Modified Cash Basis
June 30, 2010

	<u>General</u>	<u>Cemetery Perpetual Care</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$ 300,976	\$ 10,619	\$ 72,449	\$ 384,044
Restricted Cash and Cash Equivalents	-	-	573	573
Investments	50,000	-	-	50,000
Restricted Investments	-	125,512	-	125,512
Due from Other Funds	<u> </u>	<u>962</u>	<u>6,316</u>	<u>7,278</u>
<i>Total Assets</i>	<u>350,976</u>	<u>137,093</u>	<u>79,338</u>	<u>567,407</u>
 Liabilities				
Accounts Payable	1,198	-	229	1,427
Encumbrances	10,821	-	7,068	17,889
Payroll Taxes Payable	-	-	-	-
Due to Other Funds	<u>112,344</u>	<u> </u>	<u>984</u>	<u>113,328</u>
<i>Total Liabilities</i>	<u>124,363</u>	<u> </u>	<u>8,281</u>	<u>132,644</u>
 Fund Equity				
Fund Balance				
Reserved for Permanent Fund Principal	-	125,512	-	125,512
Unreserved	226,613	11,581	-	238,194
Unreserved, reported in nonmajor: Special Revenue Funds	<u> </u>	<u> </u>	<u>71,057</u>	<u>71,057</u>
<i>Total Fund Equity</i>	<u>226,613</u>	<u>137,093</u>	<u>71,057</u>	<u>434,763</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 350,976</u>	<u>\$ 137,093</u>	<u>\$ 79,338</u>	<u>\$ 567,407</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2010

	<u>General</u>	<u>Cemetery Perpetual Care</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 285,419	\$	\$ -	\$ 285,419
Intergovernmental	15,419	-	13,949	29,368
Charges for Services	-	400	4,270	4,670
Fines and Forfeitures	144,894	-	-	144,894
Licenses and Permits	675	-	-	675
Investment Income	2,887	24	3,550	6,461
Grant Revenue	16,922	-	-	16,922
Donations	6,912	56	3,676	10,644
Insurance Proceeds	31,087	-	-	31,087
Miscellaneous	7,586	-	3,844	11,430
<i>Total Revenues</i>	<u>511,801</u>	<u>480</u>	<u>29,289</u>	<u>541,570</u>
Expenditures				
Current:				
General Government	77,972	-	877	78,849
Court	9,923	-	-	9,923
Fire	23,930	-	-	23,930
Police	240,902	-	-	240,902
Sanitation	-	-	-	-
Streets	-	-	13,404	13,404
Cemetery	-	-	9,987	9,987
Parks	1,040	-	-	1,040
Civil Defense	1,466	-	-	1,466
Capital Outlay	11,974	-	5,398	17,372
Debt Service	3,855	-	-	3,855
<i>Total Expenditures</i>	<u>371,062</u>	<u>-</u>	<u>29,666</u>	<u>400,728</u>
Excess (Deficiency) of Revenues over Expenditures	<u>140,739</u>	<u>480</u>	<u>(377)</u>	<u>140,842</u>
Other Financing Sources (Uses)				
Transfers In	-	962	-	962
Transfers Out	(63,396)	-	(3,629)	(67,025)
<i>Total Other Financing Sources (Uses)</i>	<u>(63,396)</u>	<u>962</u>	<u>(3,629)</u>	<u>(66,063)</u>
Net Change in Fund Balances	77,343	1,442	(4,006)	74,779
Fund Balances - Beginning	<u>149,270</u>	<u>135,651</u>	<u>75,063</u>	<u>359,984</u>
Fund Balances - Ending	<u>\$ 226,613</u>	<u>\$ 137,093</u>	<u>\$ 71,057</u>	<u>\$ 434,763</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds - Modified Cash Basis
June 30, 2010

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$ 434,763
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:	
Capital assets, net of accumulated depreciation	215,655
Some liabilities are not due and payable from current financial resources and, therefore are not reported in the funds:	
Capital lease payable	<u>-</u>
Net assets of governmental activities	\$ <u><u>650,418</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ 74,779
Amounts reported for governmental activities on 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 in governmental funds	37,507
Depreciation expense	(29,751)
Disposal of capital assets in governmental funds	-
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease principal payments	<u>3,825</u>
Change in net assets of governmental activities	\$ <u><u>86,360</u></u>

The notes to the financial statements are an integral part of this statement..

BASIC FINANCIAL STATEMENTS

PROPRIETARY FUNDS

City of Minco, Oklahoma
Statement of Net Assets
Proprietary Funds - Modified Cash Basis
June 30, 2010

	Enterprise Funds		
	Minco Municipal Authority	Meter	Total Proprietary Funds
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 282,143	\$ -	\$ 282,143
Restricted Cash and Cash Equivalents	-	20,681	20,681
Investments	77,550	15,500	93,050
Restricted Investments	434,827		434,827
Inter-Fund Receivables	2,597	-	2,597
Due from Other Funds	106,051	-	106,051
<i>Total Current Assets</i>	<u>903,168</u>	<u>36,181</u>	<u>939,349</u>
Noncurrent Assets:			
Capital Assets:			
Note Costs, net of accumulated amortization	75,375	-	75,375
Other Capital Assets, net of accumulated depreciation	1,667,158	-	1,667,158
<i>Total Noncurrent Assets</i>	<u>1,742,533</u>	<u>-</u>	<u>1,742,533</u>
<i>Total Assets</i>	<u>2,645,701</u>	<u>36,181</u>	<u>2,681,882</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	2,374	-	2,374
Encumbrances	42,271	-	42,271
Payroll Taxes Payable		-	-
Inter-Fund Payable	-	2,597	2,597
Due to Depositors	-	33,584	33,584
Notes Payable	105,000	-	105,000
<i>Total Current Liabilities</i>	<u>149,645</u>	<u>36,181</u>	<u>185,826</u>
Noncurrent Liabilities:			
Notes Payable	2,015,000	-	2,015,000
<i>Total Noncurrent Liabilities</i>	<u>2,015,000</u>	<u>-</u>	<u>2,015,000</u>
<i>Total Liabilities</i>	<u>2,164,645</u>	<u>36,181</u>	<u>2,200,826</u>
<u>Net Assets</u>			
Invested in Capital Assets, net of related debt	(452,842)	-	(452,842)
Restricted for Debt Service	434,827	-	434,827
Restricted for Capital Projects		-	-
Unrestricted	499,071	-	499,071
<i>Total Net Assets</i>	<u>\$ 481,056</u>	<u>\$ -</u>	<u>\$ 481,056</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2010

	Enterprise Funds		
	Minco Municipal Authority	Meter	Total Proprietary Funds
Operating Revenues			
Charges for Services			
Pledged:			
Water	\$ 241,412	\$ -	\$ 241,412
Sewer	77,029	-	77,029
Sanitation	146,051	-	146,051
Penalties	8,182	-	8,182
Miscellaneous Charges	2,861	-	2,861
<i>Total Operating Revenues</i>	<u>475,535</u>	<u>-</u>	<u>475,535</u>
Operating Expenses			
Water	225,841	-	225,841
Sewer	14,981	-	14,981
Sanitation	113,143	-	113,143
Personal Services	133,671	-	133,671
Depreciation	121,764	-	121,764
Amortization	5,025	-	5,025
<i>Total Operating Expenses</i>	<u>614,425</u>	<u>-</u>	<u>614,425</u>
<i>Operating Income (Loss)</i>	<u>(138,890)</u>	<u>-</u>	<u>(138,890)</u>
Non-Operating Revenues (Expenses)			
Grant Revenue	84,291	-	84,291
Investment Income	4,897	-	4,897
Interest Expense	(93,954)	-	(93,954)
Loss of Disposal of Assets	-	-	-
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(4,766)</u>	<u>-</u>	<u>(4,766)</u>
<i>Net Income (Loss) Before Contributions and Transfers</i>	<u>(143,656)</u>	<u>-</u>	<u>(143,656)</u>
Pledged as Security for Revenue Notes:			
Transfers In - Sales Tax	63,396	-	63,396
Transfers In	2,667	-	2,667
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in Net Assets</i>	<u>(77,593)</u>	<u>-</u>	<u>(77,593)</u>
<i>Total Net Assets - beginning</i>	<u>558,649</u>	<u>-</u>	<u>558,649</u>
<i>Total Net Assets - ending</i>	<u>\$ 481,056</u>	<u>\$ -</u>	<u>\$ 481,056</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Statement of Cash Flows
Proprietary Funds - Modified Cash Basis
For the Year Ending June 30, 2010

	<u>Enterprise Funds</u>		
	<u>Minco Municipal Authority</u>	<u>Meter</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:			
Receipts from customers	\$ 476,185	\$ -	\$ 476,185
Payments to suppliers/employees	(465,750)	-	(465,750)
Customer meter deposit receipts/refunds	-	(3,729)	(3,729)
Other receipts/payments	-	-	-
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>10,435</u>	<u>(3,729)</u>	<u>6,706</u>
Cash Flows from Noncapital Financing Activities:			
Grant Revenue	84,291	-	84,291
Transfers from other funds	66,063	-	66,063
Transfers to other funds	-	-	-
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>150,354</u>	<u>-</u>	<u>150,354</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	(49,880)	-	(49,880)
Principal paid on debt	(100,000)	-	(100,000)
Interest and fiscal charges paid on debt	(93,954)	-	(93,954)
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<u>(243,834)</u>	<u>-</u>	<u>(243,834)</u>
Cash Flows from Investing Activities:			
Interest Received	4,897	-	4,897
Sale of investments	4,311	-	4,311
Purchase of investments	(2,139)	-	(2,139)
<i>Net Cash Provided by (Used in) Investing Activities</i>	<u>7,069</u>	<u>-</u>	<u>7,069</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(75,976)	(3,729)	(79,705)
<i>Cash and Cash Equivalents - Beginning of Year</i>	<u>358,118</u>	<u>24,411</u>	<u>382,529</u>
<i>Cash and Cash Equivalents - End of Year</i>	<u><u>282,142</u></u>	<u><u>20,682</u></u>	<u><u>302,824</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(138,890)	-	(138,890)
Adjustments to reconcile operating income (loss):			
Depreciation expense	121,763	-	121,763
Amortization expense	4,975	-	4,975
Change in due to other funds	85	-	85
Change in due from other funds	650	(650)	-
Change in encumbrances/payables	24,228	-	24,228
Change in payroll taxes payable	(2,376)	-	(2,376)
Change in due to depositors	-	(3,079)	(3,079)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 10,435</u>	<u>\$ (3,729)</u>	<u>\$ 6,706</u>

The notes to the financial statements are an integral part of this statement.

City of Minco, Oklahoma
Statement of Assets and Liabilities
Fiduciary Funds - Modified Cash Basis
For the Year Ending June 30, 2010

	<u>Agency Fund</u> <u>Cleet</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ <u>1,261</u>
<i>Total Assets</i>	<u><u>1,261</u></u>
 <u>Liabilities</u>	
Cleet Liability	<u>1,261</u>
<i>Total Liabilities</i>	\$ <u><u>1,261</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF MINCO, OKLAHOMA

Notes To Basic Financial Statements

For the Year Ended June 30, 2010

Note 1 - Summary of Significant Accounting Policies

The City of Minco, Oklahoma is incorporated under the laws of the state of Oklahoma. The City operates under a form of government that comprises of an elected City Council and Mayor.

Except for the use of a modified cash basis of accounting as discussed in Note 1.C., the City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. For business-type activities, Financial Accounting Standards 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. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

1.A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Minco), one blended component unit (which is defined below), and one related organization (which is defined below).

The City of Minco – The City of Minco operates the public safety, health and welfare, streets and highways, parks and recreation, community development, and administrative activities.

Blended Component Units

Blended component units are separate legal entities that meet the GASB 14 component unit criteria and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into the City's by appropriate fund type to comprise part of the primary government presentation.

Minco Municipal Authority - The Minco Municipal Authority (MMA) is a public trust created under authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1061 Section 176 to 180, for the use and benefit of the City of Minco, Oklahoma. The trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water or sewage types of public and municipal services within or without the corporate boundaries of the City of Minco, Oklahoma.

The MMA is empowered to lease, acquire or construct the properties necessary to provide and maintain these services. It is also empowered to obtain funds for these purposes and in so doing, to incur indebtedness whether unsecured or secured by all or any part of the Trust Estate and its revenues. The MMA is also permitted to transfer monies to the City of Minco for the use of the city. The City Council of the City of Minco acts as Trustees of the MMA.

Related Organizations

Minco Gas Authority, Minco, Oklahoma - The Minco Gas Authority is a public trust created for the use and benefit of the City of Minco. The City does not appoint trustees to the Board of 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 beneficiary of the public trust, receives title to any residual assets when the public trust is dissolved.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

1.B. Basis of Presentation

Government Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary.

Governmental Funds

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.

Aggregated Non-Major Funds (reported as Other Governmental Funds):

Special Revenue Funds:

- Street & Alley Fund – accounts for revenues from state gasoline and vehicle taxes restricted for street projects.
- Cemetery Operating Fund – accounts for the maintenance and operations of the cemetery.
- Cemetery Perpetual Care Fund – accounts for 25% of cemetery revenues restricted for cemetery capital purposes and donations received for permanent fund principal.
- Civil Defense Fund – accounts for the operations of the Civil Defense.
- City Hall Renovations – accounts for an ASCOG grant for the renovation of City Hall.
- Auction Surplus – accounts of sales of surplus assets.

Proprietary Funds

Enterprise Funds:

Major Enterprise Fund:

- Minco Municipal Authority – accounts for the operation of the water and wastewater systems.
- Meter Fund – accounts for utility deposits maintained for customers.

Fiduciary Funds

Agency Fund:

- Cleet Fund – accounts for the collection and remittance of CLEET fees.

An agency fund reports no revenues or expenditures and merely holds assets on behalf of others pending payment.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

1.C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded. In the governmental fund financial statements, a current financial resources measurement focus is applied. In the government-wide Statement of Net Assets and the Statement of Activities, and the proprietary funds, an economic resources measurement focus is applied.

Both governmental and business-type activities in the government-wide financial statements and the fund financial statements are presented using a modified cash basis of accounting. This 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, if any
- note issuance costs paid from cash
- investments and other deposits
- utility deposit liabilities

This basis is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America. As a result of the use of the 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.

If the City used the basis of accounting required by generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

1.D. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents - The City considers all cash in hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents. Investments in open-ended mutual funds held in the trustee accounts are also considered cash equivalents.

Investments - Investments consist of certificate of deposits maturing beyond three months and direct obligations of the United States government and agencies. Investments are stated at cost, which approximates market value.

Inventories – The City has chosen to record inventory items as expenditures/expenses at the time of purchase. Thus, an inventory amount has not been presented.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

1.D. Assets, Liabilities and Fund Equity, (continued)

Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements - In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2001. Prior to July 1, 2001, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2001 are recorded at cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,500 is used to report capital assets. 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

Fund Financial Statements - In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits, permanent fund principal of the cemetery perpetual care fund, and trustee accounts restricted for debt service and construction purposes.

Refundable Deposits - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Cleet Liability – Represents the collection and remittance of CLEET fees.

Long-Term Debt - Long-term debt arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions 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 proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Compensated Absences – As a result of the use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave and compensatory time earned but unpaid at year-end), are not reflected in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences has been reported as a commitment in Note 3.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

1.D. Assets, Liabilities and Fund Equity, (continued)

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net assets and 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 attributed 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.

In the governmental fund financial statements, fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

1.E. Internal and Interfund Balances and Activities

Interfund Activity – Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination in the government-wide financial statements. Services provided are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. Transfers are the flow of assets from one fund to another where repayment is not expected and is reported as transfers in and out. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

1.F. Revenues, Expenditures and Expenses

Sales Tax - The City presently levies a four-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission.

Program Revenues – In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City’s taxpayers are reported as program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the City, with certain limited exceptions.

Operating and Nonoperating Revenues of Proprietary Funds – Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

1.F. Revenues, Expenditures and Expenses, (Continued)

Expenditures/Expenses – In the government-wide statement of activities, expenses, including depreciation of capital assets, are reported by function or activity. In the governmental fund financial statements, expenditures are reported by class as current (further reported by function), capital outlay and debt service. In proprietary fund financial statements, expenses are reported by object or activity.

1.G. Use of Estimates

The preparation of financial statements in conformity with a comprehensive basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Detailed Notes on Transaction Classes/Accounts

2.A. Deposits, Investments, and Collateral

Deposits and Investments – The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest 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 deposits 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 judgements, 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. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2010 the City failed to obtain acceptable collateral and the City's bank balances of \$465,270 were exposed to custodial credit risk.

Investment Credit Risk – The U.S. Treasury money market funds are insured by the Federal government and therefore are considered to have a low credit risk.

Investments - As of June 30, 2010, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasury money market funds	N/A	\$ 434,827

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

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

2.B. Restricted Assets

The amounts reported as restricted assets consist of cash and investments held for the expenditure of an ASCOG sewer lagoon grant, an ASCOG city hall renovations grant, nonexpendable cemetery permanent fund principal, amounts held by the trustee bank on behalf of the Minco Municipal Authority related to its required OWRB note accounts and amounts due to depositors related to utility deposits. The restricted assets as of June 30, 2010 were as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>	<u>Current Investments</u>
Cemetery Perpetual Care Fund	\$ 10,620	\$ 125,512
City Hall Renovations Fund	573	-
Customer Utility Deposits	18,084	15,500
Sewer Lagoons Account	85	-
Trustee Accounts:		
Debt Service Fund	101,927	-
Debt Service Reserve Fund	196,971	-
Project Fund	135,930	-
Total Restricted Assets	<u>\$ 464,190</u>	<u>\$ 141,012</u>

2.C. Capital Assets

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/10</u>
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-depreciable assets	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Depreciable assets:				
Buildings	306,908	28,133	-	335,041
Vehicles and equipment	340,295	9,373	(5,665)	344,003
Infrastructure	<u>17,587</u>	<u>-</u>	<u>-</u>	<u>17,587</u>
Total depreciable assets	<u>664,789</u>	<u>37,506</u>	<u>(5,665)</u>	<u>696,631</u>
Less accumulated depreciation:				
Buildings	242,379	6,959	-	249,338
Vehicles and equipment	245,653	22,206	(5,665)	262,194
Infrastructure	<u>3,859</u>	<u>586</u>	<u>-</u>	<u>4,446</u>
Total accumulated depreciation	<u>491,891</u>	<u>29,751</u>	<u>(5,665)</u>	<u>515,978</u>
Net depreciable assets	<u>172,898</u>	<u>(7,755)</u>	<u>(5,665)</u>	<u>180,653</u>
Net governmental activities capital assets	<u>\$ 207,898</u>	<u>\$ (7,755)</u>	<u>\$ (5,665)</u>	<u>\$ 215,653</u>

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

2.C. Capital Assets, (Continued)

	Restated Balance 6/30/09	Additions	Disposals	Balance 6/30/10
Business-Type Activities:				
Depreciable assets:				
Buildings	\$ 18,500	\$ -	\$ -	\$ 18,500
Vehicles and equipment	82,693	19,191	-	101,884
Sewer System	714,360	7,900	-	722,260
Water Plant	<u>2,152,510</u>	<u>22,789</u>	<u>-</u>	<u>2,175,299</u>
Total depreciable assets	<u>2,968,063</u>	<u>49,880</u>	<u>-</u>	<u>3,017,943</u>
Less accumulated depreciation:				
Buildings	18,500	-	-	18,500
Vehicles and equipment	49,145	8,031	-	57,175
Sewer System	292,607	25,250	-	317,857
Water Plant	<u>868,769</u>	<u>88,483</u>	<u>-</u>	<u>957,253</u>
Total accumulated depreciation	<u>1,229,021</u>	<u>121,764</u>	<u>-</u>	<u>1,350,785</u>
Net depreciable assets	<u>1,739,041</u>	<u>(71,884)</u>	<u>-</u>	<u>1,667,158</u>
Net business-type activities capital assets	<u>\$ 1,739,041</u>	<u>\$ (71,884)</u>	<u>\$ -</u>	<u>\$ 1,667,158</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:

General Government	\$ 10,737
Cemetery	90
Fire	8,813
Police	8,962
Streets	<u>1,149</u>
Total depreciation expense for governmental activities	<u>\$ 29,751</u>

Business-Type Activities:

Water	\$ 94,840
Sewer	<u>26,924</u>
Total depreciation expense for business-type activities	<u>\$ 121,764</u>

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

2.D. Long-Term Debt

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2010 the City had no long-term debt, arising from cash transactions, payable from governmental fund resources.

Business-Type Activities – As of June 30, 2010, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Notes Payable:

2005 Promissory Note to OWRB, original issue amount of \$2,500,000, dated November 17, 2005, issued by Minco Municipal Authority, secured by pledged sales tax, revenues derived from the operation of the System, and a mortgage on the System, interest rate of 3.095% to 4.695%, final maturity dated September 15, 2024.	<u>\$ 2,120,000</u>
Current portion	105,000
Non-current portion	<u>2,015,000</u>
Total Notes Payable	<u>\$ 2,120,000</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/10</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Capital Debt Obligations	\$ 3,824	\$ -	\$ 3,824	\$ -0-	\$ -0-
Business-Type Activities:					
Notes Payable	\$ 2,220,000	\$ -	\$ 100,000	\$ 2,120,000	\$ 105,000

The annual debt service requirements to maturity are as follows:

Governmental Activities:	Capital Debt Obligations	
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	-0-	-0-
Total	\$ -0-	\$ -0-
Business-Type Activities:	Notes Payable	
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	105,000	90,307
2012	110,000	86,360
2013	110,000	82,185
2014	115,000	77,802
2015	120,000	73,106
2016-2020	690,000	282,232
2021-2025	870,000	105,517
Total	<u>\$ 2,120,000</u>	<u>\$ 797,509</u>

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

2.D. Long-Term Debt, (Continued)

Interest expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:	
Fire	\$ <u>31</u>
Business-Type Activities:	
Water	\$ <u>93,954</u>

Reserve Account Balance Requirement:

The reserve account balance requirement for the OWRB note was met as follows:

OWRB Note Payable – Required Balance per Note Indenture	\$ <u>196,971</u>
Balance in Debt Service Reserve Account at June 30, 2010	\$ <u>196,971</u>

Debt Service Coverage Requirement:

The bond indenture requires that Net Revenue Available for Debt Service must equal 125% of maximum annual debt service. Actual coverage was met as follows:

	<u>Note to OWRB</u>
<i>Net Revenue Available for Debt Service:</i>	
Operating Revenues	\$ 328,872
Sales Tax Transfer	63,396
Investment Income	3,120
Operating Grant Revenue	<u>-</u>
Total Gross Revenues Available	395,388
Operating Expenses	505,220
Less: Depreciation and Amortization	<u>(121,699)</u>
Total Operating Expenses	383,521
Net Revenues Available for Debt Service	\$ <u>11,867</u>
<i>Debt Service Requirement:</i>	
Maximum Annual Debt Service Charges	193,954
Required Coverage Percentage	<u>1.25</u>
Required Coverage	<u>242,443</u>
Under Coverage	\$ <u>(230,575)</u>

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

2.E. Interfund Transfers and Balances

Transfers between funds of the primary government for the year ended June 30, 2010, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	MMA	\$ 63,396	To transfer sales tax for debt purposes
Cemetery Operating	Cemetery Perp.Care	963	Lot Sales
		<u>\$ 64,395</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds	\$ 963	(\$ 64,395)
Enterprise Funds	63,396	(-)
Total	<u>\$ 64,395</u>	<u>(\$ 63,395)</u>

Reconciliation to Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers/ Internal Activity</u>
Net transfers for governmental activities:			
Governmental Funds	\$ 963	(\$ 64,395)	(\$ 63,396)
Total	<u>\$ 963</u>	<u>(\$ 64,395)</u>	<u>(\$ 63,396)</u>
Net transfers for business-type activities:			
Enterprise Funds	\$ 63,396	(\$ -)	\$ -
Total	<u>\$ 63,396</u>	<u>(\$ -)</u>	<u>\$ 63,396</u>

At June 30, 2010, the following interfund balances were owed between funds:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	Street & Alley Fund	\$ 6,316	Posting errors
Meter Fund	MMA	\$ 2,597	Posting errors

2.F. Net Assets/Fund Equity

Net Assets Restricted by Enabling Legislation – The government-wide statement of net assets reports \$405,488 of restricted net assets, of which \$201,465 is restricted by enabling legislation.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

Note 3 – Other Notes

3.A. Employee Pension Plans

Oklahoma Firefighters Pension - Pursuant to the requirements of Title 11, section 22-102, the City of Minco participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of volunteer firefighters. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rate for the City is established by Statute. The City is required to contribute \$60 per active volunteer fireman for the year ended June 30, 2010. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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.

Schedule of Retirement Plan Contributions – OFPRS

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2006	\$960	\$960
2007	\$960	\$900
2008	\$900	\$900
2009	\$840	\$840
2010	\$840	\$840

Savings Incentive Match Plan for Employees - The City enacted a Simple IRA Plan utilizing the IRS Form 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 Agreements – 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 - \$2,411 Employees - \$2,374.

Vesting Requirements - All contributions made under this Simple Plan are fully vested and nonforfeitable.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

3.A. Employee Pension Plans, (Continued)

No Withdrawal Restrictions – The City may not require the employee to retain any portion of the contributions 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, VIII.

3.B. 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 manages those various risks of loss as follows:

General Liability, Fleet Coverage and Physical Property - All general liability, physical property, and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group risk entity pool. Deductibles range from \$0-\$5,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

Fire Department Vehicles – The liability for fire department vehicles is insured through the Risk Management Division of the Department of Central Services, State of Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by RMD.

Workers' Compensation - Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool. CompSource Oklahoma provides coverage in excess of the total Loss Fund balance. Loss Fund balance at June 30, 2010 was \$13,677.

Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

3.C. Commitments and Contingencies

Grant Programs - In the normal course of operations, the City participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF MINCO, OKLAHOMA
Notes To Basic Financial Statements
For the Year Ended June 30, 2010

3.C. Commitments and Contingencies (continued)

Litigation - The City is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an advalorem tax over a three-year period by a City Sinking Fund for the payment of any court-assessed judgement rendered against the City. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgements, the City feels that any settlement or judgement not covered by insurance would not have a material adverse effect on the financial condition of the City.

Compensated Absences - According to City personnel policies, City employees are granted vacation, sick leave, and compensated absences in varying amounts, however, no accumulative of this liability has been maintained by the City.

UNAUDITED REQUIRED

SUPPLEMENTARY INFORMATION

City of Minco, Oklahoma
Unaudited Budgetary Comparison Schedule
General Fund - Non-GAAP Budgetary Basis
For the Year Ending June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning Budgetary Fund Balance	\$ 213,222	\$ 213,222	\$ 201,889	\$ (11,333)
Resources (inflows)				
Taxes	249,000	249,000	300,838	51,838
Fines and Forfeitures	111,000	111,000	144,894	33,894
Licenses and Permits	500	500	675	175
Investment Income	4,000	4,000	2,887	(1,113)
Other	12,000	12,000	14,498	2,498
Other Financing Sources:				-
Insurance Proceeds	-	-	31,087	31,087
Grant Revenue	-	-	16,922	16,922
Transfers from other funds	-	-	-	-
Amounts Available for Appropriation	589,722	589,722	713,690	123,968
Charges to Appropriations (outflows)				
General Government	80,000	80,000	89,946	(9,946)
Fire/First Responder	39,000	39,000	27,785	11,215
Police	250,000	250,000	240,902	9,098
Court	15,000	15,000	9,923	5,077
Parks	1,000	1,000	1,040	(40)
Civil Defense	500	500	1,466	(966)
Transfers to other funds	156,000	156,000	63,396	92,604
Total Charges to Appropriations	541,500	541,500	434,458	107,042
Ending Budgetary Fund Balance	\$ 48,222	\$ 48,222	\$ 279,232	\$ 231,010

The notes to the financial statements are an integral part of this statement.

CITY OF MINCO, OKLAHOMA
Notes To Unaudited Required Supplemental Information
For the Year Ended June 30, 2010

Budgetary Information

Budget Law - The City prepares its annual operating budget under the provisions of the Oklahoma Municipal Budget Act of 1979, (The "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- Prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the mean of financing them.
- Public hearings are conducted to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a resolution by the City Council.
- Subsequent to the City Council enactment, the adopted budget is filed with the Office of the State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

Transfers between expenditure categories of a department or fund and budget supplements require City Council approval. Supplemental appropriations must also be filed with the Office of the State Auditor and Inspector.

In accordance with Title 60 of the Oklahoma State Statutes, the Minco Municipal Authority is required to prepare an annual budget and submit copies to the City as beneficiary. However, there are no further requirements such as form of budget, approval of budget or definition of a legal level of control.

Basis of Accounting - The budgetary comparison schedules are reported on a non-GAAP budgetary basis that report revenues on a cash basis and expenditures on a cash basis modified for outstanding encumbrances. For the current fiscal year ending June 30, 2010, there was no difference between the non-GAAP budgetary basis and the modified cash basis of accounting.

OTHER SUPPLEMENTARY INFORMATION

City of Minco, Oklahoma
Combining Statement of Assets, Liabilities, and Fund Equity
Nonmajor Governmental Funds - Modified Cash Basis
June 30, 2010

	Special Revenue Funds						Total Nonmajor Governmental Funds
	<u>Street & Alley</u>	<u>Cemetery Operating</u>	<u>Cemetery Care</u>	<u>Surplus Auction</u>	<u>Civil Defense</u>	<u>City Hall Renovations</u>	
<u>Assets</u>							
Cash and Cash Equivalents	\$ 59,954	\$ 6,187	\$ 5,297	\$ 300	\$ 711	\$ -	\$ 72,449
Restricted Cash and Cash Equivalents	-	-	-	-	-	573	573
Restricted Investments	-	-	-	-	-	-	-
Due from Other Funds	6,316	-	-	-	-	-	6,316
<i>Total Assets</i>	<u>66,270</u>	<u>6,187</u>	<u>5,297</u>	<u>300</u>	<u>711</u>	<u>573</u>	<u>79,338</u>
<u>Liabilities</u>							
Accounts Payable	229	-	-	-	-	-	229
Encumbrances	1,670	5,398	-	-	-	-	7,068
Due to Other Funds	-	962	-	-	22	-	984
<i>Total Liabilities</i>	<u>1,899</u>	<u>6,360</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>-</u>	<u>8,281</u>
<u>Fund Equity</u>							
Fund Balance							
Reserved for Permanent Fund Principal	-	-	-	-	-	-	-
Unreserved	64,370	(173)	5,297	300	689	573	71,057
<i>Total Fund Equity</i>	<u>64,370</u>	<u>(173)</u>	<u>5,297</u>	<u>300</u>	<u>689</u>	<u>573</u>	<u>71,057</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 66,269</u>	<u>\$ 6,187</u>	<u>\$ 5,297</u>	<u>\$ 300</u>	<u>\$ 711</u>	<u>\$ 573</u>	<u>\$ 79,338</u>

City of Minco, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2010

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Street & Alley	Cemetery Operating	Cemetery Care	Surplus Auction	Civil Defense	City Hall Renovations	
Receipts							
Intergovernmental	\$ 13,949	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,949
Charges for Services	-	4,270	-	-	-	-	4,270
Investment Income	-	3,517	33	-	-	-	3,550
Grant Revenue	-	-	-	-	-	-	-
Donations	-	3,676	-	-	-	-	3,676
Miscellaneous	-	-	-	3,844	-	-	3,844
<i>Total Receipts</i>	<u>13,949</u>	<u>11,463</u>	<u>33</u>	<u>3,844</u>	<u>-</u>	<u>-</u>	<u>29,289</u>
Disbursements							
Current:							
General Government	-	-	-	877	-	-	877
Streets	13,404	-	-	-	-	-	13,404
Cemetery	-	9,987	-	-	-	-	9,987
Capital Outlay	-	5,398	-	-	-	-	5,398
<i>Total Disbursements</i>	<u>13,404</u>	<u>15,385</u>	<u>-</u>	<u>877</u>	<u>-</u>	<u>-</u>	<u>29,666</u>
<i>Excess Receipts Over (Under) Disbursements</i>	<u>545</u>	<u>(3,922)</u>	<u>33</u>	<u>2,967</u>	<u>-</u>	<u>-</u>	<u>(377)</u>
Other Financing Sources (Uses)							
Transfers In	-	-	-	-	-	-	-
Transfers Out	-	(962)	-	(2,667)	-	-	(3,629)
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>(962)</u>	<u>-</u>	<u>(2,667)</u>	<u>-</u>	<u>-</u>	<u>(3,629)</u>
<i>Excess of Receipts and Other Sources Over (Under) Disbursements and Other Uses</i>	<u>545</u>	<u>(4,884)</u>	<u>33</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>(4,006)</u>
<i>Fund Balances - Beginning</i>	<u>63,825</u>	<u>4,711</u>	<u>5,264</u>	<u>-</u>	<u>689</u>	<u>573</u>	<u>75,063</u>
<i>Fund Balances - Ending</i>	<u>\$ 64,370</u>	<u>\$ (173)</u>	<u>\$ 5,297</u>	<u>\$ 300</u>	<u>\$ 689</u>	<u>\$ 573</u>	<u>\$ 71,057</u>

City of Minco, Oklahoma
Schedule of Federal and State Awards
Modified Cash Basis
For the Year Ending June 30, 2010

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
Federal Awards:					
Homeland Security - Mobile Cop Grant	12,500	-	11,822	-	11,822
Total Federal Awards	\$ <u>12,500</u>	\$ <u>-</u>	\$ <u>11,822</u>	\$ <u>-</u>	\$ <u>11,822</u>
State Awards:					
ASCOG Reap Grant #Minco-06	30,000	-	24,291	-	24,291
ASCOG Reap Grant #Minco-07	60,000	-	60,000	-	15,723
ASCOG Fire	<u>5,100</u>	<u>-</u>	<u>5,100</u>	<u>-</u>	<u>5,100</u>
Total State Awards	\$ <u>95,100</u>	\$ <u>-</u>	\$ <u>89,391</u>	\$ <u>-</u>	\$ <u>45,114</u>

INTERNAL CONTROL AND COMPLIANCE



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CERTIFIED PUBLIC ACCOUNTANTS

**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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 2011. 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. The Management Discussion and Analysis is not presented as required by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 would not necessarily identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and responses, 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 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 10-2, 10-3, 10-6, 10-7, 10-8, 10-10, 10-12, 10-13, 10-14, 10-17, and 10-18.

A *significant deficiency* is a deficiency, or a 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: 10-1, 10-2, 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, 10-12, 10-13, 10-14, 10-15, 10-16, 10-17, and 10-18.

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 items: 10-2, 10-7, 10-8, 10-11, 10-12, 10-13, 10-14, 10-16, and 10-17.

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

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

Chickasha, Oklahoma
December 9, 2011

**CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010**

Reportable Conditions of Internal Control, Compliance and Other Matters

- 10-1. 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 normally be divided among a large number of employees.

Cause and Effect – A lack of internal control surrounding the accounting functions could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Management response – Management agrees.

- 10-2. Criteria –State Statute 62 requires all funds coming into the Treasure’s possession shall be deposited daily (not later than the immediate next business day) to the bank.

Condition – The City’s collections are not being deposited daily when the utility clerk is not in the office.

Cause and Effect – A lack of training of new employees and understanding of state statutes caused a non-compliance with state law. In addition, without appropriate training of employees there is a potential of fraud.

Recommendation – The Treasurer should be trained for making deposits and there should be cross-training so all deposits will be made in a timely manner.

Management response – Management agrees.

- 10-3. Criteria – All transactions, deposits and withdrawals, from a bank account should be recorded by the fund related to that bank account.

Condition – Deposits were being made to one fund’s bank account and recorded in a different fund. It appeared to happen when deposits were made to the wrong bank account but recorded in the fund to which the deposit should have been made.

Cause and Effect – The City is not recording transactions as they actually occur and not reconciling the bank accounts monthly. The effect of this is the funds general ledgers and cash is not in balance. There were over/understated assets and revenues.

Recommendation – If deposits are made to the wrong bank account they should be recorded in the fund they were deposited to and then transferred to the correct bank account and recorded in the correct fund after the transfer is made.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-4. Criteria – The balance for meter deposits payable in the general ledger should agree with the meter deposits listing in the utility billing system.

Condition – Meter deposits are not being reconciled on a month basis to ensure all deposit collections, refunds and deposits applied are properly accounted for in the accounting system. The utility deposit listing report balance on June 30, 2010 was \$33,583.98; the general ledger balance for meter deposits was \$32,933.81. These balances should agree.

Cause and Effect – A lack of proper procedures and controls does not allow for a means to ensure all deposit collections and refunds are properly accounted for within the accounting system. Without sufficient reconciliation procedures in place the risk significantly increases that errors or fraud related to meter deposits could occur and not be detected timely.

Recommendation – The City should implement procedures for staff to reconcile beginning and ending meter deposits payable on a monthly basis by using monthly deposits collected and refunds issued.

Management response – Management agrees.

- 10-5. Criteria – Utility accounts receivable should be reconciled on a monthly basis. The reconciled balance in the utility billing system should agree to the general ledger balance.

Condition – Our testing noted that utility accounts receivables are not being reconciled on a monthly basis to ensure all billings, collections and adjustments are properly accounted for within the utility billing accounting system. In addition, there was a difference between the general ledger balance and the utility billing system balance of accounts receivable.

Cause and Effect – A lack of proper procedures and controls does not allow for a means to ensure all billings, collections and adjustments are properly accounted for within the utility billing accounting system. Without sufficient reconciliation procedures in place the risk significantly increases that errors or fraud could occur and not be detected timely.

Recommendation – The City should implement procedures for staff to reconcile beginning and ending utility accounts receivable on a monthly basis by using monthly billing reports, daily deposit records, penalties applied and adjustment authorization forms.

Management response – Management agrees.

- 10-6. Criteria – Procedures should be in place to account for reject water sales to ensure accounting of receivables, volume of water sold and recognition of revenue.

Condition – Reject water sales billings are not being accounted for in the utility billing system. There is no record of accounts receivable for these water sales and a customer has not been billed due to incorrect customer information.

Cause and Effect – Manual billings are done for the reject water sales and are not entered into the utility billing system. Not tracking the sales or accounting for the revenue receivables increases the risk of fraud occurring and not being timely detected. The receivables not being accounted for could cause revenue to be understated.

Recommendation – Procedures should be developed to account for reject water sales.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-7. Criteria – Pursuant to Title 165, Chapter 65, Subchapter 9, Section 165 of Oklahoma Corporation Commission for Water Service Utilities, records shall be preserved by the Utility in the form and for a period not less than two years and available for examination by the Commission or its representatives. Each Utility shall maintain records in such detail that transactions can be accurately and readily ascertained.

Condition – While auditing the Service Revenue it was noted records of four months of billing transactions for utilities were not retained, therefore transactions could not be accurately and readily ascertained.

Cause and Effect – A lack of proper policy and procedures and understanding of requirements did not ensure all transactions for the audit year were accurately and readily ascertained.

Recommendation – Policy and procedures for record retention should be implemented to ensure compliance with State statutes.

Management response – Management agrees.

- 10-8. Criteria – Oklahoma Statutes Title 11, Section 26-109 requires a Cemetery Care Fund to be established for deposits not less than twelve and one-half percent (12.5%) of all monies received from the sale of lots and interments, City's ordinance increases the required amount to twenty-five percent (25%). This fund can be expended for purchasing lands for cemeteries and for making capital improvements to the municipally owned cemeteries.

Condition – The transfers to the Cemetery Fund account met the State requirement, however, did not met the City's required 25%.

Cause and Effect – A lack of proper procedures and controls resulted in non-compliance with Oklahoma Statutes.

Recommendation – To be in compliance with the City's ordinance they should deposit funds of 25%, or change this City's ordinance to agree with the State's required 12.5%.

Management response – Management agrees.

- 10-9. Criteria – Police tickets should be accounted for through a system that tracks tickets numerically and accounts for all police tickets issued, voided or unissued.

Condition – The City does not have a system tracking tickets issued, voided or unissued. Tickets are organized by paid tickets, warrants, payment plan and currently issued.

Cause & Effect – There is no computer system or manual system to track processed tickets. Without proper procedures in place to account for all tickets there is a significant risk that errors or fraud could occur and not be detected timely.

Recommendation – The City should implement a system that accounts for all tickets.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-10. Criteria – Oklahoma Statutes Title 11, Section 17:211A states, “No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.” The legal level of expenditure and encumbrance control is department appropriation total within a fund, if not established at a lower level by resolution.

Condition – Expenditures exceeded appropriations in several funds in certain instances at the legal level of control for the year ended June 30, 2010. The following departments were overspent by the corresponding amounts: General Government (\$13,924); Police (\$3,099); First Responder (\$1,919); Civil Defense (\$1,020); Parks (\$139). The combined expenditures of the General Fund did not exceed combined appropriations.

Cause and Effect – The budget was not monitored during the year and amendments to the budget were not made when expenditures reached appropriation amounts. A lack of proper procedures and controls for monitoring the City’s budgets allows for expenditures to be spent in excess of approved budget appropriations.

Recommendation – The City should closely monitor each budget on a monthly basis and not approve any expenditure exceeding appropriation until additional amendments have been made and approved. The categories of each budgeted fund should be tracked in order to determine the remaining budget balance. Unless authority is given to the mayor, transfers between budgeted categories for each fund must be approved by the governing body and budget supplements must be approved by Council and submitted to the State Auditor’s Office.

Management response – Management agrees.

- 10-11. Criteria – The bond indenture with ORWB requires the Authority to maintain net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service on all obligations payable from the revenues.

Condition – The Authority is in violation of the 125% debt covenant. The current year’s required coverage is \$242,443 the actual net revenues available are \$11,867 leaving the Authority under coverage by \$230,575.

Cause and Effect – A lack of procedures and proper control allowed violation of the debt covenant.

Recommendation – The City should implement a monitoring procedure to verify the debt covenant has been met and if not the City should either increase utility fees or transfer funds to the Authority to meet required coverage.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-12. Criteria – The City has a sales tax rate of 4%. The bond indenture with OWRB requires the City to transfer 3% of the 4% of City sales tax to Minco Municipal Authority (MMA). If the debt coverage requirement is met the Authority may transfer the excess sale taxes back to the City.

Condition – The City did not transfer the required 3% to the MMA. The underfunded amount of sales taxes not transferred was \$120,912. In addition, the debt coverage was not met (as listed in item #10-11) therefore the Authority would have had no excess to transfer back to the City.

Cause and Effect – There is a lack of procedures and controls for calculating the amount of sales taxes to be transferred. The City is in violation of the bond indenture with OWRB.

Recommendation – The City should establish procedures and assign staff who has knowledge of the bond indenture requirements and see that all requirements are met and proper sales taxes are transferred to MMA.

Management response – Management agrees.

- 10-13. Criteria – Oklahoma Statutes Title 62, Section 511-517 & 348.1 requires deposits of public funds to not exceed the federal insurance limit unless secured by acceptable collateral. Collateral, valued at market value, is required to secure uninsured deposits and include a requirement that the treasurer review and determine the market value of pledged collateral not less than quarterly.

Condition – The City has not obtained a collateral agreement with the banks and is under-collateralized at June 30, 2010 by \$465,270.

Cause and Effect –A lack of procedures and controls have resulted in non-compliance with Oklahoma Statutes.

Recommendation – The City should obtain a written collateral agreement with the banks and the Treasurer should review, at a minimum quarterly, the sufficiency of the collateral pledged.

Management response – Management agrees.

- 10-14. Criteria – Capital assets (land, buildings, improvements, utility property/improvements, machinery, equipment, vehicles, and infrastructure) that exceed the City's \$1,500 threshold should be properly identified for capitalization and recorded in the capital asset listing.

Condition – Capital assets that exceed the threshold amount are not being tracked and recorded in the capital asset listing throughout the year.

Cause and Effect –A lack of procedures and controls for tracking capital assets allows for the potential overstatement of expenses and understatement of capital assets.

Recommendation – The City should establish procedures and assign staff who has knowledge of capital assets as they are purchased or being improved, to properly identify and maintain a capital asset listing.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-15. Criteria – Oklahoma Statutes require, among others, that all expenditures to be encumbered against the budget prior to purchasing the goods or services.

Condition – Certain purchase orders examined did not comply with state purchasing statutes. Ten of thirty purchase orders examined had invoices dated prior to the date of the purchase order.

Cause and Effect – Goods or services are being ordered before the purchase orders are issued. A lack of procedures and controls concerning the encumbrance process allows the possibility of unauthorized or otherwise unallowable expenditures and noncompliance with state statutes.

Recommendation – The City should implement procedures to ensure the purchasing process is followed correctly. Approval should be obtained before any goods or services are ordered, signature of approval of available appropriation, documentation should be obtained prior to payment of vendors.

Management response – Management agrees.

- 10-16. Criteria – A proper system of internal control and Oklahoma Statutes require, among others, the City to maintain supporting records for purchases for at least five years before destroying.

Condition – Certain purchase orders were unable to be located.

Cause and Effect – A change in personnel were unable to locate all documents requested. We were unable to determine if proper controls were utilized concerning the purchase orders that could not be located, as well as whether the expenditure was appropriately recorded.

Recommendation – The City should follow state statutes concerning retention of records and implement a filing system that allows personnel to easily find records as needed.

Management response – Management agrees.

- 10-17. Criteria – A proper system of internal control require monitoring assets to determine when they are no longer in use and documenting disposal methods and amounts received for each asset.

Condition – Certain assets were declared surplus and sold at auction. However, no records could be located to indicate which items were declared surplus, which items were sold and how much was received for each item.

Cause and Effect – The City did not keep any records concerning the sale of assets. A lack of proper controls and procedures for tracking assets and assets declared as surplus allows for potential fraud.

Recommendation – The City should review the depreciation schedule throughout the year to identify assets that are no longer in use and keep accurate records of all disposals and amounts received for each asset if sold.

Management response – Management agrees.

CITY OF MINCO, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- 10-18. Criteria – A proper system of internal control require proper approval from the City Council to open or close bank accounts. In addition, all bank accounts should be accounted for in the City's accounting system.

Condition – A new bank account called "Surplus Auction" was found during our audit. There was no approval found to open this account nor was it recorded in the City's accounting system.

Cause and Effect – The City Council did not approve, in the board minutes, the opening of a new bank account and the accounting personnel did not record the bank account in the City's books. Without proper approval to open or close bank accounts or the recording of all City funds there is a significant risk for fraud or misuse of City funds.

Recommendation – The City Council should approve all opening and closing of bank accounts and the City Treasurer should make sure all City funds are recorded on the City's books.

Management response – Management agrees.